

Jefferies Group LLC  
Form 10-Q  
October 08, 2014  
[Table of Contents](#)

**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 August 31, 2014**

**OR**

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

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

**Commission file number 1-14947**

**JEFFERIES GROUP LLC**

**(Exact name of registrant as specified in its charter)**

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

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

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

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 <input type="checkbox"/>          | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input checked="" type="checkbox"/> | Smaller reporting company <input type="checkbox"/> |

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).**

**Table of Contents**

**JEFFERIES GROUP LLC**

**INDEX TO QUARTERLY REPORT ON FORM 10-Q**

**August 31, 2014**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Consolidated Statements of Financial Condition (Unaudited)- August 31, 2014 and November 30, 2013 2

Consolidated Statements of Earnings (Unaudited)- Three and Nine Months Ended August 31, 2014 (Successor), Three and Six Months Ended August 31, 2013 (Successor) and Three Months Ended February 28, 2013 (Predecessor) 3

Consolidated Statements of Comprehensive Income (Unaudited)- Three and Nine Months Ended August 31, 2014 (Successor), Three and Six Months Ended August 31, 2013 (Successor) and Three Months Ended February 28, 2013 (Predecessor) 5

Consolidated Statements of Changes in Equity (Unaudited)- Nine Months Ended August 31, 2014 (Successor), Nine Months Ended November 30, 2013 (Successor) and Three Months Ended February 28, 2013 (Predecessor) 6

Consolidated Statements of Cash Flows (Unaudited)- Nine Months Ended August 31, 2014 (Successor), Six Months Ended August 31, 2013 (Successor) and Three Months Ended February 28, 2013 (Predecessor) 7

Notes to Consolidated Financial Statements (Unaudited) 9

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations** 77

**Item 3. Quantitative and Qualitative Disclosures About Market Risk** 117

**Item 4. Controls and Procedures** 117

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings** 117

**Item 1A. Risk Factors** 118

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** 118

**Item 6. Exhibits** 118

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

|                                                                                                                                                                                                                                                                                    | <b>August 31,<br/>2014</b> | <b>November 30,<br/>2013</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                                                                      |                            |                              |
| Cash and cash equivalents (\$178 and \$176 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs)                                                                                                                                                   | \$ 4,035,239               | \$ 3,561,119                 |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations                                                                                                                                                      | 3,301,185                  | 3,616,602                    |
| Financial instruments owned, at fair value, (including securities pledged of \$14,263,610 and \$13,253,537 at August 31, 2014 and November 30, 2013, respectively; and \$57,157 and \$97,912 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs) | 18,420,173                 | 16,650,043                   |
| Investments in managed funds                                                                                                                                                                                                                                                       | 77,881                     | 57,285                       |
| Loans to and investments in related parties                                                                                                                                                                                                                                        | 631,568                    | 701,873                      |
| Securities borrowed                                                                                                                                                                                                                                                                | 6,270,452                  | 5,359,846                    |
| Securities purchased under agreements to resell                                                                                                                                                                                                                                    | 4,570,533                  | 3,746,920                    |
| Securities received as collateral                                                                                                                                                                                                                                                  | 8,326                      | 11,063                       |
| Receivables:                                                                                                                                                                                                                                                                       |                            |                              |
| Brokers, dealers and clearing organizations                                                                                                                                                                                                                                        | 2,412,829                  | 2,207,978                    |
| Customers                                                                                                                                                                                                                                                                          | 1,660,122                  | 958,246                      |
| Fees, interest and other (\$1,036 and \$0 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs)                                                                                                                                                    | 258,122                    | 251,072                      |
| Premises and equipment                                                                                                                                                                                                                                                             | 242,009                    | 202,467                      |
| Goodwill                                                                                                                                                                                                                                                                           | 1,723,619                  | 1,722,346                    |
| Other assets (\$0 and \$2,275 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs)                                                                                                                                                                | 1,152,022                  | 1,130,136                    |
| <b>Total assets</b>                                                                                                                                                                                                                                                                | <b>\$ \$44,764,080</b>     | <b>\$ 40,176,996</b>         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                                                                                      |                            |                              |
| Short-term borrowings                                                                                                                                                                                                                                                              | \$ 92,000                  | \$ 12,000                    |
| Financial instruments sold, not yet purchased, at fair value                                                                                                                                                                                                                       | 9,723,247                  | 7,271,613                    |
| Collateralized financings:                                                                                                                                                                                                                                                         |                            |                              |
| Securities loaned                                                                                                                                                                                                                                                                  | 2,468,513                  | 2,506,122                    |
| Securities sold under agreements to repurchase                                                                                                                                                                                                                                     | 10,532,059                 | 10,779,845                   |
| Other secured financings (\$603,948 and \$226,000 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs)                                                                                                                                            | 616,666                    | 234,711                      |
| Obligation to return securities received as collateral                                                                                                                                                                                                                             | 8,326                      | 11,063                       |
| Payables:                                                                                                                                                                                                                                                                          |                            |                              |
| Brokers, dealers and clearing organizations                                                                                                                                                                                                                                        | 1,919,230                  | 1,320,700                    |
| Customers                                                                                                                                                                                                                                                                          | 5,943,491                  | 5,169,321                    |

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|                                                                                                                                             |                      |                      |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Accrued expenses and other liabilities (\$0 and \$706 at August 31, 2014 and November 30, 2013, respectively, related to consolidated VIEs) | 1,232,156            | 1,217,141            |
| Long-term debt                                                                                                                              | 6,625,978            | 6,232,806            |
| <b>Total liabilities</b>                                                                                                                    | <b>39,161,666</b>    | <b>34,755,322</b>    |
| <b>EQUITY</b>                                                                                                                               |                      |                      |
| Member s paid-in capital                                                                                                                    | 5,539,206            | 5,280,420            |
| Accumulated other comprehensive income:                                                                                                     |                      |                      |
| Currency translation adjustments                                                                                                            | 29,240               | 21,341               |
| Additional minimum pension liability                                                                                                        | 2,759                | 2,759                |
| <b>Total accumulated other comprehensive income</b>                                                                                         | <b>31,999</b>        | <b>24,100</b>        |
| <b>Total member s equity</b>                                                                                                                | <b>5,571,205</b>     | <b>5,304,520</b>     |
| Noncontrolling interests                                                                                                                    | 31,209               | 117,154              |
| <b>Total equity</b>                                                                                                                         | <b>5,602,414</b>     | <b>5,421,674</b>     |
| <b>Total liabilities and equity</b>                                                                                                         | <b>\$ 44,764,080</b> | <b>\$ 40,176,996</b> |

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In thousands)

|                                                                | Three Months Ended<br>August 31,<br>2014 | Successor<br>Three Months Ended<br>August 31, 2013 |
|----------------------------------------------------------------|------------------------------------------|----------------------------------------------------|
| <b>Revenues:</b>                                               |                                          |                                                    |
| Commissions                                                    | \$ 159,085                               | \$ 153,402                                         |
| Principal transactions                                         | 144,354                                  | (24,910)                                           |
| Investment banking                                             | 467,793                                  | 309,339                                            |
| Asset management fees and investment income from managed funds | 8,463                                    | 13,549                                             |
| Interest                                                       | 249,251                                  | 230,672                                            |
| Other                                                          | 26,489                                   | 28,630                                             |
| <br>Total revenues                                             | <br>1,055,435                            | <br>710,682                                        |
| Interest expense                                               | 212,126                                  | 178,987                                            |
| <br>Net revenues                                               | <br>843,309                              | <br>531,695                                        |
| <b>Non-interest expenses:</b>                                  |                                          |                                                    |
| Compensation and benefits                                      | 477,268                                  | 293,771                                            |
| Non-compensation expenses:                                     |                                          |                                                    |
| Floor brokerage and clearing fees                              | 55,967                                   | 49,166                                             |
| Technology and communications                                  | 67,286                                   | 62,266                                             |
| Occupancy and equipment rental                                 | 28,477                                   | 26,205                                             |
| Business development                                           | 27,800                                   | 17,624                                             |
| Professional services                                          | 31,231                                   | 25,269                                             |
| Other                                                          | 19,645                                   | 34,012                                             |
| <br>Total non-compensation expenses                            | <br>230,406                              | <br>214,542                                        |
| <br>Total non-interest expenses                                | <br>707,674                              | <br>508,313                                        |
| <br>Earnings before income taxes                               | <br>135,635                              | <br>23,382                                         |
| Income tax expense                                             | 51,762                                   | 8,493                                              |
| <br>Net earnings                                               | <br>83,873                               | <br>14,889                                         |
| Net earnings attributable to noncontrolling interests          | 312                                      | 3,149                                              |
| <br>Net earnings attributable to Jefferies Group LLC           | <br>\$ 83,561                            | <br>\$ 11,740                                      |

See accompanying notes to consolidated financial statements.



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

(In thousands, except per share amounts)

|                                                                                                              | Successor<br>Nine Months Ended<br>August 31,<br>2014 | Successor<br>Six Months Ended<br>August 31,<br>2013 | Predecessor<br>Three Months Ended<br>February 28,<br>2013 |
|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------|
| <b>Revenues:</b>                                                                                             |                                                      |                                                     |                                                           |
| Commissions                                                                                                  | \$ 488,526                                           | \$ 316,161                                          | \$ 146,240                                                |
| Principal transactions                                                                                       | 566,133                                              | 109,661                                             | 300,278                                                   |
| Investment banking                                                                                           | 1,213,262                                            | 586,473                                             | 288,278                                                   |
| Asset management fees and investment income<br>from managed funds                                            | 15,319                                               | 24,076                                              | 10,883                                                    |
| Interest                                                                                                     | 782,059                                              | 489,337                                             | 249,277                                                   |
| Other                                                                                                        | 57,962                                               | 54,875                                              | 27,004                                                    |
| Total revenues                                                                                               | 3,123,261                                            | 1,580,583                                           | 1,021,960                                                 |
| Interest expense                                                                                             | 657,932                                              | 390,450                                             | 203,416                                                   |
| Net revenues                                                                                                 | 2,465,329                                            | 1,190,133                                           | 818,544                                                   |
| Interest on mandatorily redeemable preferred<br>interests of consolidated subsidiaries                       |                                                      | 3,368                                               | 10,961                                                    |
| Net revenues, less interest on mandatorily<br>redeemable preferred interests of consolidated<br>subsidiaries | 2,465,329                                            | 1,186,765                                           | 807,583                                                   |
| <b>Non-interest expenses:</b>                                                                                |                                                      |                                                     |                                                           |
| Compensation and benefits                                                                                    | 1,390,043                                            | 667,651                                             | 474,217                                                   |
| <b>Non-compensation expenses:</b>                                                                            |                                                      |                                                     |                                                           |
| Floor brokerage and clearing fees                                                                            | 159,500                                              | 98,068                                              | 46,155                                                    |
| Technology and communications                                                                                | 201,849                                              | 126,105                                             | 59,878                                                    |
| Occupancy and equipment rental                                                                               | 81,652                                               | 58,430                                              | 24,309                                                    |
| Business development                                                                                         | 79,193                                               | 40,356                                              | 24,927                                                    |
| Professional services                                                                                        | 81,395                                               | 54,788                                              | 24,135                                                    |
| Other                                                                                                        | 54,656                                               | 52,732                                              | 14,475                                                    |
| Total non-compensation expenses                                                                              | 658,245                                              | 430,479                                             | 193,879                                                   |
| Total non-interest expenses                                                                                  | 2,048,288                                            | 1,098,130                                           | 668,096                                                   |
| Earnings before income taxes                                                                                 | 417,041                                              | 88,635                                              | 139,487                                                   |
| Income tax expense                                                                                           | 155,962                                              | 33,500                                              | 48,645                                                    |

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|                                                                      |            |           |           |
|----------------------------------------------------------------------|------------|-----------|-----------|
| Net earnings                                                         | 261,079    | 55,135    | 90,842    |
| Net earnings attributable to noncontrolling interests                | 3,760      | 3,887     | 10,704    |
| Net earnings attributable to Jefferies Group LLC/common stockholders | \$ 257,319 | \$ 51,248 | \$ 80,138 |
| Earnings per common share:                                           |            |           |           |
| Basic                                                                | N/A        | N/A       | \$ 0.35   |
| Diluted                                                              | N/A        | N/A       | \$ 0.35   |
| Dividends declared per common share                                  | N/A        | N/A       | \$ 0.075  |
| Weighted average common shares:                                      |            |           |           |
| Basic                                                                | N/A        | N/A       | 213,732   |
| Diluted                                                              | N/A        | N/A       | 217,844   |

See accompanying notes to consolidated financial statements.

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

|                                                          | <b>Three Months Ended<br/>August 31,<br/>2014</b> | <b>Successor<br/>Three Months Ended<br/>August 31, 2013</b> |
|----------------------------------------------------------|---------------------------------------------------|-------------------------------------------------------------|
| Net earnings                                             | \$ 83,873                                         | \$ 14,889                                                   |
| Other comprehensive (loss) income, net of tax:           |                                                   |                                                             |
| Currency translation adjustments                         | (8,744)                                           | 5,549                                                       |
| Total other comprehensive income (loss), net of tax (1)  | (8,744)                                           | 5,549                                                       |
| Comprehensive income                                     | 75,129                                            | 20,438                                                      |
| Net earnings attributable to noncontrolling interests    | 312                                               | 3,149                                                       |
| Comprehensive income attributable to Jefferies Group LLC | \$ 74,817                                         | \$ 17,289                                                   |

|                                                                              | <b>Successor<br/>Nine Months Ended<br/>August 31,<br/>2014</b> | <b>Successor<br/>Nine Months Ended<br/>August 31,<br/>2013</b> | <b>Predecessor<br/>Three Months Ended<br/>February 28,<br/>2013</b> |
|------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------|
| Net earnings                                                                 | \$ 261,079                                                     | \$ 55,135                                                      | \$ 90,842                                                           |
| Other comprehensive income (loss), net of tax:                               |                                                                |                                                                |                                                                     |
| Currency translation adjustments                                             | 7,899                                                          | (5,917)                                                        | (10,018)                                                            |
| Total other comprehensive income (loss), net of tax (1)                      | 7,899                                                          | (5,917)                                                        | (10,018)                                                            |
| Comprehensive income:                                                        | 268,978                                                        | 49,218                                                         | 80,824                                                              |
| Net earnings attributable to noncontrolling interests                        | 3,760                                                          | 3,887                                                          | 10,704                                                              |
| Comprehensive income attributable to Jefferies Group LLC/common stockholders | \$ 265,218                                                     | \$ 45,331                                                      | \$ 70,120                                                           |

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



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

(In thousands)

|                                                              | <b>Successor</b>         |                          | <b>Predecessor</b>        |
|--------------------------------------------------------------|--------------------------|--------------------------|---------------------------|
|                                                              | <b>Nine Months Ended</b> | <b>Nine Months Ended</b> | <b>Three Months Ended</b> |
|                                                              | <b>August 31,</b>        | <b>November 30,</b>      | <b>February 28,</b>       |
|                                                              | <b>2014</b>              | <b>2013</b>              | <b>2013</b>               |
| <b>Common stock, par value \$0.0001 per share</b>            |                          |                          |                           |
| Balance, beginning of period                                 | \$                       | \$                       | \$ 20                     |
| Issued                                                       |                          |                          | 1                         |
| Balance, end of period                                       | \$                       | \$                       | \$ 21                     |
| <b>Member s paid-in capital</b>                              |                          |                          |                           |
| Balance, beginning of period                                 | \$ 5,280,420             | \$ 4,754,101             | \$                        |
| Contributions                                                |                          | 362,255                  |                           |
| Net earnings to Jefferies Group LLC                          | 257,319                  | 161,191                  |                           |
| Tax benefit for issuance of share-based awards               | 1,467                    | 2,873                    |                           |
| Balance, end of period                                       | \$ 5,539,206             | \$ 5,280,420             | \$                        |
| <b>Additional paid-in capital</b>                            |                          |                          |                           |
| Balance, beginning of period                                 | \$                       | \$                       | \$ 2,219,959              |
| Benefit plan share activity (1)                              |                          |                          | 3,138                     |
| Share-based expense, net of forfeitures and clawbacks        |                          |                          | 22,288                    |
| Proceeds from exercise of stock options                      |                          |                          | 57                        |
| Acquisitions and contingent consideration                    |                          |                          | 2,535                     |
| Tax deficiency for issuance of share-based awards            |                          |                          | (17,965)                  |
| Dividend equivalents on share-based plans                    |                          |                          | 1,418                     |
| Balance, end of period                                       | \$                       | \$                       | \$ 2,231,430              |
| <b>Retained earnings</b>                                     |                          |                          |                           |
| Balance, beginning of period                                 | \$                       | \$                       | \$ 1,281,855              |
| Net earnings to common shareholders                          |                          |                          | 80,138                    |
| Dividends                                                    |                          |                          | (17,217)                  |
| Balance, end of period                                       | \$                       | \$                       | \$ 1,344,776              |
| <b>Accumulated other comprehensive income (loss) (2) (3)</b> |                          |                          |                           |
| Balance, beginning of period                                 | \$ 24,100                | \$                       | \$ (53,137)               |
| Currency adjustment                                          | 7,899                    | 21,341                   | (10,018)                  |
| Pension adjustment, net of tax                               |                          | 2,759                    |                           |

|                                                       |                     |                     |                     |
|-------------------------------------------------------|---------------------|---------------------|---------------------|
| Balance, end of period                                | \$ 31,999           | \$ 24,100           | \$ (63,155)         |
| <b>Treasury stock, at cost</b>                        |                     |                     |                     |
| Balance, beginning of period                          | \$                  | \$                  | \$ (12,682)         |
| Purchases                                             |                     |                     | (166,541)           |
| Returns / forfeitures                                 |                     |                     | (1,922)             |
| Balance, end of period                                | \$                  | \$                  | \$ (181,145)        |
| <b>Total member s / common stockholders equity</b>    | <b>\$ 5,571,205</b> | <b>\$ 5,304,520</b> | <b>\$ 3,331,927</b> |
| <b>Noncontrolling interests</b>                       |                     |                     |                     |
| Balance, beginning of period                          | \$ 117,154          | \$ 356,180          | \$ 346,738          |
| Net earnings attributable to noncontrolling interests | 3,760               | 8,418               | 10,704              |
| Contributions                                         | 31,076              | 100,210             |                     |
| Distributions                                         |                     | (25)                | (1,262)             |
| Redemptions                                           |                     | (347,629)           |                     |
| Deconsolidation of asset management company           | (120,781)           |                     |                     |
| Balance, end of period                                | \$ 31,209           | \$ 117,154          | \$ 356,180          |
| <b>Total equity</b>                                   | <b>\$ 5,602,414</b> | <b>\$ 5,421,674</b> | <b>\$ 3,688,107</b> |

- (1) Includes grants related to the Incentive Plan, Deferred Compensation Plan and Directors Plan.
- (2) The components of other comprehensive income (loss) are attributable to Jefferies Group LLC (formerly Jefferies Group, Inc.). None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.
- (3) There were no reclassifications out of Accumulated other comprehensive income during the nine months ended August 31, 2014 and nine months ended November 30, 2013.

See accompanying notes to consolidated financial statements.

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

|                                                                                                                               | <b>Successor<br/>Nine Months Ended<br/>August 31,<br/>2014</b> | <b>Successor<br/>Nine Months Ended<br/>August 31,<br/>2013</b> | <b>Predecessor<br/>Three Months Ended<br/>February 28,<br/>2013</b> |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------------------|
| Cash flows from operating activities:                                                                                         |                                                                |                                                                |                                                                     |
| Net earnings                                                                                                                  | \$ 261,079                                                     | \$ 55,135                                                      | \$ 90,842                                                           |
| Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:                                 |                                                                |                                                                |                                                                     |
| Depreciation and amortization                                                                                                 | (9,409)                                                        | (1,369)                                                        | 17,393                                                              |
| Gain on conversion option                                                                                                     | (8,142)                                                        | (9,151)                                                        |                                                                     |
| Interest on mandatorily redeemable preferred interests of consolidated subsidiaries                                           |                                                                | 3,368                                                          | 10,961                                                              |
| Accruals related to various benefit plans and stock issuances, net of forfeitures                                             |                                                                |                                                                | 23,505                                                              |
| Income on loans to and investments in related parties                                                                         | (73,640)                                                       | (55,194)                                                       |                                                                     |
| Distributions received on investments in related parties                                                                      | 43,440                                                         | 28,335                                                         |                                                                     |
| Other adjustments                                                                                                             | (33,536)                                                       | (1,815)                                                        | (1,154)                                                             |
| Net change in assets and liabilities:                                                                                         |                                                                |                                                                |                                                                     |
| Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations | 316,049                                                        | 269,786                                                        | 352,891                                                             |
| Receivables:                                                                                                                  |                                                                |                                                                |                                                                     |
| Brokers, dealers and clearing organizations                                                                                   | (298,153)                                                      | (300,959)                                                      | (1,027,671)                                                         |
| Customers                                                                                                                     | (612,457)                                                      | (51,942)                                                       | (130,543)                                                           |
| Fees, interest and other                                                                                                      | (6,687)                                                        | (16,821)                                                       | (29,149)                                                            |
| Securities borrowed                                                                                                           | (908,113)                                                      | (5,251)                                                        | (224,557)                                                           |
| Financial instruments owned                                                                                                   | (1,955,672)                                                    | 2,691,267                                                      | 229,394                                                             |
| Loans to and investments in related parties                                                                                   |                                                                |                                                                | (197,166)                                                           |
| Investments in managed funds                                                                                                  | 9,957                                                          | 4,079                                                          | (2,213)                                                             |
| Securities purchased under agreements to resell                                                                               | (820,235)                                                      | (846,206)                                                      | (224,418)                                                           |
| Other assets                                                                                                                  | (26,031)                                                       | 38,339                                                         | 25,489                                                              |
| Payables:                                                                                                                     |                                                                |                                                                |                                                                     |
| Brokers, dealers and clearing organizations                                                                                   | 638,448                                                        | (727,408)                                                      | (1,031,335)                                                         |
| Customers                                                                                                                     | 730,493                                                        | (607,034)                                                      | (111,139)                                                           |
| Securities loaned                                                                                                             | (40,086)                                                       | 679,305                                                        | (28,138)                                                            |
| Financial instruments sold, not yet purchased                                                                                 | 2,634,241                                                      | (3,127,918)                                                    | 2,327,667                                                           |
| Securities sold under agreements to repurchase                                                                                | (252,215)                                                      | 2,894,054                                                      | (197,493)                                                           |
| Accrued expenses and other liabilities                                                                                        | 14,202                                                         | 134,369                                                        | (267,336)                                                           |

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|                                                                |             |             |           |
|----------------------------------------------------------------|-------------|-------------|-----------|
| Net cash (used in) provided by operating activities            | (396,467)   | 1,046,969   | (394,170) |
| Cash flows from investing activities:                          |             |             |           |
| Contributions to loans to and investments in related parties   | (1,196,634) | (1,133,831) |           |
| Distributions from loans to and investments in related parties | 1,297,139   | 1,363,755   |           |
| Net payments on premises and equipment                         | (83,968)    | (24,787)    | (10,706)  |
| Deconsolidation of asset management entity                     | (137,856)   |             |           |
| Cash received from contingent consideration                    | 5,215       | 2,579       | 1,203     |
| Net cash (used in) provided by investing activities            | (116,104)   | 207,716     | (9,503)   |

Continued on next page.

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

|                                                                                    | <b>Successor</b>         |                         | <b>Predecessor</b>        |
|------------------------------------------------------------------------------------|--------------------------|-------------------------|---------------------------|
|                                                                                    | <b>Nine Months Ended</b> | <b>Six Months Ended</b> | <b>Three Months Ended</b> |
|                                                                                    | <b>August 31,</b>        | <b>August 31,</b>       | <b>February 28,</b>       |
|                                                                                    | <b>2014</b>              | <b>2013</b>             | <b>2013</b>               |
| <b>Cash flows from financing activities:</b>                                       |                          |                         |                           |
| Excess tax benefits from the issuance of share-based awards                        | \$ 1,640                 | \$ 2,419                | \$ 5,682                  |
| Proceeds from short-term borrowings                                                | 13,566,163               | 8,053,000               | 6,744,000                 |
| Payments on short-term borrowings                                                  | (13,486,163)             | (8,103,000)             | (6,794,000)               |
| Proceeds from secured credit facility                                              | 1,740,000                | 720,000                 | 900,000                   |
| Payments on secured credit facility                                                | (1,682,000)              | (685,000)               | (990,007)                 |
| Net proceeds from other secured financings                                         | 381,955                  | 105,000                 | 60,000                    |
| Payments on mandatorily redeemable preferred interest of consolidated subsidiaries |                          | (64)                    | (61)                      |
| Payments on repurchase of common stock                                             |                          |                         | (166,541)                 |
| Payments on dividends                                                              |                          |                         | (15,799)                  |
| Proceeds from exercise of stock options, not including tax benefits                |                          |                         | 57                        |
| Net proceeds from issuance of senior notes, net of issuance costs                  | 681,222                  |                         | 991,469                   |
| Repayment of long-term debt                                                        | (250,000)                |                         |                           |
| Proceeds from contributions of noncontrolling interests                            | 31,076                   | 64,610                  |                           |
| Payments on distributions to noncontrolling interests                              |                          | (306,830)               | (1,262)                   |
| Net cash provided by (used in) financing activities                                | 983,893                  | (149,865)               | 733,538                   |
| Effect of exchange rate changes on cash and cash equivalents                       | 2,798                    | (3,682)                 | (4,502)                   |
| Net increase in cash and cash equivalents                                          | 474,120                  | 1,101,138               | 325,363                   |
| Cash and cash equivalents at beginning of period                                   | 3,561,119                | 3,017,958               | 2,692,595                 |
| Cash and cash equivalents at end of period                                         | \$ 4,035,239             | \$ 4,119,096            | \$ 3,017,958              |
| <b>Supplemental disclosures of cash flow information:</b>                          |                          |                         |                           |
| <b>Cash paid (received) during the period for:</b>                                 |                          |                         |                           |
| Interest                                                                           | \$ 752,429               | \$ 441,652              | \$ 178,836                |
| Income taxes paid (refunds), net                                                   | 117,300                  | 26,037                  | (34,054)                  |
| <b>Noncash financing activities:</b>                                               |                          |                         |                           |

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

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

See accompanying notes to consolidated financial statements.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Index**

| <i>Note</i>                                                                                                          | <i>Page</i> |
|----------------------------------------------------------------------------------------------------------------------|-------------|
| <u>Note 1. Organization and Basis of Presentation</u>                                                                | 10          |
| <u>Note 2. Summary of Significant Accounting Policies</u>                                                            | 12          |
| <u>Note 3. Accounting Developments</u>                                                                               | 20          |
| <u>Note 4. Leucadia and Related Transactions</u>                                                                     | 21          |
| <u>Note 5. Fair Value Disclosures</u>                                                                                | 24          |
| <u>Note 6. Derivative Financial Instruments</u>                                                                      | 44          |
| <u>Note 7. Collateralized Transactions</u>                                                                           | 49          |
| <u>Note 8. Securitization Activities</u>                                                                             | 51          |
| <u>Note 9. Variable Interest Entities</u>                                                                            | 53          |
| <u>Note 10. Investments</u>                                                                                          | 57          |
| <u>Note 11. Goodwill and Other Intangible Assets</u>                                                                 | 30          |
| <u>Note 12. Short-Term Borrowings</u>                                                                                | 63          |
| <u>Note 13. Long-Term Debt</u>                                                                                       | 63          |
| <u>Note 14. Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries</u> | 64          |
| <u>Note 15. Benefit Plans</u>                                                                                        | 65          |
| <u>Note 16. Compensation Plans</u>                                                                                   | 66          |
| <u>Note 17. Earnings per Share</u>                                                                                   | 68          |
| <u>Note 18. Income Taxes</u>                                                                                         | 69          |
| <u>Note 19. Commitments, Contingencies and Guarantees</u>                                                            | 69          |
| <u>Note 20. Net Capital Requirements</u>                                                                             | 73          |
| <u>Note 21. Segment Reporting</u>                                                                                    | 74          |
| <u>Note 22. Related Party Transactions</u>                                                                           | 75          |

**Table of Contents**

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

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

On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies (a U.S. broker-dealer), with Jefferies as the surviving entity. In addition, on April 1, 2013, we merged Jefferies High Yield Trading, LLC (our high yield trading broker-dealer) with Jefferies and our high yield activities are now conducted by Jefferies. In addition, during the three months ended May 31, 2013, we redeemed the third party interests in our high yield joint venture.

***Basis of Presentation***

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The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) and should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2013.

As more fully described in Note 4, Leucadia and Related Transactions, the Leucadia Transaction is accounted for using the acquisition method of accounting, which requires that the assets, including identifiable intangible assets, and liabilities of Jefferies Group LLC be recorded at their fair values. The application of the acquisition method of accounting has been pushed down and reflected in the financial statements of Jefferies Group LLC as a wholly-owned subsidiary of Leucadia. The application of push down accounting represents the termination of the prior reporting entity and the creation of a new reporting entity, which do not have the same bases of accounting. As a result, our consolidated financial statements are presented for periods subsequent to March 1, 2013 for the new reporting entity

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

(the Successor ), and before March 1, 2013 for the prior reporting entity (the Predecessor. ) The Predecessor and Successor periods are separated by a vertical line to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting.

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

***Cash Flow Statement Presentation***

Amounts relating to loans and investments in related parties are classified as components of investing activities on the Consolidated Statements of Cash Flows to conform to the presentation of our Parent company in connection with the establishment of a new accounting entity through the application of push down accounting. These amounts are classified by the Predecessor entity as operating activities for reporting periods prior to the Leucadia Transaction.

***Consolidation***

Our policy is to consolidate all entities in which we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity ( 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.

Intercompany accounts and transactions are eliminated in consolidation.

***Immaterial Adjustments***

We have made correcting adjustments (referred to as adjustments ) to our financial statements at November 30, 2013. The first adjustment relates to a decrease of \$88.7 million to Receivables from customers and a corresponding increase to Receivables from brokers, dealers and clearing organizations. The second adjustment relates to a decrease of \$39.4 million to Payables from customers and a corresponding increase to Payables from brokers, dealers and clearing organizations. 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 any previously reported period.

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

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**Note 2. Summary of Significant Accounting Policies**

***Revenue Recognition Policies***

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

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

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

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

*Interest Revenue and Expense.* We recognize contractual interest on Financial instruments owned and Financial instruments sold, but not yet purchased, on an accrual basis as a component of interest revenue and expense. Interest

flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts and recognized in Principal transactions in the Consolidated Statements of Earnings rather than as a component of interest revenue or expense. We account for our short- and long-term borrowings on an accrual basis with related interest recorded as Interest expense. Discounts/premiums arising on our long-term debt are accreted/amortized to Interest expense using the effective yield method over the remaining lives of the underlying debt obligations. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***Cash Equivalents***

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

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

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

***Financial Instruments***

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

***Fair Value Hierarchy***

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

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

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

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

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

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

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.

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

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

**Valuation Process for Financial Instruments**

Our Independent Price Verification (IPV) Group, which is part of our Finance department, in partnership with Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Risk Management, which are independent of our business functions, play an important role and serve as a control function in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. The IPV Group reports to the Global Controller and is subject to the oversight of the IPV Committee, which is comprised of our Chief Financial Officer, Global Controller, Global Head of Product Control, Chief Risk Officer and Principal Accounting Officer, among other personnel. Our independent price verification policies and procedures are reviewed, at a minimum, annually and changes to the policies require the approval of the IPV Committee.

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

exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and prepares a monthly summary of its valuation results. This process also forms the basis for our classification of fair values within the fair value hierarchy (*i.e.*, Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists the Chief Financial Officer in

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Audit Committee.

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

*Third Party Pricing Information.* Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. We have a process whereby we challenge the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) in order to validate the data for consistency with the definition of a fair value exit price. Our process includes understanding and evaluating the external data providers' valuation methodologies. For corporate, U.S. government and agency and municipal debt securities, and loans, to the extent independent pricing services or broker quotes are utilized in our valuation process, the vendor service providers are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing information received from the independent pricing service is thus not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, our independent pricing service uses a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, we consider pricing data from multiple service providers as available as well as compare pricing data to prices we have observed for recent transactions, if any, in order to corroborate our valuation inputs.

*Model Review Process.* Where a pricing model is to be used to determine fair value, the pricing model is reviewed for theoretical soundness and appropriateness by Risk Management, independent from the trading desks, and then approved by Risk Management to be used in the valuation process. Review and approval of a model for use may include benchmarking the model against relevant third party valuations, testing sample trades in the model,

backtesting the results of the model against actual trades and stress-testing the sensitivity of the pricing model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated by Risk Management annually or more frequently if market conditions or use of the valuation model changes.

***Investments in Managed Funds***

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

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***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 10, Investments, and Note 22, Related Party Transactions, for additional information regarding certain of these investments.

***Receivable from and Payable to Customers***

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

***Securities Borrowed and Securities Loaned***

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, we borrow securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. We have an active securities borrowed and lending matched book business in which we borrow securities from one party and lend them to another party. When we borrow securities, we generally provide cash to the lender as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities borrowed. We earn interest revenues on this cash collateral. Similarly, when we lend securities to another party, that party provides cash to us as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

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

Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively repos ) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amount plus accrued interest. We earn and incur interest over the term of the repo, which is reflected in Interest income and Interest expense on our Consolidated Statements of Earnings on an accrual basis. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis-by counterparty, where permitted by

generally accepted accounting principles. We monitor the fair value of the underlying securities daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate.

***Premises and Equipment***

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***Goodwill and Intangible Assets***

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

The fair value of reporting units are based on widely accepted valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating the fair value of reporting units include market 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.

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 11, Goodwill and Other Intangible Assets, for further information.

***Income Taxes***

Prior to the Leucadia Transaction, we filed a consolidated U.S. federal income tax return, which included all of our qualifying subsidiaries. Subsequently, our results of operations are included in the consolidated federal and applicable state income tax returns filed by Leucadia. In states that neither accept nor require combined or unitary tax returns, certain subsidiaries file separate state income tax returns. We also are subject to income tax in various foreign jurisdictions in which we operate. 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.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

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

We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax 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 August 31, 2014, we have reserved approximately \$3.1 million for remaining payments under a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the Securities and Exchange Commission, both with respect to an investigation of certain purchases and sales of mortgage-backed securities. We believe that any other matters for which we have determined a loss to be probable and reasonably estimable are not material to the consolidated financial statements.

In many instances, it is not possible to determine whether any loss is probable or even possible or to estimate the amount of any loss or the size of any range of loss. We believe that, in the aggregate, the pending legal actions or regulatory proceedings and any other exams, investigations or similar reviews (both formal and informal) should not

have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount that could be reasonably estimated of potential loss or range of potential loss in excess of what has been provided in the consolidated financial statements is not material.

***Share-based Compensation***

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***Foreign Currency Translation***

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

***Earnings per Common Share***

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

Prior to the Leucadia Transaction, Jefferies Group, Inc. (the Predecessor company) had common shares and other common share equivalents outstanding. For the Predecessor periods, basic earnings per share (EPS) is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued. Net earnings available to common shareholders represent net earnings to common shareholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. For Predecessor periods, diluted EPS is computed by dividing net earnings available to common shareholders plus dividends on dilutive mandatorily redeemable convertible preferred stock by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued, plus all dilutive common stock equivalents outstanding during the period. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, are included in the earnings allocation in computing earnings per share under the two-class method of earning per share.

***Securitization Activities***

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

When a transfer of assets does not meet the criteria of a sale, we account for the transfer as a secured borrowing and continue to recognize the assets of a secured borrowing in Financial instruments owned and recognize the associated

financing in Other secured financings in the Consolidated Statements of Financial Condition.

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**Note 3. Accounting Developments**

***Adopted Accounting Standards***

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

***Accounting Standards to be Adopted in Future Periods***

*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. The guidance also requires new disclosures about transfers that are accounted for as sales in transactions that are economically similar to repurchase agreements and increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The guidance is effective prospectively in the second 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 2017. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

*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 is effective beginning in the first quarter of 2015. We do not expect the guidance to have a significant impact on our consolidated financial position or results of operations upon adoption.

*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 is effective for fiscal years and interim periods within those years, beginning after December 15, 2013, and is to be applied prospectively to all unrecognized tax benefits that exist at the effective date. We do not expect that the adoption of this update will have a material effect on our consolidated financial statements.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****Note 4. Leucadia and Related Transactions*****Leucadia Transaction***

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

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

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

In connection with the Leucadia Transaction, we recognized \$9.0 million and \$2.1 million in transaction costs during the three months ended May 31, 2013 and February 28, 2013, respectively.

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

|                                                |              |
|------------------------------------------------|--------------|
| <b>Purchase Price</b>                          |              |
| Jefferies common stock outstanding             | 205,368,031  |
| Less: Jefferies common stock owned by Leucadia | (58,006,024) |
| Jefferies common stock acquired by Leucadia    | 147,362,007  |
| Exchange ratio                                 | 0.81         |

|                                                                            |                     |
|----------------------------------------------------------------------------|---------------------|
| Leucadia's shares issued (excluding for Jefferies shares held by Leucadia) | 119,363,226         |
| Less: restricted shares issued for share-based payment awards (1)          | (6,894,856)         |
| Leucadia's shares issued, excluding share-based payment awards             | 112,468,370         |
| Closing price of Leucadia's common stock (2)                               | \$ 26.90            |
| Fair value of common shares acquired by Leucadia                           | 3,025,399           |
| Fair value of 3.25% cumulative convertible preferred shares (3)            | 125,000             |
| Fair value of shares-based payment awards (4)                              | 343,811             |
| Fair value of Jefferies shares owned by Leucadia (5)                       | 1,259,891           |
| <b>Total purchase price</b>                                                | <b>\$ 4,754,101</b> |

- (1) Represents shares of restricted stock included in Jefferies common stock outstanding that contained a future service requirement at March 1, 2013.
- (2) The value of the shares of common stock exchanged with Jefferies shareholders was based upon the closing price of Leucadia's common stock at February 28, 2013, the last trading day prior to the date of acquisition.

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

- (3) Represents Leucadia's 3.25% Cumulative Convertible Preferred Shares issued in exchange for Jefferies Group, Inc.'s 3.25% Series A-1 Convertible Cumulative Preferred Stock.
- (4) The fair value of share-based payment awards is calculated in accordance with ASC 718, Compensation - Stock Compensation. Share-based payment awards attributable to pre-combination service are included as part of the total purchase price. Share-based payment awards attributable to pre-combination service is estimated based on the ratio of the pre-combination service performed to the original service period of the award.
- (5) The fair value of Jefferies shares owned by Leucadia was based upon a price of \$21.72, the closing price of Jefferies common stock at February 28, 2013.

**Assets acquired:**

|                                                                   |              |
|-------------------------------------------------------------------|--------------|
| Cash and cash equivalents                                         | \$ 3,017,958 |
| Cash and securities segregated                                    | 3,728,742    |
| Financial instruments owned, at fair value                        | 16,413,535   |
| Investments in managed funds                                      | 59,976       |
| Loans to and investments in related parties                       | 766,893      |
| Securities borrowed                                               | 5,315,488    |
| Securities purchased under agreements to resell                   | 3,578,366    |
| Securities received as collateral                                 | 25,338       |
| Receivables:                                                      |              |
| Brokers, dealers and clearing organizations                       | 2,444,085    |
| Customers                                                         | 1,045,251    |
| Fees, interest and other                                          | 225,555      |
| Premises and equipment                                            | 192,603      |
| Indefinite-lived intangible exchange memberships and licenses (1) | 15,551       |
| Finite-lived intangible customer relationships (1)                | 136,002      |
| Finite-lived trade name (1)                                       | 131,299      |
| Other assets                                                      | 939,600      |

|                     |                      |
|---------------------|----------------------|
| <b>Total assets</b> | <b>\$ 38,036,242</b> |
|---------------------|----------------------|

**Liabilities assumed:**

|                                                              |            |
|--------------------------------------------------------------|------------|
| Short-term borrowings                                        | \$ 100,000 |
| Financial instruments sold, not yet purchased, at fair value | 9,766,876  |
| Securities loaned                                            | 1,902,687  |
| Securities sold under agreements to repurchase               | 7,976,492  |
| Other secured financings                                     | 122,294    |
| Obligation to return securities received as collateral       | 25,338     |
| Payables:                                                    |            |

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|                                                              |                      |
|--------------------------------------------------------------|----------------------|
| Brokers, dealers and clearing organizations                  | 1,787,055            |
| Customers                                                    | 5,450,781            |
| Accrued expenses and other liabilities                       | 793,843              |
| Long-term debt                                               | 6,362,024            |
| Mandatorily redeemable preferred interests                   | 358,951              |
| <b>Total liabilities</b>                                     | <b>\$ 34,646,341</b> |
| Noncontrolling interests                                     | 356,180              |
| <b>Fair value of net assets acquired, excluding goodwill</b> | <b>\$ 3,033,721</b>  |
| <b>Goodwill</b>                                              | <b>\$ 1,720,380</b>  |

(1) Intangible assets are recorded within Other assets on the Consolidated Statements of Financial Condition. The goodwill of \$1.7 billion is not deductible for tax purposes.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***Reorganization of Jefferies High Yield Holdings, LLC***

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

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****Note 5. 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 August 31, 2014 and November 30, 2013 by level within the fair value hierarchy (in thousands):

|                                                                                      | August 31, 2014 |               |            |                                                       |               |
|--------------------------------------------------------------------------------------|-----------------|---------------|------------|-------------------------------------------------------|---------------|
|                                                                                      |                 |               |            | Counterparty and<br>Cash<br>Collateral<br>Netting (2) | Total         |
|                                                                                      | Level 1(1)      | Level 2(1)    | Level 3    |                                                       |               |
| <b>Assets:</b>                                                                       |                 |               |            |                                                       |               |
| Financial instruments owned:                                                         |                 |               |            |                                                       |               |
| Corporate equity securities                                                          | \$ 2,343,374    | \$ 336,954    | \$ 7,777   | \$                                                    | \$ 2,688,105  |
| Corporate debt securities                                                            |                 | 3,294,075     | 36,884     |                                                       | 3,330,959     |
| Collateralized debt obligations                                                      |                 | 258,442       | 43,740     |                                                       | 302,182       |
| U.S. government and federal agency securities                                        | 3,375,064       | 108,067       | 2,494      |                                                       | 3,485,625     |
| Municipal securities                                                                 |                 | 468,656       |            |                                                       | 468,656       |
| Sovereign obligations                                                                | 1,570,726       | 840,524       |            |                                                       | 2,411,250     |
| Residential mortgage-backed securities                                               |                 | 2,456,612     | 81,034     |                                                       | 2,537,646     |
| Commercial mortgage-backed securities                                                |                 | 942,224       | 19,327     |                                                       | 961,551       |
| Other asset-backed securities                                                        |                 | 80,556        | 2,079      |                                                       | 82,635        |
| Loans and other receivables                                                          |                 | 1,419,105     | 188,025    |                                                       | 1,607,130     |
| Derivatives                                                                          | 91,950          | 3,378,352     | 1,204      | (3,112,831)                                           | 358,675       |
| Investments at fair value                                                            |                 | 5,541         | 116,387    |                                                       | 121,928       |
| Physical commodities                                                                 |                 | 63,831        |            |                                                       | 63,831        |
| Total financial instruments owned                                                    | \$ 7,381,114    | \$ 13,652,939 | \$ 498,951 | \$ (3,112,831)                                        | \$ 18,420,173 |
| Level 3 financial instruments for which the firm does not bear economic exposure (3) |                 |               | (18,948)   |                                                       |               |
| Level 3 financial instruments for which the firm bears economic exposure             |                 |               | \$ 480,003 |                                                       |               |
| Cash and cash equivalents                                                            | \$ 4,035,239    | \$            | \$         | \$                                                    | \$ 4,035,239  |

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|                                                                              |    |           |        |    |            |    |    |           |
|------------------------------------------------------------------------------|----|-----------|--------|----|------------|----|----|-----------|
| Investments in managed funds                                                 | \$ | \$        | 19,559 | \$ | 58,322     | \$ | \$ | 77,881    |
| Cash and securities segregated and<br>on deposit for regulatory purposes (4) | \$ | 3,301,185 | \$     | \$ | \$         | \$ | \$ | 3,301,185 |
| Securities received as collateral                                            | \$ | 8,326     | \$     | \$ | \$         | \$ | \$ | 8,326     |
| Total Level 3 assets                                                         |    |           |        |    | \$ 538,325 |    |    |           |

**Liabilities:**

|                                                   |    |           |    |           |    |        |             |           |
|---------------------------------------------------|----|-----------|----|-----------|----|--------|-------------|-----------|
| Financial instruments sold, not yet<br>purchased: |    |           |    |           |    |        |             |           |
| Corporate equity securities                       | \$ | 1,749,610 | \$ | 66,422    | \$ | 38     | \$          | 1,816,070 |
| Corporate debt securities                         |    |           |    | 1,617,826 |    | 242    |             | 1,618,068 |
| Collateralized debt obligations                   |    |           |    | 500       |    |        |             | 500       |
| U.S. government and federal agency<br>securities  |    | 2,851,698 |    |           |    |        |             | 2,851,698 |
| Municipal securities                              |    |           |    |           |    |        |             |           |
| Sovereign obligations                             |    | 1,457,265 |    | 824,142   |    |        |             | 2,281,407 |
| Residential mortgage-backed securities            |    |           |    | 3,114     |    |        |             | 3,114     |
| Loans                                             |    |           |    | 825,758   |    | 6,661  |             | 832,419   |
| Derivatives                                       |    | 230,856   |    | 3,125,513 |    | 14,784 | (3,104,148) | 267,005   |
| Physical commodities                              |    |           |    | 52,966    |    |        |             | 52,966    |

|                                                        |    |           |    |           |    |        |    |             |    |           |
|--------------------------------------------------------|----|-----------|----|-----------|----|--------|----|-------------|----|-----------|
| Total financial instruments sold, not<br>yet purchased | \$ | 6,289,429 | \$ | 6,516,241 | \$ | 21,725 | \$ | (3,104,148) | \$ | 9,723,247 |
|--------------------------------------------------------|----|-----------|----|-----------|----|--------|----|-------------|----|-----------|

|                                                        |    |       |    |  |    |        |    |        |
|--------------------------------------------------------|----|-------|----|--|----|--------|----|--------|
| Obligation to return securities received as collateral | \$ | 8,326 | \$ |  | \$ |        | \$ | 8,326  |
| Other secured financings                               | \$ |       | \$ |  | \$ | 31,666 | \$ | 31,666 |
| Embedded conversion option                             | \$ |       | \$ |  | \$ | 1,432  | \$ | 1,432  |

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

- (1) There were no transfers between Level 1 and Level 2 for the nine months ended August 31, 2014.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Consists of assets which are financed by nonrecourse secured financing.
- (4) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of \$564.3 million.

|                                                                                  | November 30, 2013 |               |            |                                                    |               |
|----------------------------------------------------------------------------------|-------------------|---------------|------------|----------------------------------------------------|---------------|
|                                                                                  | Level 1 (1)       | Level 2 (1)   | Level 3    | Counterparty and<br>Cash Collateral<br>Netting (2) | Total         |
| <b>Assets:</b>                                                                   |                   |               |            |                                                    |               |
| Financial instruments owned:                                                     |                   |               |            |                                                    |               |
| Corporate equity securities                                                      | \$ 1,913,220      | \$ 175,493    | \$ 9,884   | \$                                                 | \$ 2,098,597  |
| Corporate debt securities                                                        |                   | 2,957,102     | 25,666     |                                                    | 2,982,768     |
| Collateralized debt obligations                                                  |                   | 182,095       | 37,216     |                                                    | 219,311       |
| U.S. government and federal agency securities                                    | 2,293,221         | 40,389        |            |                                                    | 2,333,610     |
| Municipal securities                                                             |                   | 664,054       |            |                                                    | 664,054       |
| Sovereign obligations                                                            | 1,458,803         | 889,685       |            |                                                    | 2,348,488     |
| Residential mortgage-backed securities                                           |                   | 2,932,268     | 105,492    |                                                    | 3,037,760     |
| Commercial mortgage-backed securities                                            |                   | 1,130,410     | 17,568     |                                                    | 1,147,978     |
| Other asset-backed securities                                                    |                   | 55,475        | 12,611     |                                                    | 68,086        |
| Loans and other receivables                                                      |                   | 1,203,238     | 145,890    |                                                    | 1,349,128     |
| Derivatives                                                                      | 40,952            | 2,472,237     | 1,493      | (2,253,589)                                        | 261,093       |
| Investments at fair value                                                        |                   | 40            | 101,242    |                                                    | 101,282       |
| Physical commodities                                                             |                   | 37,888        |            |                                                    | 37,888        |
| Total financial instruments owned                                                | \$ 5,706,196      | \$ 12,740,374 | \$ 457,062 | \$ (2,253,589)                                     | \$ 16,650,043 |
| Level 3 financial instruments for which the firm does not bear economic exposure |                   |               |            |                                                    |               |
| Level 3 financial instruments for which the firm bears economic exposure         |                   |               |            |                                                    |               |
|                                                                                  |                   |               | \$ 457,062 |                                                    |               |
| Cash and cash equivalents                                                        | \$ 3,561,119      | \$            | \$         | \$                                                 | \$ 3,561,119  |

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|                                                                           |              |    |            |    |              |
|---------------------------------------------------------------------------|--------------|----|------------|----|--------------|
| Investments in managed funds                                              | \$           | \$ | \$ 57,285  | \$ | \$ 57,285    |
| Cash and securities segregated and on deposit for regulatory purposes (3) | \$ 3,616,602 | \$ | \$         | \$ | \$ 3,616,602 |
| Securities received as collateral                                         | \$ 11,063    | \$ | \$         | \$ | \$ 11,063    |
| Total Level 3 assets                                                      |              |    | \$ 514,347 |    |              |

**Liabilities:**

|                                                |              |           |        |             |              |
|------------------------------------------------|--------------|-----------|--------|-------------|--------------|
| Financial instruments sold, not yet purchased: |              |           |        |             |              |
| Corporate equity securities                    | \$ 1,782,903 | \$ 40,358 | \$ 38  | \$          | \$ 1,823,299 |
| Corporate debt securities                      |              | 1,346,078 |        |             | 1,346,078    |
| U.S. government and federal agency securities  | 1,324,326    |           |        |             | 1,324,326    |
| Sovereign obligations                          | 1,360,269    | 471,088   |        |             | 1,831,357    |
| Residential mortgage-backed securities         |              | 34,691    |        |             | 34,691       |
| Loans                                          |              | 672,838   | 22,462 |             | 695,300      |
| Derivatives                                    | 43,829       | 2,480,463 | 8,398  | (2,352,611) | 180,079      |
| Physical commodities                           |              | 36,483    |        |             | 36,483       |

|                                                     |              |              |           |                |              |
|-----------------------------------------------------|--------------|--------------|-----------|----------------|--------------|
| Total financial instruments sold, not yet purchased | \$ 4,511,327 | \$ 5,081,999 | \$ 30,898 | \$ (2,352,611) | \$ 7,271,613 |
|-----------------------------------------------------|--------------|--------------|-----------|----------------|--------------|

|                                                        |           |           |          |    |           |
|--------------------------------------------------------|-----------|-----------|----------|----|-----------|
| Obligation to return securities received as collateral | \$ 11,063 | \$        | \$       | \$ | \$ 11,063 |
| Other secured financings                               | \$        | \$ 31,000 | \$ 8,711 | \$ | \$ 39,711 |
| Embedded conversion option                             | \$        | \$        | \$ 9,574 | \$ | \$ 9,574  |

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

- (1) During the nine months ended November 30, 2013, we transferred listed equity options with a fair value of \$403.0 million within Financial instruments owned and \$423.0 million within Financial instruments sold, not yet purchased from Level 1 to Level 2 as adjustments to the exchange closing price are necessary to best reflect the fair value of the population at its exit price.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of \$304.2 million.

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.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Collateralized Debt Obligations*

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

*U.S. Government and Federal Agency Securities*

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

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

*Municipal Securities*

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

*Sovereign Obligations*

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

*Residential Mortgage-Backed Securities*

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

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Commercial Mortgage-Backed Securities*

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

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

*Other Asset-Backed Securities*

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

*Loans and Other Receivables*

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

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

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

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

*Derivatives*

Listed Derivative Contracts: Listed derivative contracts that are actively traded are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy. Listed derivatives for which there is limited trading activity are measured based on incorporating the closing auction price of the underlying equity security, use similar valuation approaches as those applied to over-the-counter derivative contracts and are categorized within Level 2 of the fair value hierarchy.

OTC Derivative Contracts: Over-the-counter ( OTC ) derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily categorized within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

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

*Physical Commodities*

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

*Investments at Fair Value and Investments in Managed Funds*

Investments at fair value and Investments in managed funds include investments in hedge funds, fund of funds, private equity funds, convertible bond funds and commodity funds, which are measured at fair value based on the net asset value of the funds provided by the fund managers and are categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured at fair value using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (*e.g.*, price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 2 or Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy.



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

The following tables present information about our investments in entities that have the characteristics of an investment company at August 31, 2014 and November 30, 2013 (in thousands):

|                                   |                | August 31, 2014      |                                              |
|-----------------------------------|----------------|----------------------|----------------------------------------------|
|                                   | Fair Value (1) | Unfunded Commitments | Redemption Frequency (if currently eligible) |
| Equity Long/Short Hedge Funds (2) | \$ 39,452      | \$                   | Monthly, Quarterly                           |
| High Yield Hedge Funds (3)        | 210            |                      |                                              |
| Fund of Funds (4)                 | 334            | 94                   |                                              |
| Equity Funds (5)                  | 69,232         | 26,023               |                                              |
| Convertible Bond Funds (6)        | 3,590          |                      | At Will                                      |
| Total (7)                         | \$ 112,818     | \$ 26,117            |                                              |

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

- (1) Where fair value is calculated based on net asset value, fair value has been derived from each of the funds' capital statements.
- (2) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At August 31, 2014 and November 30, 2013, investments representing approximately 99% and 98%, respectively, of the fair value of investments in this category are redeemable with 30-65 days prior written notice, and includes an investment in a private asset management fund managed by us with a fair value of \$16.0 million at August 31, 2014.
- (3) Includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity

investments. There are no redemption provisions. The underlying assets of the funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.

- (4) Includes investments in fund of funds that invest in various private equity funds. At August 31, 2014 and November 30, 2013, approximately 96% and 98%, respectively, of the fair value of investments in this category are managed by us and have no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in approximately two years. For the remaining investments we have requested redemption; however, we are unable to estimate when these funds will be received.
- (5) At August 31, 2014 and November 30, 2013, investments representing approximately 99% and 99%, respectively, of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed, instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years. The remaining investments are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated. At August 31, 2014 and November 30, 2013, this category includes investments in equity funds managed by us with a fair value of \$58.8 million and \$54.4 million and unfunded commitments of \$24.4 million and \$39.2 million, respectively.
- (6) This category represents an investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The investment is redeemable with 5 days prior written notice.
- (7) Investments at fair value in the Consolidated Statements of Financial Condition at August 31, 2014 and November 30, 2013 include \$87.0 million and \$66.9 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

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

Other secured financings include the 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. In addition, at August 31, 2014, Other secured financings includes \$12.7 million related to transfers of loans accounted for as secured financings rather than as sales and classified as Level 3 within the fair value hierarchy.

*Embedded Conversion Option*

The embedded conversion option presented within long-term debt represents the fair value of the conversion option on Leucadia shares within our 3.875% Convertible Senior Debentures, due November 1, 2029 and categorized as Level 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 August 31, 2014 and November 30, 2013, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:

|                                      | August 31, 2014   |                                           | November 30, 2013 |                                           |
|--------------------------------------|-------------------|-------------------------------------------|-------------------|-------------------------------------------|
|                                      | Financial         | Financial                                 | Financial         | Financial                                 |
|                                      | Instruments Owned | Instruments Sold,<br>Not Yet<br>Purchased | Instruments Owned | Instruments Sold,<br>Not Yet<br>Purchased |
| Exchange closing prices              | 13%               | 18%                                       | 12%               | 25%                                       |
| Recently observed transaction prices | 3%                | 3%                                        | 5%                | 4%                                        |
| External pricing services            | 70%               | 72%                                       | 68%               | 66%                                       |
| Broker quotes                        | 4%                | 3%                                        | 3%                | 3%                                        |
| Valuation techniques                 | 10%               | 4%                                        | 12%               | 2%                                        |
|                                      | 100%              | 100%                                      | 100%              | 100%                                      |

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

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended August 31, 2014 (in thousands):

| Successor<br>Three Months Ended August 31, 2014 |                               |                                                               |           |          |             |           |                                                  |                                                                                                                              |
|-------------------------------------------------|-------------------------------|---------------------------------------------------------------|-----------|----------|-------------|-----------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
|                                                 | Balance at<br>May 31,<br>2014 | Total gains/<br>losses<br>(realized and<br>unrealized)<br>(1) | Purchases | Sales    | Settlements | Issuances | Net<br>transfers<br>into/<br>(out of)<br>Level 3 | Change<br>in<br>unrealized gains/<br>(losses)<br>relating<br>to<br>instruments<br>still held at<br>August 31,<br>2014<br>(1) |
| <b>Assets:</b>                                  |                               |                                                               |           |          |             |           |                                                  |                                                                                                                              |
| Financial instruments owned:                    |                               |                                                               |           |          |             |           |                                                  |                                                                                                                              |
| Corporate equity securities                     | \$ 16,402                     | \$ (480)                                                      | \$ 4,528  | \$ (529) | \$          | \$        | \$ (12,144)                                      | \$ 7,777 \$ (286)                                                                                                            |
| Corporate debt securities                       | 31,648                        | 5,454                                                         | 21,793    | (15,713) | (34)        |           | (6,264)                                          | 36,884 3,470                                                                                                                 |
| Collateralized debt obligations                 | 42,313                        | (845)                                                         | 7,613     | (15,204) |             |           | 9,863                                            | 43,740 (1,575)                                                                                                               |
| U.S government and federal agency securities    |                               | (11)                                                          | 2,505     |          |             |           |                                                  | 2,494 (11)                                                                                                                   |
| Residential mortgage-backed securities          | 71,962                        | (2,557)                                                       | 3,981     | (9,635)  | (325)       |           | 17,608                                           | 81,034 (302)                                                                                                                 |
| Commercial mortgage-backed securities           | 24,246                        | (256)                                                         | 641       | (7,068)  |             |           | 1,764                                            | 19,327 (832)                                                                                                                 |
| Other asset-backed securities                   | 45,444                        | 1,272                                                         | 50,620    | (49,411) | (8,774)     |           | (37,072)                                         | 2,079 (3)                                                                                                                    |

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|                                                |         |         |          |          |          |         |         |         |
|------------------------------------------------|---------|---------|----------|----------|----------|---------|---------|---------|
| Loans and other receivables                    | 138,643 | (8,074) | 194,387  | (96,340) | (40,617) | 26      | 188,025 | (7,967) |
| Investments, at fair value                     | 118,071 | (4)     | 500      | (7,232)  | (305)    | 5,357   | 116,387 | 105     |
| Investments in managed funds                   | 56,119  | 734     | 1,469    |          |          |         | 58,322  | 734     |
| <b>Liabilities:</b>                            |         |         |          |          |          |         |         |         |
| Financial instruments sold, not yet purchased: |         |         |          |          |          |         |         |         |
| Corporate equity securities                    | \$ 38   | \$      | \$       | \$       | \$       | \$      | \$ 38   | \$      |
| Corporate debt securities                      | 2,780   | (101)   | (2,566)  |          |          | 129     | 242     | 67      |
| Net derivatives (2)                            | 15,282  | (1,632) | (74)     | 74       | (70)     |         | 13,580  | 70      |
| Loans                                          | 31,534  |         | (16,307) |          |          | (8,566) | 6,661   |         |
| Other secured financings                       | 20,288  |         |          |          | (7,570)  | 18,948  | 31,666  |         |
| Embedded conversion option                     | 3,895   | (2,463) |          |          |          |         | 1,432   | 2,463   |

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.

*Analysis of Level 3 Assets and Liabilities for the Three Months Ended August 31, 2014*

During the three months ended August 31, 2014, transfers of assets of \$87.8 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$30.1 million, commercial mortgage-backed securities of \$6.8 million and other asset-backed securities of \$1.5 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$25.1 million and investments at fair value of \$5.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

Collateralized debt obligations of \$15.2 million which have little to no transparency related to trade activity. During the three months ended August 31, 2014, transfers of assets of \$108.6 million from Level 3 to Level 2 are attributed to:

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Non-agency residential mortgage-backed securities of \$12.5 million, commercial mortgage-backed securities of \$5.0 million and other asset-backed securities of \$38.6 million for which market trades were observed in the period for either identical or similar securities;

Collateralized debt obligations of \$5.3 million and loans and other receivables of \$25.1 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of \$13.9 million due to an increase in observable market transactions.

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

During the three months ended August 31, 2014, there were transfers of loan liabilities of \$8.6 million from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$4.8 million and net gains on Level 3 liabilities were \$4.2 million for the three months ended August 31, 2014. Net losses on Level 3 assets were primarily due to decreased valuations of certain loans and other receivables, residential and commercial mortgage-backed securities, collateralized debt obligations, and corporate equity securities, partially offset by an increase in valuation of certain corporate debt securities, other asset-backed securities and investments in managed funds. Net gains on Level 3 liabilities were primarily due to decreased valuations of the embedded conversion option and decreased valuations of certain derivative instruments and certain corporate debt securities.

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 nine months ended August 31, 2014 (in thousands):

| Successor<br>Nine Months Ended August 31, 2014 |                                    |                                                                     |           |             |             |           |                                                  |                                     |                                                                                                                                 |
|------------------------------------------------|------------------------------------|---------------------------------------------------------------------|-----------|-------------|-------------|-----------|--------------------------------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
|                                                | Balance at<br>November 30,<br>2013 | Total<br>gains/<br>losses<br>(realized<br>and<br>unrealized)<br>(1) | Purchases | Sales       | Settlements | Issuances | Net<br>transfers<br>into/<br>(out of)<br>Level 3 | Balance<br>at<br>August 31,<br>2014 | Change<br>in<br>unrealized gains/<br>(losses)<br>relating<br>to<br>instruments<br>still held<br>at<br>August<br>31,<br>2014 (1) |
| <b>Assets:</b>                                 |                                    |                                                                     |           |             |             |           |                                                  |                                     |                                                                                                                                 |
| Financial instruments owned:                   |                                    |                                                                     |           |             |             |           |                                                  |                                     |                                                                                                                                 |
| Corporate equity securities                    | \$ 9,884                           | \$ (1,528)                                                          | \$ 36,661 | \$ (31,444) | \$          | \$        | \$ (5,796)                                       | \$ 7,777                            | \$ (400)                                                                                                                        |
| Corporate debt securities                      | 25,666                             | 10,727                                                              | 137,164   | (128,733)   |             |           | (7,940)                                          | 36,884                              | 10,177                                                                                                                          |
| Collateralized debt obligations                | 37,216                             | 5,198                                                               | 94,743    | (99,661)    |             |           | 6,244                                            | 43,740                              | (6,283)                                                                                                                         |

|                                                |         |          |          |           |          |         |         |          |
|------------------------------------------------|---------|----------|----------|-----------|----------|---------|---------|----------|
| U.S government and federal agency securities   |         | (11)     | 2,505    |           |          |         | 2,494   | (11)     |
| Residential mortgage-backed securities         | 105,492 | (6,974)  | 44,454   | (65,229)  | (812)    | 4,103   | 81,034  | (3,564)  |
| Commercial mortgage-backed securities          | 17,568  | (3,120)  | 34,959   | (32,774)  | (1,315)  | 4,009   | 19,327  | (3,380)  |
| Other asset-backed securities                  | 12,611  | 256      | 52,495   | (52,282)  | (8,804)  | (2,197) | 2,079   |          |
| Loans and other receivables                    | 145,890 | (9,028)  | 247,383  | (147,851) | (61,791) | 13,422  | 188,025 | (8,961)  |
| Investments, at fair value                     | 101,242 | 27,264   | 30,660   | (40,916)  | (945)    | (918)   | 116,387 | 12,775   |
| Investments in managed funds                   | 57,285  | (10,515) | 14,875   |           |          | (3,323) | 58,322  | (10,515) |
| <b>Liabilities:</b>                            |         |          |          |           |          |         |         |          |
| Financial instruments sold, not yet purchased: |         |          |          |           |          |         |         |          |
| Corporate equity securities                    | \$ 38   | \$       | \$       | \$        | \$       | \$      | \$ 38   | \$       |
| Corporate debt securities                      |         | 163      | (7)      | 97        |          | (11)    | 242     | (163)    |
| Net derivatives (2)                            | 6,905   | 9,959    | (124)    | (76)      | 248      | (3,332) | 13,580  | (10,519) |
| Loans                                          | 22,462  |          | (15,472) | 3,549     |          | (3,878) | 6,661   |          |
| Other secured financings                       | 8,711   |          |          |           | (16,684) | 39,639  | 31,666  |          |
| Embedded conversion option                     | 9,574   | (8,142)  |          |           |          |         | 1,432   | 8,142    |

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Analysis of Level 3 Assets and Liabilities for the Nine Months Ended August 31, 2014*

During the nine months ended August 31, 2014, transfers of assets of \$79.4 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$27.2 million, commercial mortgage-backed securities of \$4.6 million and other asset-backed securities of \$1.3 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$31.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

Collateralized debt obligations of \$7.5 million which have little to no transparency related to trade activity;

Investments at fair value of \$6.5 million due to a lack of observable market transactions.

During the nine months ended August 31, 2014, transfers of assets of \$71.8 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of \$23.1 million, commercial mortgage-backed securities of \$0.5 million and other asset-backed securities of \$3.5 million for which market trades were observed in the period for either identical or similar securities;

Collateralized debt obligations of \$1.3 million, loans and other receivables of \$18.0 million and investments at fair value of \$7.4 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of \$6.5 million, corporate debt securities of \$8.0 million and investments in managed funds \$3.5 million due to an increase in observable market transactions.

There were \$3.9 million transfers of loan liabilities from Level 3 to Level 2 and \$3.3 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable inputs in the valuation and an increase in observable inputs used in the valuing of derivative contracts, respectively.

Net gains on Level 3 assets were \$12.3 million and net losses on Level 3 liabilities were \$2.0 million for the nine months ended August 31, 2014. Net gains on Level 3 assets were primarily due to increased valuations of certain investments at fair value, corporate debt securities and collateralized debt obligations, partially offset by a decrease in valuation of certain residential and commercial mortgage-backed securities, loans and other receivables, corporate equity securities, and investments in managed funds. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivatives, partially offset by decreased valuations of the embedded conversion option.

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

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

| Successor<br>Three Months Ended August 31, 2013 (1) |                               |                                                               |           |          |             |                                                  |                                  | Change in<br>unrealized gains/<br>(losses)<br>relating<br>to<br>instruments<br>still held<br>at<br>August<br>31,<br>2013 (2) |
|-----------------------------------------------------|-------------------------------|---------------------------------------------------------------|-----------|----------|-------------|--------------------------------------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------|
|                                                     | Balance at<br>May 31,<br>2013 | Total gains/<br>losses<br>(realized<br>and unrealized)<br>(2) | Purchases | Sales    | Settlements | Net<br>transfers<br>into/<br>(out of)<br>Level 3 | Balance at<br>August 31,<br>2013 |                                                                                                                              |
| <b>Assets:</b>                                      |                               |                                                               |           |          |             |                                                  |                                  |                                                                                                                              |
| Financial instruments owned:                        |                               |                                                               |           |          |             |                                                  |                                  |                                                                                                                              |
| Corporate equity securities                         | \$ 19,577                     | \$ (788)                                                      | \$        | \$ (930) | \$          | \$ (1,780)                                       | \$ 16,079                        | \$ (786)                                                                                                                     |
| Corporate debt securities                           | 18,615                        | (4,285)                                                       | 68        | (571)    |             | 6,806                                            | 20,633                           | (4,342)                                                                                                                      |
| Collateralized debt obligations                     | 40,084                        | (1,903)                                                       | 8,222     | (4,236)  |             | (1,335)                                          | 40,832                           | (2,388)                                                                                                                      |
| Residential mortgage-backed securities              | 143,766                       | (1,876)                                                       | 33,831    | (50,938) | (2,306)     | 9,706                                            | 132,183                          | (3,898)                                                                                                                      |
| Commercial mortgage-backed securities               | 16,068                        | 2,033                                                         | 130       | (310)    | (3,703)     | 205                                              | 14,423                           | (1,106)                                                                                                                      |
| Other asset-backed securities                       | 1,484                         | 2,170                                                         | 7,576     | (3,279)  |             | 659                                              | 8,610                            | 2,142                                                                                                                        |
| Loans and other receivables                         | 117,496                       | (198)                                                         | 52,246    | (12,139) | (25,395)    | (1,558)                                          | 130,452                          | 609                                                                                                                          |
| Investments, at fair value                          | 81,364                        | 1,848                                                         |           | (101)    | (710)       | (3,949)                                          | 78,452                           | 2,002                                                                                                                        |
|                                                     | 55,141                        | 4,034                                                         | 6,598     |          | (9,876)     |                                                  | 55,897                           | 4,034                                                                                                                        |

Investments in  
managed funds**Liabilities:**Financial  
instruments sold,  
not yet purchased:

## Corporate equity

|                            |    |        |    |          |    |          |    |      |    |  |    |        |         |
|----------------------------|----|--------|----|----------|----|----------|----|------|----|--|----|--------|---------|
| securities                 | \$ | 38     | \$ |          | \$ |          | \$ |      | \$ |  | \$ | 38     | \$      |
| Net derivatives (3)        |    | 10,799 |    | 3,899    |    |          |    | (60) |    |  |    | 14,638 | (3,899) |
| Loans                      |    | 15,212 |    |          |    | (14,952) |    | 716  |    |  |    | 976    |         |
| Other secured financings   |    | 2,294  |    | 731      |    |          |    |      |    |  |    | 3,025  | (731)   |
| Embedded conversion option |    | 23,597 |    | (16,261) |    |          |    |      |    |  |    | 7,336  | 16,261  |

- (1) There were no issuances during the three months ended August 31, 2013.
- (2) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.
- (3) 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 August 31, 2013*

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

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

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

Collateralized debt obligations of \$22.3 million which have little to no transparency related to trade activity. During the three months ended August 31, 2013, transfers of assets of \$82.7 million from Level 3 to Level 2 are attributed to:

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

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

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

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

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

Net gains on Level 3 assets were \$1.0 million and net gains on Level 3 liabilities were \$11.6 million for the three months ended August 31, 2013. Net gains on Level 3 assets were primarily due to increased valuations of certain commercial mortgage-backed securities, other asset-backed securities, investments at fair value and investments in managed funds, partially offset by a decrease in valuation of certain corporate equity securities, corporate debt securities, collateralized debt obligations, residential mortgage-backed securities and loans and other receivables. Net gains on Level 3 liabilities were primarily due to decreased valuations of the embedded conversion option, partially offset by increased valuations of certain derivative instruments.

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

| Successor<br>Six Months Ended August 31, 2013 (1) |                                       |                                                                  |           |          |             |                                                  |                                  |                                                                                                                              |
|---------------------------------------------------|---------------------------------------|------------------------------------------------------------------|-----------|----------|-------------|--------------------------------------------------|----------------------------------|------------------------------------------------------------------------------------------------------------------------------|
|                                                   | Balance<br>at<br>February 28,<br>2013 | Total<br>gains/<br>losses<br>(realized<br>and unrealized)<br>(2) | Purchases | Sales    | Settlements | Net<br>transfers<br>into/<br>(out of)<br>Level 3 | Balance at<br>August 31,<br>2013 | Change in<br>unrealized gains/<br>(losses)<br>relating<br>to<br>instruments<br>still<br>held at<br>August<br>31,<br>2013 (2) |
| <b>Assets:</b>                                    |                                       |                                                                  |           |          |             |                                                  |                                  |                                                                                                                              |
| Financial<br>instruments<br>owned:                | \$ 13,234                             | \$ 1,053                                                         | \$ 213    | \$ (753) | \$ 266      | \$ 2,066                                         | \$ 16,079                        | \$ 1,243                                                                                                                     |

|                                                |         |          |          |           |           |          |         |         |
|------------------------------------------------|---------|----------|----------|-----------|-----------|----------|---------|---------|
| Corporate equity securities                    |         |          |          |           |           |          |         |         |
| Corporate debt securities                      | 31,820  | (17,415) | 708      | (2,556)   |           | 8,076    | 20,633  | (6,933) |
| Collateralized debt obligations                | 24,736  | (2,008)  | 43,152   | (27,676)  |           | 2,628    | 40,832  | (3,830) |
| Residential mortgage-backed securities         | 169,426 | 5,594    | 79,531   | (105,671) | (4,851)   | (11,846) | 132,183 | 586     |
| Commercial mortgage-backed securities          | 17,794  | (735)    | 1,533    | (3,054)   | (5,281)   | 4,166    | 14,423  | (5,007) |
| Other asset-backed securities                  | 1,292   | 2,168    | 7,618    | (3,127)   |           | 659      | 8,610   | 2,077   |
| Loans and other receivables                    | 170,986 | (5,103)  | 206,672  | (26,630)  | (213,662) | (1,811)  | 130,452 | (8,063) |
| Investments, at fair value                     | 75,067  | 653      | 5,000    | (102)     | (3,204)   | 1,038    | 78,452  | 668     |
| Investments in managed funds                   | 59,976  | 3,108    | 9,130    |           | (16,439)  | 122      | 55,897  | 3,108   |
| <b>Liabilities:</b>                            |         |          |          |           |           |          |         |         |
| Financial instruments sold, not yet purchased: |         |          |          |           |           |          |         |         |
| Corporate equity securities                    | \$ 38   | \$       | \$       | \$        | \$        | \$       | \$ 38   | \$      |
| Residential mortgage-backed securities         | 1,542   | (1,542)  |          |           |           |          |         |         |
| Net derivatives (3)                            | 11,185  | 3,453    |          |           |           |          | 14,638  | (3,453) |
| Loans                                          | 7,398   |          | (20,221) | 13,799    |           |          | 976     |         |
| Other secured financings                       |         | 731      |          |           |           | 2,294    | 3,025   | (731)   |
| Embedded conversion option (4)                 | 16,488  | (9,152)  |          |           |           |          | 7,336   | 9,152   |

- (1) There were no issuances during the six months ended August 31, 2013.
- (2) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.
- (3) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.
- (4) The embedded conversion option of \$16.5 million is at March 1, 2013, upon completion of the Leucadia Transaction (see Note 13).

Table of Contents

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

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

During the six months ended August 31, 2013, transfers of assets of \$53.6 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of \$17.9 million and commercial mortgage-backed securities of \$5.3 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of \$0.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2.

Corporate equity securities of \$7.0 million and corporate debt securities of \$8.5 million due to lack of observable market transactions;

Collateralized debt obligations of \$12.1 million which have little to no transparency related to trade activity; During the six months ended August 31, 2013, transfers of assets of \$48.5 million from Level 3 to Level 2 are attributed to:

Non-agency residential mortgage-backed securities of \$29.7 million and commercial mortgage-backed securities of \$1.2 million for which market trades were observed in the period for either identical or similar securities;

Collateralized debt obligations of \$9.5 million and loans and other receivables of \$2.2 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

Corporate equity securities of \$4.9 million and corporate debt securities of \$0.4 million due to an increase in observable market transactions.

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

Net losses on Level 3 assets were \$12.7 million and net gains on Level 3 liabilities were \$6.5 million for the six months ended August 31, 2013, respectively. Net losses on Level 3 assets were primarily due to decreased valuations

of certain corporate debt securities, collateralized debt obligations, commercial mortgage-backed securities and loans and other receivables, partially offset by an increase in valuation of certain corporate equity securities, residential mortgage-backed securities, other asset-backed securities, investments at fair value and investments in managed funds. Net gains on Level 3 liabilities were primarily due decreased valuations of the embedded conversion option, partially offset by increased valuations of certain derivative instruments.

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

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 28, 2013 (in thousands):

| Predecessor<br>Three Months Ended February 28, 2013 (1) |                                       |                                                               |           |           |             |                                                  | Change<br>in<br>unrealized gains/<br>(losses)<br>relating<br>to<br>instruments<br>still held<br>at<br>February<br>28,<br>2013 (2) |          |
|---------------------------------------------------------|---------------------------------------|---------------------------------------------------------------|-----------|-----------|-------------|--------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------|
|                                                         | Balance<br>at<br>November 30,<br>2012 | Total<br>gains/<br>losses (realized<br>and unrealized)<br>(2) | Purchases | Sales     | Settlements | Net<br>transfers<br>into/<br>(out of)<br>Level 3 | Balance at<br>February<br>28, 2013                                                                                                |          |
| <b>Assets:</b>                                          |                                       |                                                               |           |           |             |                                                  |                                                                                                                                   |          |
| Financial instruments owned:                            |                                       |                                                               |           |           |             |                                                  |                                                                                                                                   |          |
| Corporate equity securities                             | \$ 16,815                             | \$ 200                                                        | \$ 707    | \$ 109    | \$          | \$ (4,597)                                       | \$ 13,234                                                                                                                         | \$ 172   |
| Corporate debt securities                               | 3,631                                 | 7,836                                                         | 11,510    | (1,918)   |             | 10,761                                           | 31,820                                                                                                                            | 7,833    |
| Collateralized debt obligations                         | 31,255                                | 3,584                                                         | 4,406     | (17,374)  |             | 2,865                                            | 24,736                                                                                                                            | (1,165)  |
| Residential mortgage-backed securities                  | 156,069                               | 11,906                                                        | 132,773   | (130,143) | (6,057)     | 4,878                                            | 169,426                                                                                                                           | 4,511    |
| Commercial mortgage-backed securities                   | 30,202                                | (995)                                                         | 2,280     | (2,866)   | (1,188)     | (9,639)                                          | 17,794                                                                                                                            | (2,059)  |
| Other asset-backed securities                           | 1,114                                 | 90                                                            | 1,627     | (1,342)   | (19)        | (178)                                            | 1,292                                                                                                                             | 39       |
| Loans and other receivables                             | 180,393                               | (8,682)                                                       | 105,650   | (29,828)  | (61,407)    | (15,140)                                         | 170,986                                                                                                                           | (12,374) |

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|                                                |        |       |          |         |         |         |        |         |
|------------------------------------------------|--------|-------|----------|---------|---------|---------|--------|---------|
| Investments, at fair value                     | 83,897 | 961   | 5,952    | (4,923) | (9,721) | (1,099) | 75,067 | 1,171   |
| Investments in managed funds                   | 57,763 | (363) | 11,068   |         | (8,492) |         | 59,976 | (363)   |
| <b>Liabilities:</b>                            |        |       |          |         |         |         |        |         |
| Financial instruments sold, not yet purchased: |        |       |          |         |         |         |        |         |
| Corporate equity securities                    | \$ 38  | \$    | \$       | \$      | \$      | \$      | \$ 38  | \$      |
| Residential mortgage-backed securities         |        | 25    | (73,846) | 75,363  |         |         | 1,542  | (19)    |
| Net derivatives (3)                            | 9,188  | 2,648 |          |         |         | (651)   | 11,185 | (2,648) |
| Loans                                          | 1,711  |       | (1,711)  | 7,398   |         |         | 7,398  |         |

- (1) There were no issuances during the three months ended February 28, 2013.
- (2) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.
- (3) 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, 2013*

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

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

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

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

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

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

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

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

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

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

***Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at August 31, 2014 and November 30, 2013***

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

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

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

| <b>August 31, 2014</b>                               |                   |                            |                                          |                         |                      |
|------------------------------------------------------|-------------------|----------------------------|------------------------------------------|-------------------------|----------------------|
| <b>Financial Instruments Owned</b>                   | <b>Fair Value</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Weighted Average</b> | <b>Input / Range</b> |
| <b>Corporate equity securities</b>                   | <b>\$ 7,777</b>   |                            |                                          |                         |                      |
| Non-exchange traded securities                       |                   | Market approach            | EBITDA (a) multiple                      | 3.05                    |                      |
|                                                      |                   |                            | Transaction Level                        | 2.95                    |                      |
| <b>Corporate debt securities</b>                     | <b>\$ 34,965</b>  | Market approach            | Yield                                    | 3.7%-4.4%               | 4.2%                 |
|                                                      |                   | Convertible bond model     | Discount rate/yield                      | 31.9%                   |                      |
|                                                      |                   | Discounted cash flows      | Constant prepayment rate                 | 20.0%                   |                      |
|                                                      |                   |                            | Constant default rate                    | 2.0%                    |                      |
|                                                      |                   |                            | Loss severity                            | 25.0%                   |                      |
|                                                      |                   |                            | Yield                                    | 16.0%                   |                      |
| <b>Collateralized debt obligations</b>               | <b>\$ 41,690</b>  | Discounted cash flows      | Constant prepayment rate                 | 10% - 20%               | 15.29%               |
|                                                      |                   |                            | Constant default rate                    | 2%                      |                      |
|                                                      |                   |                            | Loss severity                            | 25% - 95%               | 55.70%               |
|                                                      |                   |                            | Yield                                    | 0% - 47.3%              | 7.83%                |
| <b>U.S. government and federal agency securities</b> | <b>\$ 2,494</b>   | Market approach            | Transaction Level                        | \$100                   |                      |
| <b>Residential mortgage-backed securities</b>        | <b>\$ 81,034</b>  | Discounted cash flows      | Constant prepayment rate                 | 3% - 50%                | 11.9%                |
|                                                      |                   |                            | Constant default rate                    | 1% - 100%               | 14.5%                |
|                                                      |                   |                            | Loss severity                            | 20% - 80%               | 48.4%                |
|                                                      |                   |                            | Yield                                    | 1.2% - 12.6%            | 6.0%                 |
| <b>Commercial mortgage-backed securities</b>         | <b>\$ 19,327</b>  | Discounted cash flows      | Yield                                    | 7.6% - 15%              | 11.6%                |
|                                                      |                   |                            |                                          | 4.6% - 74%              | 16.7%                |

|                                                       |                                  |                            | Cumulative loss rate                     |                               |                |
|-------------------------------------------------------|----------------------------------|----------------------------|------------------------------------------|-------------------------------|----------------|
| <b>Other asset-backed securities</b>                  |                                  |                            | Constant                                 |                               |                |
| \$                                                    | 2,079                            | Discounted cash flows      | prepayment rate                          | 0%                            |                |
|                                                       |                                  |                            | Constant default rate                    | 0%                            |                |
|                                                       |                                  |                            | Loss severity                            | 0%                            |                |
|                                                       |                                  |                            | Yield                                    | 7%                            |                |
| <b>Loans and other receivables</b>                    |                                  |                            | Comparable bond or loan price            | \$92.5 - \$100                | \$ 99.63       |
| \$                                                    | 179,189                          | Comparable pricing         | Yield                                    | 2.6% - 4.6%                   | 3.9%           |
|                                                       |                                  | Market approach            | EBITDA (a) multiple                      | 3.05-7                        | 6.64           |
|                                                       |                                  |                            | Estimated recovery percentage            | 10.33% - 81.3%                | 70.9%          |
|                                                       |                                  | Scenario analysis          |                                          |                               |                |
| <b>Investments at fair value</b>                      |                                  |                            |                                          |                               |                |
| Private equity securities                             |                                  |                            | Comparable share price                   | \$26.80                       |                |
| \$                                                    | 29,135                           | Comparable pricing         | Transaction Level                        | \$50.36                       |                |
|                                                       |                                  | Market approach            |                                          |                               |                |
|                                                       |                                  |                            |                                          |                               |                |
| <b>Liabilities</b>                                    | <b>Fair Value (in thousands)</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Weighted Input / Range</b> | <b>Average</b> |
| <b>Financial Instruments Sold, Not Yet Purchased:</b> |                                  |                            |                                          |                               |                |
| <b>Derivatives</b>                                    |                                  |                            |                                          |                               |                |
| Unfunded commitment                                   | \$ 14,784                        | Comparable pricing         | Comparable loan price                    | \$93.5 - \$99.625             | \$ 94.64       |
|                                                       |                                  | Market Approach            | Yield                                    | 4.582%                        |                |
| <b>Embedded conversion option</b>                     |                                  |                            | Historical volatility                    | 18.38%                        |                |
| \$                                                    | 1,432                            | Option valuation model     | Dividend yield                           | 1.003%                        |                |

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

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****November 30, 2013**

| <b>Financial Instruments Owned</b>            | <b>Fair Value</b> | <b>(in thousands)</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Input / Range</b> | <b>Weighted Average</b> |
|-----------------------------------------------|-------------------|-----------------------|----------------------------|------------------------------------------|----------------------|-------------------------|
| <b>Corporate equity securities</b>            | \$                | 8,034                 |                            |                                          |                      |                         |
| Non-exchange traded securities                |                   |                       | Market approach            | EBITDA multiple                          | 4.0 to 5.5           | 4.53                    |
| Warrants                                      |                   |                       | Option model               | Volatility                               | 36%                  |                         |
| <b>Corporate debt securities</b>              | \$                | 17,699                | Scenario analysis          | Estimated recovery percentage            | 24%                  |                         |
|                                               |                   |                       |                            |                                          | \$69.10 to           |                         |
|                                               |                   |                       | Comparable pricing         | Comparable bond or loan price            | \$70.50              | \$ 69.91                |
|                                               |                   |                       | Market approach            | Yield                                    | 13%                  |                         |
| <b>Collateralized debt obligations</b>        | \$                | 34,316                | Discounted cash flows      | Constant prepayment rate                 | 0% to 20%            | 13%                     |
|                                               |                   |                       |                            | Constant default rate                    | 2% to 3%             | 2%                      |
|                                               |                   |                       |                            | Loss severity                            | 30% to 85%           | 38%                     |
|                                               |                   |                       |                            | Yield                                    | 3% to 91%            | 28%                     |
| <b>Residential mortgage-backed securities</b> | \$                | 105,492               | Discounted cash flows      | Constant prepayment rate                 | 2% to 50%            | 11%                     |
|                                               |                   |                       |                            | Constant default rate                    | 1% to 100%           | 17%                     |
|                                               |                   |                       |                            | Loss severity                            | 30% to 90%           | 48%                     |
|                                               |                   |                       |                            | Yield                                    | 0% to 20%            | 7%                      |
| <b>Commercial mortgage-backed securities</b>  | \$                | 17,568                | Discounted cash flows      | Yield                                    | 12% to 20%           | 14%                     |
|                                               |                   |                       |                            | Cumulative loss rate                     | 5% to 28.2%          | 11%                     |
| <b>Other asset-backed securities</b>          | \$                | 12,611                | Discounted cash flows      | Constant prepayment rate                 | 4% to 30%            | 17%                     |
|                                               |                   |                       |                            | Constant default rate                    | 2% to 11%            | 7%                      |
|                                               |                   |                       |                            | Loss severity                            | 40% to 92%           | 64%                     |
|                                               |                   |                       |                            | Yield                                    | 3% to 29%            | 18%                     |
| <b>Loans and other receivables</b>            | \$                | 101,931               | Comparable pricing         | Comparable bond or loan price            | \$91 to \$101        | \$ 98.90                |
|                                               |                   |                       | Market approach            | Yield                                    | 8.75% to 13.5%       | 10%                     |
|                                               |                   |                       |                            | EBITDA (a) multiple                      | 6.9                  |                         |
|                                               |                   |                       | Scenario analysis          | Estimated recovery percentage            | 16.9% to 92%         | 74%                     |
| <b>Derivatives</b>                            |                   |                       |                            |                                          |                      |                         |

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|                                                       |                                  |                            |                                          |                      |                         |
|-------------------------------------------------------|----------------------------------|----------------------------|------------------------------------------|----------------------|-------------------------|
| Loan commitments                                      | \$ 1,493                         | Comparable pricing         | Comparable bond or loan price            | \$100.875            |                         |
| <b>Investments at fair value</b>                      |                                  |                            |                                          |                      |                         |
| Private equity securities                             | \$ 30,203                        | Comparable pricing         | Comparable share price                   | \$414                |                         |
|                                                       |                                  | Market approach            | Discount rate                            | 15% to 30%           | 23%                     |
|                                                       | <b>Fair Value (in thousands)</b> | <b>Valuation Technique</b> | <b>Significant Unobservable Input(s)</b> | <b>Input / Range</b> | <b>Weighted Average</b> |
| <b>Liabilities</b>                                    |                                  |                            |                                          |                      |                         |
| <b>Financial Instruments Sold, Not Yet Purchased:</b> |                                  |                            |                                          |                      |                         |
| <b>Derivatives</b>                                    |                                  |                            |                                          |                      |                         |
| Equity options                                        | \$ 8,398                         | Option model               | Volatility                               | 36.25% to 41%        | 39%                     |
| <b>Loans</b>                                          | \$ 8,106                         | Comparable pricing         | Comparable bond or loan price            | \$101.88             |                         |
| <b>Embedded conversion option</b>                     | \$ 9,574                         | Option valuation model     | Historical volatility                    | 22.55%               |                         |
|                                                       |                                  |                            | Dividend yield                           | 0.872%               |                         |

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 August 31, 2014 and November 30, 2013, asset exclusions consisted of \$101.3 million and \$127.7 million, respectively, primarily comprised of investments in private equity securities, investments in reinsurance contracts, derivatives and certain corporate loans. At August 31, 2014 and November 30, 2013, liability exclusions consisted of \$6.7 million and \$14.4 million, respectively of corporate loan commitments.

**Table of Contents**

**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 Derivatives and Financial instruments sold, not yet purchased Derivatives on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included within Loans to and investments in related parties on the Consolidated Statements of Financial Condition and are accounted for on an amortized cost basis. We have elected the fair value option for our investment in Knight Capital Group, Inc., which is included in Financial Instruments owned Corporate equity securities on the Consolidated Statement of Financial Condition. See Note 10, Investments for further details regarding our investment in Knight Capital Group, Inc. We have also elected the fair value option for certain financial instruments held by subsidiaries as the investments are risk managed by us on a fair value basis. The fair value option has also been elected for certain secured financings that arise in connection with our securitization activities and other 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 not accounted for at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

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

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):

|                                     | Three Months Ended<br>August 31, 2014 | Successor<br>Nine Months Ended<br>August 31, 2014 | Three Months Ended<br>August 31, 2013 | Predecessor<br>Nine Months Ended<br>August 31, 2013 | Three Months Ended<br>February 28, 2013 |
|-------------------------------------|---------------------------------------|---------------------------------------------------|---------------------------------------|-----------------------------------------------------|-----------------------------------------|
| <b>Financial Instruments Owned:</b> |                                       |                                                   |                                       |                                                     |                                         |
| Loans and other receivables         | \$ (15,002)                           | \$ (12,841)                                       | \$ 1,097                              | \$ 2,284                                            | \$ 3,924                                |
| <b>Financial Instruments Sold:</b>  |                                       |                                                   |                                       |                                                     |                                         |
| Loans                               | \$ 103                                | \$ (751)                                          | \$                                    | \$                                                  | \$                                      |
| Loan commitments                    | 1,338                                 | (10,299)                                          | 4,440                                 | (2,059)                                             | (2,746)                                 |

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

|                                                               | August 31, 2014 | November 30, 2013 |
|---------------------------------------------------------------|-----------------|-------------------|
| <b>Financial Instruments Owned:</b>                           |                 |                   |
| Loans and other receivables (1)                               | \$ 333,925      | \$ 264,896        |
| Loans and other receivables greater than 90 days past due (1) | 4,443           |                   |
| Loans and other receivables on nonaccrual status (1) (2)      | (42,085)        |                   |

(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) Amount includes all loans and other receivables greater than 90 or more days past due.

The aggregate fair value of loans and other receivables that were 90 or more days past due was \$1.2 million and \$0- at August 31, 2014 and November 30, 2013, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 or more days past due, was \$305.6 million at August 31, 2014. There were no loan receivables on nonaccrual status at November 30, 2013.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**Note 6. Derivative Financial Instruments**

***Off-Balance Sheet Risk***

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

**Derivative Financial Instruments**

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Financial instruments owned derivatives and Financial instruments sold, not yet purchased derivatives net of cash paid or received under credit support agreements and on a net counterparty basis when a legally enforceable right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in Principal transactions in the Consolidated Statements of Earnings on a trade date basis and as a component of cash flows from operating activities in the Consolidated Statements of Cash Flows. Acting in a trading capacity, we may enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. (See Note 5, Fair Value Disclosures and Note 19, Commitments, Contingencies and Guarantees for additional disclosures about derivative instruments.)

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

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

Under our ISDA master netting agreements, we typically also execute credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted by or paid to a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex. In the

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

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

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

The following tables present the fair value and related number of derivative contracts at August 31, 2014 and November 30, 2013 categorized by type of derivative contract and the platform on which these derivatives are transacted. The fair value of assets/liabilities represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged. See Note 7, 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

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

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).

|                                                                           | August 31, 2014 (1) |                     |             |                     |
|---------------------------------------------------------------------------|---------------------|---------------------|-------------|---------------------|
|                                                                           | Assets              |                     | Liabilities |                     |
|                                                                           | Fair Value          | Number of Contracts | Fair Value  | Number of Contracts |
| Interest rate contracts                                                   |                     |                     |             |                     |
| Exchange-traded                                                           | \$ 4,040            | 55,660              | \$ 3,335    | 80,615              |
| Cleared OTC                                                               | 1,001,657           | 2,268               | 1,025,998   | 1,949               |
| Bilateral OTC                                                             | 823,612             | 1,723               | 794,541     | 710                 |
| Foreign exchange contracts                                                |                     |                     |             |                     |
| Exchange-traded                                                           | 3                   | 16,278              | 65          | 23,221              |
| Bilateral OTC                                                             | 732,662             | 12,058              | 655,255     | 12,188              |
| Equity contracts                                                          |                     |                     |             |                     |
| Exchange-traded                                                           | 659,267             | 1,887,129           | 606,331     | 1,886,569           |
| Bilateral OTC                                                             | 49,638              | 2,716               | 72,821      | 280                 |
| Commodity contracts                                                       |                     |                     |             |                     |
| Exchange-traded                                                           | 56,279              | 1,118,702           | 49,926      | 1,123,739           |
| Bilateral OTC                                                             | 123,678             | 3,422               | 119,784     | 3,733               |
| Credit contracts                                                          |                     |                     |             |                     |
| Cleared OTC                                                               | 55,293              | 51                  | 58,196      | 52                  |
| Bilateral OTC                                                             | 1,365               | 15                  | 20,888      | 29                  |
| Total gross derivative assets/ liabilities:                               |                     |                     |             |                     |
| Exchange-traded                                                           | 719,589             |                     | 659,657     |                     |
| Cleared OTC                                                               | 1,056,950           |                     | 1,084,194   |                     |
| Bilateral OTC                                                             | 1,730,955           |                     | 1,663,289   |                     |
| Amounts offset in the Consolidated Statements of Financial Condition (2): |                     |                     |             |                     |
| Exchange-traded                                                           | (655,081)           |                     | (655,081)   |                     |
| Cleared OTC                                                               | (1,040,774)         |                     | (1,061,414) |                     |
| Bilateral OTC                                                             | (1,452,964)         |                     | (1,423,640) |                     |
| Net amounts per Consolidated Statements of Financial Condition (3)        | \$ 358,675          |                     | \$ 267,005  |                     |

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

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

|                                                                           | November 30, 2013 (1) |                     |             |                     |
|---------------------------------------------------------------------------|-----------------------|---------------------|-------------|---------------------|
|                                                                           | Assets                |                     | Liabilities |                     |
|                                                                           | Fair Value            | Number of Contracts | Fair Value  | Number of Contracts |
| Interest rate contracts                                                   |                       |                     |             |                     |
| Exchange-traded                                                           | \$ 8,696              | 57,344              | \$ 3,846    | 68,268              |
| Cleared OTC                                                               | 432,667               | 5,402               | 396,422     | 7,730               |
| Bilateral OTC                                                             | 724,613               | 1,221               | 730,897     | 1,340               |
| Foreign exchange contracts                                                |                       |                     |             |                     |
| Exchange-traded                                                           | 33                    | 111,229             | 40          | 104,205             |
| Bilateral OTC                                                             | 653,739               | 7,478               | 693,618     | 8,212               |
| Equity contracts                                                          |                       |                     |             |                     |
| Exchange-traded                                                           | 495,069               | 1,742,195           | 465,110     | 1,800,467           |
| Bilateral OTC                                                             | 6,715                 | 148                 | 9,875       | 136                 |
| Commodity contracts                                                       |                       |                     |             |                     |
| Exchange-traded                                                           | 27,185                | 785,718             | 33,661      | 780,358             |
| Bilateral OTC                                                             | 114,095               | 11,811              | 139,458     | 8,359               |
| Credit contracts                                                          |                       |                     |             |                     |
| Cleared OTC                                                               | 49,531                | 49                  | 51,632      | 46                  |
| Bilateral OTC                                                             | 2,339                 | 16                  | 8,131       | 19                  |
| Total gross derivative assets/ liabilities:                               |                       |                     |             |                     |
| Exchange-traded                                                           | 530,983               |                     | 502,657     |                     |
| Cleared OTC                                                               | 482,198               |                     | 448,054     |                     |
| Bilateral OTC                                                             | 1,501,501             |                     | 1,581,979   |                     |
| Amounts offset in the Consolidated Statements of Financial Condition (2): |                       |                     |             |                     |
| Exchange-traded                                                           | (489,375)             |                     | (489,375)   |                     |
| Cleared OTC                                                               | (446,520)             |                     | (445,106)   |                     |
| Bilateral OTC                                                             | (1,317,694)           |                     | (1,418,130) |                     |
| Net amounts per Consolidated Statements of Financial Condition (3)        | \$ 261,093            |                     | \$ 180,079  |                     |

- (1) Exchange traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

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

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

The following table presents unrealized and realized gains (losses) on derivative contracts for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013 (in thousands):

| <i>Gains (Losses)</i>      | Successor                                |                                         |                                          |                                        | Predecessor                                |
|----------------------------|------------------------------------------|-----------------------------------------|------------------------------------------|----------------------------------------|--------------------------------------------|
|                            | Three Months Ended<br>August 31,<br>2014 | Nine Months Ended<br>August 31,<br>2014 | Three Months Ended<br>August 31,<br>2013 | Six Months Ended<br>August 31,<br>2013 | Three Months Ended<br>February 28,<br>2013 |
| Interest rate contracts    | \$ (3,803)                               | \$ (46,376)                             | \$ 130,178                               | \$ 177,796                             | \$ 45,875                                  |
| Foreign exchange contracts | 6,697                                    | 8,294                                   | (3,930)                                  | (25)                                   | 12,228                                     |
| Equity contracts           | (49,422)                                 | (220,774)                               | 25,509                                   | 37,588                                 | (20,938)                                   |
| Commodity contracts        | (4,991)                                  | 32,989                                  | 15,080                                   | 36,593                                 | 19,585                                     |
| Credit contracts           | (1,330)                                  | (17,318)                                | (904)                                    | (13,425)                               | (3,886)                                    |
| Total                      | \$ (52,849)                              | \$ (243,185)                            | \$ 165,933                               | \$ 238,527                             | \$ 52,864                                  |

**OTC Derivatives.** The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities at August 31, 2014 (in thousands):

|                                              | OTC Derivative Assets (1) (2) (3) |                 |                         |                               |           |
|----------------------------------------------|-----------------------------------|-----------------|-------------------------|-------------------------------|-----------|
|                                              | 0<br>12 Months                    | 1<br>5<br>Years | Greater Than<br>5 Years | Cross-Maturity<br>Netting (4) | Total     |
| Commodity swaps, options and forwards        | \$ 62,219                         | \$ 7,459        | \$                      | \$ (2,344)                    | \$ 67,334 |
| Equity swaps and options                     | 1,980                             | 36,355          | 5,911                   |                               | 44,246    |
| Total return swaps                           | 2,816                             | 2               |                         |                               | 2,818     |
| Foreign currency forwards, swaps and options | 179,297                           | 31,983          | 3,255                   | (16,960)                      | 197,575   |
| Interest rate swaps, options and forwards    | 49,095                            | 107,025         | 152,536                 | (62,126)                      | 246,530   |
| Total                                        | \$ 295,407                        | \$ 182,824      | \$ 161,702              | \$ (81,430)                   | 558,503   |
| Cross product counterparty netting           |                                   |                 |                         |                               | (8,871)   |

Total OTC derivative assets included in  
Financial instruments owned

\$ 549,632

- (1) At August 31, 2014, we held exchange traded derivative assets and other credit agreements with a fair value of \$69.0 million, which are not included in this table.
- (2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received on the Consolidated Statements of Financial Condition. At August 31, 2014, cash collateral received was \$260.0 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.

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

|                                              | OTC Derivative Liabilities (1) (2) (3) |           |              |                         |                               |         |    |          |         |
|----------------------------------------------|----------------------------------------|-----------|--------------|-------------------------|-------------------------------|---------|----|----------|---------|
|                                              | 0                                      | 12 Months | 1 5<br>Years | Greater Than<br>5 Years | Cross-Maturity<br>Netting (4) | Total   |    |          |         |
| Commodity swaps, options and forwards        | \$                                     | 58,743    | \$           | 7,042                   | \$                            | (2,344) | \$ | 63,441   |         |
| Credit default swaps                         |                                        | 62        |              | 7,892                   |                               | 747     |    | 8,701    |         |
| Equity swaps and options                     |                                        |           |              | 9,977                   |                               | 58,712  |    | 68,689   |         |
| Total return swaps                           |                                        | 1,704     |              |                         |                               |         |    | 1,704    |         |
| Foreign currency forwards, swaps and options |                                        | 106,582   |              | 27,173                  |                               | 3,084   |    | (16,960) | 119,879 |
| Interest rate swaps, options and forwards    |                                        | 39,104    |              | 91,001                  |                               | 177,410 |    | (62,126) | 245,389 |
| Total                                        | \$                                     | 206,195   | \$           | 143,085                 | \$                            | 239,953 | \$ | (81,430) | 507,803 |

Cross product counterparty netting (8,871)

|                                                                                                  |            |
|--------------------------------------------------------------------------------------------------|------------|
| Total OTC derivative liabilities included in<br>Financial instruments sold, not yet<br>purchased | \$ 498,932 |
|--------------------------------------------------------------------------------------------------|------------|

(1) At August 31, 2014, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$19.2 million, which are not included in this table.

(2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged on the Consolidated Statements of Financial Condition. At August 31, 2014, cash collateral pledged was \$251.3 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 August 31, 2014, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

|                                  |            |
|----------------------------------|------------|
| Counterparty credit quality (1): |            |
| A- or higher                     | \$ 326,452 |
| BBB- to BBB+                     | 69,223     |
| BB+ or lower                     | 54,989     |
| Unrated                          | 98,968     |

Total

\$ 549,632

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

***Contingent Features***

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at August 31, 2014 and November 30, 2013 is \$85.8 million and \$170.2 million, respectively, for which we have posted collateral of \$65.1 million and \$127.7 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on August 31, 2014 and November 30, 2013, we would have been required to post an additional \$23.8 million and \$49.4 million, respectively, of collateral to our counterparties.

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

**Note 7. 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 August 31, 2014 and November 30, 2013, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$24.8 billion and \$21.9 billion, respectively.

At August 31, 2014 and November 30, 2013, 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 August 31, 2014 and November 30, 2013, \$8.3 million and \$11.1 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

*Offsetting of Securities Financing Agreements*

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

netting of receivables and payables with a given counterparty as a single net obligation.

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

The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to

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

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 6, Derivative Financial Instruments, for information related to offsetting of derivatives.

| August 31, 2014                      |                  |                                                                      |                                                                          |                                                      |                             |                |
|--------------------------------------|------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------|-----------------------------|----------------|
|                                      | Gross<br>Amounts | Netting in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Net Amounts in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Additional<br>Amounts<br>Available for<br>Setoff (1) | Available<br>Collateral (2) | Net Amount (3) |
| <b>Assets</b>                        |                  |                                                                      |                                                                          |                                                      |                             |                |
| Securities borrowing<br>arrangements | \$ 6,270,452     | \$                                                                   | \$ 6,270,452                                                             | \$ (555,662)                                         | \$ (977,138)                | \$ 4,737,652   |
| Reverse repurchase<br>agreements     | 13,768,047       | (9,197,514)                                                          | 4,570,533                                                                | (547,636)                                            | (3,987,093)                 | 35,804         |
| <b>Liabilities</b>                   |                  |                                                                      |                                                                          |                                                      |                             |                |
| Securities lending<br>arrangements   | \$ 2,468,513     | \$                                                                   | \$ 2,468,513                                                             | \$ (555,662)                                         | \$ (1,883,794)              | \$ 29,057      |
| Repurchase agreements                | 19,729,573       | (9,197,514)                                                          | 10,532,059                                                               | (547,636)                                            | (9,301,230)                 | 683,193        |

- (1) Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's

- default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met.
- (2) Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.
  - (3) Amounts include \$4,700.3 million of securities borrowing arrangements, for which we have received securities collateral of \$4,579.8 million, and \$667.4 million of repurchase agreements, for which we have pledged securities collateral of \$694.5 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

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

|                                      |                  | November 30, 2013                                                    |                                                                          |                                                      |                                |                |
|--------------------------------------|------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------|--------------------------------|----------------|
|                                      | Gross<br>Amounts | Netting in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Net Amounts in<br>Consolidated<br>Statement of<br>Financial<br>Condition | Additional<br>Amounts<br>Available for<br>Setoff (1) | Available<br>Collateral<br>(2) | Net Amount (3) |
| <b>Assets</b>                        |                  |                                                                      |                                                                          |                                                      |                                |                |
| Securities borrowing<br>arrangements | \$ 5,359,846     | \$                                                                   | \$ 5,359,846                                                             | \$ (530,293)                                         | \$ (957,140)                   | \$ 3,872,413   |
| Reverse repurchase<br>agreements     | 12,715,449       | (8,968,529)                                                          | 3,746,920                                                                | (590,754)                                            | (3,074,540)                    | 81,626         |
| <b>Liabilities</b>                   |                  |                                                                      |                                                                          |                                                      |                                |                |
| Securities lending<br>arrangements   | \$ 2,506,122     | \$                                                                   | \$ 2,506,122                                                             | \$ (530,293)                                         | \$ (1,942,271)                 | \$ 33,558      |
| Repurchase agreements                | 19,748,374       | (8,968,529)                                                          | 10,779,845                                                               | (590,754)                                            | (8,748,641)                    | 1,440,450      |

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

*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 \$3,301.2 million and \$3,616.6 million at August 31, 2014 and November 30, 2013, 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 Bache, LLC as a futures commission merchant to segregation requirements.

**Note 8. 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 9, 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 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.

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

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<br>August 31, 2014 | Three Months Ended<br>August 31, 2014 | Successor<br>Three Months Ended<br>August 31, 2014 | Predecessor<br>Three Months Ended<br>February 28, 2013 |
|-------------------------------------------|---------------------------------------|---------------------------------------|----------------------------------------------------|--------------------------------------------------------|
| Transferred assets                        | \$ 1,562.1                            | \$ 4,788.7                            | \$ 918.4                                           | \$ 3,102.4                                             |
| Proceeds on new securitizations           | 1,567.2                               | 4,795.4                               | 921.5                                              | 3,112.5                                                |
| Cash flows received on retained interests | 15.2                                  | 37.9                                  | 13.0                                               | 24.2                                                   |

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 August 31, 2014 and November 30, 2013.

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                                           | August 31, 2014 |                    |
|---------------------------------------------------------------|-----------------|--------------------|
|                                                               | Total Assets    | Retained Interests |
| U.S. government agency residential mortgage-backed securities | \$ 17,478.6     | \$ 312.5           |
| U.S. government agency commercial mortgage-backed securities  | 5,046.3         | 100.5              |
| Collateralized loan obligations                               | 2,711.3         | 42.7               |

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

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 the securities purchased through these market-marking activities meet specific thresholds and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities table presented in Note 9, Variable Interest Entities.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

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 \$12.7 million and \$12.7 million, respectively, at August 31, 2014 and \$8.7 million and \$8.7 million, respectively, at November 30, 2013. The related liabilities do not have recourse to our general credit.

**Note 9. 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 August 31, 2014 and November 30, 2013 (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.

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

|                                                    | August 31, 2014 |        | November 30, 2013 |        |
|----------------------------------------------------|-----------------|--------|-------------------|--------|
|                                                    | Securitization  |        | Securitization    |        |
|                                                    | Vehicles        | Other  | Vehicles          | Other  |
| Cash                                               | \$              | \$ 0.2 | \$                | \$ 0.2 |
| Financial instruments owned                        | 56.9            | 0.3    | 97.5              | 0.4    |
| Securities purchased under agreement to resell (1) | 585.2           |        | 195.1             |        |
| Fees, interest and other receivables               | 1.0             |        |                   |        |
| Other assets                                       |                 |        | 2.3               |        |
|                                                    | \$ 643.1        | \$ 0.5 | \$ 294.9          | \$ 0.6 |
| Other secured financings (2)                       | \$ 641.9        | \$     | \$ 292.5          | \$     |
| Other liabilities                                  | 1.2             | 0.2    | 2.1               | 0.2    |
|                                                    | \$ 643.1        | \$ 0.2 | \$ 294.6          | \$ 0.2 |

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

(2) Approximately \$37.9 million and \$66.5 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at August 31, 2014 and November 30, 2013, 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.

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.

At November 30, 2013, we were the primary beneficiary of a securitization vehicle to which we transferred a corporate loan and retained a portion of the securities issued by the securitization vehicle. During the second quarter

of 2014, the loan was repaid, the securities issued by the securitization vehicle were redeemed and the securitization vehicle was terminated. As a result, the securitization vehicle is no longer consolidated by us at August 31, 2014 and no gain or loss was recognized upon deconsolidation.

*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.

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

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

|                                  | August 31, 2014        |               | Maximum Exposure to loss | VIE Assets        |
|----------------------------------|------------------------|---------------|--------------------------|-------------------|
|                                  | Carrying Amount Assets | Liabilities   |                          |                   |
| Collateralized loan obligations  | \$ 51.0                | \$ 0.1        | \$ 245.0                 | \$ 4,897.5        |
| Consumer loan financing vehicles | 133.6                  |               | 367.5                    | 261.8             |
| Asset management vehicle (1)     | 3.6                    |               | 3.6                      | 310.1             |
| Private equity vehicles (1)      | 47.2                   |               | 62.1                     | 98.8              |
| <b>Total</b>                     | <b>\$ 235.4</b>        | <b>\$ 0.1</b> | <b>\$ 678.2</b>          | <b>\$ 5,568.2</b> |

|                                 | November 30, 2013      |               | Maximum Exposure to loss | VIE Assets        |
|---------------------------------|------------------------|---------------|--------------------------|-------------------|
|                                 | Carrying Amount Assets | Liabilities   |                          |                   |
| Collateralized loan obligations | \$ 11.9                | \$ 0.2        | \$ 88.8                  | \$ 1,122.3        |
| Asset management vehicle (1)    | 3.5                    |               | 3.5                      | 454.2             |
| Private equity vehicles (1)     | 40.8                   |               | 68.8                     | 89.4              |
| <b>Total</b>                    | <b>\$ 56.2</b>         | <b>\$ 0.2</b> | <b>\$ 161.1</b>          | <b>\$ 1,665.9</b> |

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

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

Retention of unsold 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 incentives fees are accrued as the amounts become realizable. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured loans and high yield bonds.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Consumer Loan Financing Vehicles.* The underlying assets, which are collateralizing the vehicles, are primarily comprised of unsecured consumer installment loans. We provide financing and lending related services to certain client-sponsored VIEs in the form of revolving funding note agreements and revolving credit facilities. 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 Vehicle.* We manage the Jefferies Umbrella Fund, an umbrella structure company that invests primarily in convertible bonds and enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. Accounting changes to consolidation standards under generally accepted accounting principles have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and we are not the primary beneficiary at August 31, 2014 and November 30, 2013 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees.

*Private Equity Vehicles.* On July 26, 2010, we committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the "SBI USA Fund"). At August 31, 2014 and November 30, 2013, we funded approximately \$60.1 million and \$47.0 million, respectively, of our commitment. The carrying amount of our equity investment was \$45.9 million and \$39.2 million at August 31, 2014 and November 30, 2013, respectively. Our exposure to loss is limited to our equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

We have a variable interest in Jefferies Employees Partners IV, LLC ("JEP IV") consisting of an equity investment. The carrying amount of our equity investment was \$1.3 million and \$1.6 million at August 31, 2014 and November 30, 2013, respectively. Our exposure to loss is limited to our equity investment. JEP IV has assets consisting primarily of private equity and equity related investments.

*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.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

At August 31, 2014 and November 30, 2013, we held \$2,874.9 million and \$3,476.2 million of agency mortgage-backed securities, respectively, and \$910.0 million and \$985.0 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 securitization 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 10. Investments**

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

***Jefferies Finance***

On October 7, 2004, we entered into an agreement with Babson Capital Management LLC ( Babson Capital ) and Massachusetts Mutual Life Insurance Company ( MassMutual ) to form Jefferies Finance, a joint venture entity. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt to middle market and growth companies in the form of term and revolving loans. Loans are originated primarily through the investment banking efforts of Jefferies, with Babson Capital providing primary credit analytics and portfolio management services. Jefferies Finance can also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market, including loans that are performing, stressed and distressed loan obligations.

At August 31, 2014, we and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million for a combined total commitment of \$1.2 billion. At August 31, 2014, we have funded \$360.0 million of our \$600.0 million commitment, leaving \$240.0 million unfunded. The investment commitment is scheduled to expire on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party.

Jefferies Finance has executed a Secured Revolving Credit Facility with us and MassMutual, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total committed Secured Revolving Credit Facility is \$1.0 billion, comprised of committed and discretionary advances totaling \$700.0 million and \$300.0 million, respectively, at August 31, 2014.

Committed advances are shared equally between us and MassMutual but discretionary advances maybe funded in unequal amounts if 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 August 31, 2014 and November 30, 2013, we have funded \$-0- million and \$123.8 million, respectively, of our \$350.0 million commitment. During the three and nine months ended August 31, 2014, \$0.3 million and \$1.4 million of interest income and \$0.4 million and \$1.5 million of unfunded commitment fees, respectively, are included in the Consolidated Statements of Earnings related to the Secured Revolving Credit Facility. During the three and six months ended August 31, 2013 and the three months ended February 28, 2013, we earned interest income of \$0.4 million, \$0.8 million and \$4.1 million and unfunded commitment fees of \$0.4 million, \$0.8 million and \$0.3 million, respectively.

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

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

|                          | August 31,<br>2014 | November 30,<br>2013 |
|--------------------------|--------------------|----------------------|
| Total assets             | \$ 5,109.7         | \$ 3,271.9           |
| Total liabilities        | 4,389.7            | 2,597.0              |
| Total equity             | 720.0              | 674.9                |
| Our total equity balance | 360.0              | 337.3                |

The net earnings of Jefferies Finance were \$58.0 million and \$116.2 million for the three and nine months ended August 31, 2014, respectively, and \$30.5 million and \$87.5 million for the three and nine months ended August 31, 2013, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned net underwriting fees of \$53.7 million and \$139.8 million during the three and nine months ended August 31, 2014, respectively, and \$35.2 million, \$70.4 million and \$39.9 million during the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively, recognized in Investment banking revenues on the Consolidated Statements of Earnings. In addition, we paid fees to Jefferies Finance regarding certain loans originated by Jefferies Finance of \$2.6 million and \$10.5 million during the three and nine months ended August 31, 2014, respectively, and \$2.5 million, \$8.7 million and \$0.8 million during the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively, which are recognized as Business development expenses on the Consolidated Statements of Earnings. During the third quarter of 2014, we acted as placement agent in connection with a CLO managed by Jefferies Finance. As part of the transaction, we purchased securities issued by the CLO, which are included within Financial instruments owned. Additionally, we have entered into a derivative contract with Jefferies Finance whose underwriting is based on certain securities issued by the CLO. In connection with our roles related to the execution of the CLO, we recognized revenue of \$0.7 million during the three months ended August 31, 2014.

Under a service agreement, we charged Jefferies Finance \$6.5 million and \$35.2 million for services provided during the three and nine months ended August 31, 2014, respectively, and \$4.1 million, \$9.5 million and \$15.7 million for the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$30.3 million and \$31.1 million at August 31, 2014 and November 30, 2013, respectively.

***Jefferies LoanCore***

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

investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$600.0 million. At August 31, 2014 and November 30, 2013, we have funded \$197.5 million and \$175.5 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

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

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

|                          | August 31,<br>2014 | November 30,<br>2013 |
|--------------------------|--------------------|----------------------|
| Total assets             | \$ 1,319.7         | \$ 974.9             |
| Total liabilities        | 804.7              | 507.9                |
| Total equity             | 515.0              | 467.0                |
| Our total equity balance | 249.8              | 226.5                |

The net earnings of Jefferies LoanCore were \$4.5 million and \$16.3 million for the three and nine months ended August 31, 2014, respectively, and \$16.7 million and \$65.8 million for the three and nine months ended August 31, 2013, respectively.

Under a service agreement, we charged Jefferies LoanCore \$22,000 and \$0.1 million for the three and nine months ended August 31, 2014, respectively, and \$0.1 million, \$0.2 million and \$0.6 million for the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$9,000 and \$230,000 at August 31, 2014 and November 30, 2013, respectively.

In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees of \$-0- and \$0.6 million, respectively, during the three and nine months ended August 31, 2014.

***Knight Capital***

On August 6, 2012, we entered into a Securities Purchase Agreement with Knight Capital Group, Inc., a publicly-traded global financial services firm, ( the Agreement ). Under the Agreement, we purchased preferred stock, which contained certain conversion options, in exchange for cash consideration of \$125.0 million. On August 29, 2012, we exercised our conversion options and converted our holding of Series A Securities to common stock. On July 1, 2013, Knight Capital Group, Inc. merged with GETCO Holding Company, LLC (the merged company referred to as KCG Holdings, Inc. ). In connection with the consummation of the merger, we received cash consideration of \$3.75 per share, or approximately \$192.0 million, with respect to approximately 63% of our holdings in Knight Capital Group, Inc. and stock consideration of one third of a share of KCG Holdings, Inc. common stock for each share of Knight Capital Group Inc. common stock for the remainder of our holdings. At August 31, 2014, we owned approximately 19% of the outstanding common stock of Knight.

We elected to record our investment in Knight at fair value under the fair value option as the investment was acquired as part of our capital markets activities. The valuation of our investment at August 31, 2014 is based on the closing exchange price of Knight's common stock and included within Level 1 of the fair value hierarchy. Changes in the fair value of our investment of \$(6.5) million and \$0.1 million for the three and nine months ended August 31, 2014,

respectively, and \$(16.0) million, \$(21.7) million and \$26.5 million for the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively, are recognized in Revenues. Principal transactions on the Consolidated Statement of Earnings.

The following is a summary of selected financial information for Knight at June 30, 2014, the most recently available public financial information for the company (in millions):

|                   | June 30,<br>2014 |
|-------------------|------------------|
| Total assets      | \$ 7,662.5       |
| Total liabilities | 6,128.8          |
| Total equity      | 1,533.7          |

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

Knight's net income was \$9.0 million and \$44.6 million for the three and six months ended June 30, 2014, respectively.

We have separately entered into securities lending transactions with Knight in the normal course of our capital markets activities. At August 31, 2014, the balances of securities borrowed and securities loaned were \$6.8 million and \$6.9 million, respectively, and at November 30, 2013, \$11.0 million and \$22.7 million, respectively.

**Note 11. Goodwill and Other Intangible Assets**

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

*Goodwill*

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

|                       | August 31, 2014     | November 30, 2013   |
|-----------------------|---------------------|---------------------|
| Capital Markets       | \$ 1,718,519        | \$ 1,717,246        |
| Asset Management      | 5,100               | 5,100               |
| <b>Total goodwill</b> | <b>\$ 1,723,619</b> | <b>\$ 1,722,346</b> |

The following table is a summary of the changes to goodwill for the three and nine months ended August 31, 2014, the nine months ended November 30, 2013 and the three months ended February 28, 2013 (in thousands):

|                                  | Successor                                |                                          |                                            | Predecessor                                |
|----------------------------------|------------------------------------------|------------------------------------------|--------------------------------------------|--------------------------------------------|
|                                  | Three Months Ended<br>August 31,<br>2014 | Three Months Ended<br>August 31,<br>2014 | Three Months Ended<br>November 30,<br>2013 | Three Months Ended<br>February 28,<br>2013 |
| Balance, at beginning of period  | \$ 1,725,117                             | \$ 1,722,346                             | \$ 1,720,380                               | \$ 365,670                                 |
| Less: Disposal                   |                                          |                                          | (5,700)(1)                                 |                                            |
| Add: Contingent consideration    |                                          |                                          |                                            | 2,394(2)                                   |
| Add: Translation adjustments     | (1,498)                                  | 1,273                                    | 7,666                                      | (1,287)                                    |
| <b>Balance, at end of period</b> | <b>\$ 1,723,619</b>                      | <b>\$ 1,723,619</b>                      | <b>\$ 1,722,346</b>                        | <b>\$ 366,777(3)</b>                       |

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

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Table of Contents

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Goodwill Impairment Testing*

Goodwill associated with the Leucadia transaction is allocated to related reporting units, which are determined based on financial information provided to management in connection with its management of the businesses. A reporting unit is an operating segment or one level below an operating segment. As part of the push down of the acquisition method of accounting for the transaction and the resulting creation of a new Successor reporting entity, our annual goodwill impairment testing date is designated as August 1.

The quantitative goodwill impairment test is performed at the level of the reporting unit and consists of two steps. In the first step, the fair value of each reporting unit is compared with its carrying value, including goodwill and allocated intangible assets. If the fair value is in excess of the carrying value, the goodwill for the reporting unit is considered not to be impaired. If the fair value is less than the carrying value, then a second step is performed in order to measure the amount of the impairment loss, if any, which is based on comparing the implied fair value of the reporting unit's goodwill to the fair value of the net assets of the reporting unit.

Allocated equity plus goodwill and allocated intangible assets are used as a proxy for the carrying amount of each reporting unit. The amount of equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. Intangible assets are allocated to a reporting unit based on either specifically identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment. Estimated fair values for our reporting units were determined using a market valuation method that incorporate price-to-earnings and price-to-book multiples of comparable public companies, as well as discounted cash flow valuation methodologies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we applied a control premium to arrive at the estimated fair value of each reporting unit on a controlling basis. We engaged an independent valuation specialist to assist us in our valuation process as of August 1, 2014.

Our annual goodwill impairment testing as of August 1, 2014 did not indicate any goodwill impairment in any of our reporting units. Substantially all of our goodwill is allocated to our Investment Banking, Equities, Fixed Income and Futures reporting units for which the results of our assessment indicated that these reporting units had a fair value substantially in excess of their carrying amounts based on current projections. Goodwill allocated to these reporting units is \$1,709.6 million of total goodwill of \$1,723.6 million at August 31, 2014. For the remaining less significant reporting units, which contain approximately 0.8% of our total goodwill, we have used a net asset approach for valuation and the fair value of each of the reporting units is equal to its book value.

*Intangible Assets*

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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 August 31, 2014 and November 30, 2013 (in thousands):

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

|                                                                              | August 31, 2014 |                      |                             |                        | Weighted<br>average<br>remaining<br>lives (years) |
|------------------------------------------------------------------------------|-----------------|----------------------|-----------------------------|------------------------|---------------------------------------------------|
|                                                                              | Gross<br>cost   | Impairment<br>losses | Accumulated<br>amortization | Net carrying<br>amount |                                                   |
| Customer relationships                                                       | \$ 136,956      | \$                   | \$ (24,310)                 | \$ 112,646             | 14.1                                              |
| Trade name                                                                   | 133,203         |                      | (5,864)                     | 127,339                | 33.5                                              |
| Exchange and clearing organization<br>membership interests and registrations | 14,930          | (178)                |                             | 14,752                 | N/A                                               |
|                                                                              | \$ 285,089      | \$ (178)             | \$ (30,174)                 | \$ 254,737             |                                                   |

  

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

We performed our annual impairment testing of intangible assets with an indefinite useful life, which consists of exchange and clearing organization membership interests and registrations, at August 1, 2014. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices, and a qualitative assessment of the remainder of our intangible assets. In applying our quantitative assessment, we recognized an impairment loss of \$178,000 on certain exchange memberships based on a decline in fair value at August 1, 2014 as observed based on quoted sales prices. With regard to our qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions, the utilization of the assets and the replacement costs associated with the assets, we have concluded that it is not more likely than not that the intangible assets are impaired. In applying our quantitative assessment at August 1, 2013 we recognized an impairment loss of \$378,000 on certain exchange memberships based on a decline in fair value as observed based on quoted sales prices.

For intangible assets with a finite life, aggregate amortization expense amounted to \$3.2 million and \$9.6 million for the three and nine months ended August 31, 2014, respectively, and \$6.8 million, \$13.6 million and \$0.4 million for the three and six months ended August 31, 2013 and the three months ended February 28, 2013, respectively, which is included in Other expenses on the Consolidated Statements of Earnings.

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

|                              |          |
|------------------------------|----------|
| Remainder of fiscal 2014     | \$ 3,167 |
| Year ended November 30, 2015 | 12,668   |
| Year ended November 30, 2016 | 12,668   |
| Year ended November 30, 2017 | 12,668   |
| Year ended November 30, 2018 | 12,668   |

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****Note 12. 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 August 31, 2014 and November 30, 2013 were \$92.0 million and \$12.0 million, respectively. At August 31, 2014, the interest rate on short-term borrowings outstanding is 1.75% per annum. Average daily short-term borrowings outstanding for the three and nine months ended August 31, 2014 were \$31.3 million and \$87.9 million, respectively, and for the six months ended August 31, 2013 and three months ended February 28, 2013 were \$34.0 million and \$110.0 million, respectively.

**Note 13. Long-Term Debt**

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

The following summarizes our long-term debt carrying values (including unamortized discounts and premiums and valuation adjustment, where applicable) at August 31, 2014 and November 30, 2013 (in thousands):

|                                                                              | August 31,<br>2014 | November 30,<br>2013 |
|------------------------------------------------------------------------------|--------------------|----------------------|
| <b>Unsecured Long-Term Debt</b>                                              |                    |                      |
| 5.875% Senior Notes, due June 8, 2014 (effective interest rate of 1.51%)     | \$                 | \$ 255,676           |
| 3.875% Senior Notes, due November 9, 2015 (effective interest rate of 2.17%) | 510,026            | 516,204              |
| 5.5% Senior Notes, due March 15, 2016 (effective interest rate of 2.52%)     | 365,739            | 373,178              |
| 5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)   | 845,310            | 854,011              |
| 8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)      | 839,300            | 858,425              |
| 2.375% Euro Medium Term Notes, due May 20, 2020 (effective rate of 2.42%)    | 655,129            |                      |
|                                                                              | 856,575            | 866,801              |

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|                                                                                                   |              |              |
|---------------------------------------------------------------------------------------------------|--------------|--------------|
| 6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)                        |              |              |
| 2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)                         | 4,605        | 4,792        |
| 5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)                      | 623,900      | 625,626      |
| 6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)                      | 381,951      | 383,224      |
| 3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (1) | 350,288      | 359,281      |
| 6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)                  | 513,122      | 513,343      |
| 6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)                       | 422,033      | 422,245      |
|                                                                                                   | \$ 6,367,978 | \$ 6,032,806 |

## Secured Long-Term Debt

|                     |              |              |
|---------------------|--------------|--------------|
| Credit facility (2) | 258,000      | 200,000      |
|                     | \$ 6,625,978 | \$ 6,232,806 |

- (1) As a result of the transaction with Leucadia on March 1, 2013, the value of the 3.875% Convertible Senior debentures at August 31, 2014 and November 30, 2013, includes the fair value of the conversion feature of \$1.4 million and \$9.6 million, respectively. The change in fair value of the conversion feature is included within Revenues Principal transactions in the Consolidated Statement of Earnings and amounted to a gain of \$2.4 million and a gain of \$8.1 million for the three and nine months ended August 31, 2014, respectively, and a gain of \$16.3 million and \$9.2 million for the three and six months ended August 31, 2013, respectively.
- (2) On June 26, 2014, we amended and restated the Credit Facility due August 26, 2014 to extend the terms until June 26, 2017.

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

On May 20, 2014, under our \$2.0 billion Euro Medium Term Note Program we issued senior unsecured notes with a principal amount of \$500.0 million, due 2020, which bear interest at 2.375% per annum. Proceeds amounted to \$498.7 million. On January 15, 2013, we issued \$1.0 billion in senior unsecured long-term debt, comprising 5.125% Senior Notes, due 2023 and 6.5% Senior Notes, due 2043. The 5.125% Senior Notes were issued with a principal amount of \$600.0 million and we received proceeds of \$595.6 million. The 6.5% Senior Notes were issued with a principal amount of \$400.0 million and we received proceeds of \$391.7 million.

Upon completion of the Leucadia Transaction on March 1, 2013, our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the "debentures") remain issued and outstanding but are now convertible into common shares of Leucadia. Other than the conversion into Leucadia common shares, the terms of the debenture remain the same. At September 11, 2014, each \$1,000 debenture is currently convertible into 22.1312 shares of Leucadia's common stock (equivalent to a conversion price of approximately \$45.19 per share of Leucadia's common stock). The debentures are convertible at the holders' option any time beginning on August 1, 2029 and convertible at any time if: 1) Leucadia's common stock price is greater than or equal to 130% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days; 2) if the trading price per debenture is less than 95% of the price of the common stock times the conversion ratio for any 10 consecutive trading days; 3) if the debentures are called for redemption; or 4) upon the occurrence of specific corporate actions. The debentures may be redeemed for par, plus accrued interest, on or after November 1, 2012 if the price of Leucadia's common stock is greater than 130% of the conversion price for at least 20 days in a period of 30 consecutive trading days and we may redeem the debentures for par, plus accrued interest, at our election any time on or after November 1, 2017. Holders may require us to repurchase the debentures for par, plus accrued interest, on November 1, 2017, 2019 and 2024. In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceeds \$1,200 per \$1,000 debenture. 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 Statement of Financial Condition.

**Secured Long-Term Debt** - On August 26, 2011, we entered into a committed senior secured revolving credit facility ("Credit Facility") with a group of commercial banks in U.S. dollars, Euros and Sterling, for an aggregate committed amount of \$950.0 million with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed 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 (a U.S. broker dealer), with Jefferies as the surviving entity, Jefferies 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 August 31, 2014 and November 30, 2013, borrowings under the Credit Facility were denominated in U.S. dollars and we were in compliance with debt covenants under the Credit Facility.

**Note 14. Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries**

*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 August 31, 2014 and November 30, 2013 (in thousands):

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

|                                               | August 31,<br>2014 | November 30,<br>2013 |
|-----------------------------------------------|--------------------|----------------------|
| Jefferies Structured Alpha Fund B, LLC (1)    | \$                 | \$ 115,958           |
| Global Equity Event Opportunity Fund, LLC (2) | 25,787             |                      |
| Other                                         | 5,422              | 1,196                |
| Noncontrolling interests                      | \$ 31,209          | \$ 117,154           |

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

(2) At August 31, 2014, all noncontrolling interests are attributed to Leucadia.

Noncontrolling ownership interests in consolidated subsidiaries are presented in the accompanying Consolidated Statements of Financial Condition within Equity as a component separate from Member's equity. Net Earnings in the accompanying Consolidated Statements of Earnings includes earnings attributable to both our equity investor and the noncontrolling interests.

*Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries*

Interests in consolidated subsidiaries that meet the definition of mandatorily redeemable financial instruments require liability classification and remeasurement at the estimated amount of cash that would be due and payable to settle such interests under the applicable entity's organization agreement. Changes to mandatorily redeemable financial instruments are reflected as Interest on mandatorily redeemable preferred interests of consolidated subsidiaries within Net revenues in our Consolidated Statements of Earnings.

On April 1, 2013, mandatorily redeemable financial instruments, representing Leucadia's member's equity interests in Jefferies High Yield Holdings, LLC ( JHYH ), were redeemed and subsequently contributed back to us by Leucadia as additional equity in Jefferies Group LLC. Prior to redemption, the mandatorily redeemable financial instruments represented equity interests in JHYH.

**Note 15. 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 these insurance contracts are included in Financial Instruments owned Investments at fair value in the Consolidated Statements of Financial Condition and has a fair value of \$18.2 million and \$19.7

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

million at August 31, 2014 and November 30, 2013, respectively. We expect to pay our pension obligations from the cash flows available to us under the insurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

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

|                                                   | Three Months<br>Ended<br>August 31,<br>2014 | Nine<br>Months<br>Ended<br>August 31,<br>2014 | Successor<br>Three<br>Months<br>Ended<br>August 31,<br>2013 | Six<br>Months<br>Ended<br>August 31,<br>2013 | Predecessor<br>Three<br>Months<br>Ended<br>February 28,<br>2013 |
|---------------------------------------------------|---------------------------------------------|-----------------------------------------------|-------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------|
| <b>U.S. Pension Plan</b>                          |                                             |                                               |                                                             |                                              |                                                                 |
| Components of net periodic pension (income) cost: |                                             |                                               |                                                             |                                              |                                                                 |
| Service cost                                      | \$ 56                                       | \$ 168                                        | \$ 56                                                       | \$ 112                                       | \$ 56                                                           |
| Interest cost on projected benefit obligation     | 607                                         | 1,821                                         | 557                                                         | 1,114                                        | 529                                                             |
| Expected return on plan assets                    | (789)                                       | (2,367)                                       | (680)                                                       | (1,360)                                      | (665)                                                           |
| Net amortization                                  | (36)                                        | (108)                                         |                                                             |                                              | 300                                                             |
| Net periodic pension (income)/cost                | \$ (162)                                    | \$ (486)                                      | \$ (67)                                                     | \$ (134)                                     | \$ 220                                                          |

|                                               | Three Months<br>Ended<br>August 31,<br>2014 | Nine Months<br>Ended<br>August 31,<br>2014 | Successor<br>Three Months<br>Ended<br>August 31,<br>2013 | Six Months<br>Ended<br>August 31,<br>2013 | Predecessor<br>Three Months<br>Ended<br>February 28,<br>2013 |
|-----------------------------------------------|---------------------------------------------|--------------------------------------------|----------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------|
| <b>German Pension Plan</b>                    |                                             |                                            |                                                          |                                           |                                                              |
| Components of net periodic pension cost:      |                                             |                                            |                                                          |                                           |                                                              |
| Service cost                                  | \$ 11                                       | \$ 33                                      | \$ 16                                                    | \$ 32                                     | \$ 16                                                        |
| Interest cost on projected benefit obligation | 216                                         | 658                                        | 220                                                      | 433                                       | 220                                                          |
| Net amortization                              | 61                                          | 186                                        | 45                                                       | 89                                        | 45                                                           |
| Net periodic pension cost                     | \$ 288                                      | \$ 877                                     | \$ 281                                                   | \$ 554                                    | \$ 281                                                       |

**Employer Contributions** Our funding policy is to contribute to the plans at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. We did not contribute to the U.S. Pension Plan during the nine months ended August 31, 2014 and we do not expect to make any contributions to the plan during the

remainder of the 2014 fiscal year. We did not contribute to the German Pension Plan during the nine months ended August 31, 2014 and do not expect to make any contributions to the German Pension Plan for the remainder of the fiscal year.

#### **Note 16. Compensation Plans**

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

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

The following are descriptions of the compensation plans and the activity of such plans for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013.

Table of Contents

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

***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. In connection with the Leucadia Transaction, the Incentive Plan was amended to provide for awards to be issued relating to shares of Leucadia, our parent company at March 1, 2013. Share-based awards outstanding at March 1, 2013 were converted into awards for shares of Leucadia at the Exchange Ratio, with all such awards subject to the same terms and conditions that previously existed (except for the elimination of fractional shares).

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

The total compensation cost associated with restricted stock and RSUs amounted to \$18.0 million and \$68.0 million for the three and nine months ended August 31, 2014, respectively, and \$20.7 million, \$44.1 million for the three and six months ended August 31, 2013, respectively, and \$22.3 million for the three months ended February 28, 2013. Total compensation cost includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

The fair values of outstanding restricted stock and RSUs with future service requirements were remeasured as part of the acquisition accounting, resulting in an increase of approximately \$45.1 million to the unrecognized compensation cost allocated to us at March 1, 2013. At August 31, 2014, we had \$112.8 million of total unrecognized compensation cost allocated to us related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 2.1 years.

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

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

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

**Profit Sharing Plan.** We have a profit sharing plan, covering substantially all employees, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code. The compensation cost related to this plan was \$1.2 million and \$6.0 million for the three and nine months ended August 31, 2014, respectively, and \$1.3 million and \$3.0 million for the three and six months ended August 31, 2013, respectively, and \$2.6 million for the three months ended February 28, 2013.

**Restricted Cash Awards.** We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements ranging from one to eight years, with an approximate average term of three years. We amortize these awards to compensation expense over the relevant service period. The compensation cost associated with these awards amounted to \$37.4 million and \$115.6 million for the three and nine months ended August 31, 2014, respectively, and to \$45.5 million and \$92.5 million for the three and six months ended August 31, 2013, respectively, and \$48.2 million for the three months ended February 28, 2013. At August 31, 2014 and November 30, 2013, the remaining unamortized amount of these awards was \$249.4 million and \$185.0 million, respectively, and is included within Other assets on the Consolidated Statements of Financial Condition.

**Note 17. Earnings per Share**

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

|                                                              | Predecessor<br>Three Months Ended<br>February 28, 2013 |
|--------------------------------------------------------------|--------------------------------------------------------|
| <b>Earnings for basic earnings per common share:</b>         |                                                        |
| Net earnings                                                 | \$ 90,842                                              |
| Net earnings to noncontrolling interests                     | 10,704                                                 |
| Net earnings to common shareholders                          | 80,138                                                 |
| Less: Allocation of earnings to participating securities (1) | 5,890                                                  |
| Net earnings available to common shareholders                | \$ 74,248                                              |
| <b>Earnings for diluted earnings per common share:</b>       |                                                        |

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|                                                                   |    |         |
|-------------------------------------------------------------------|----|---------|
| Net earnings                                                      | \$ | 90,842  |
| Net earnings to noncontrolling interests                          |    | 10,704  |
| Net earnings to common shareholders                               |    | 80,138  |
| Add: Mandatorily redeemable convertible preferred stock dividends |    | 1,016   |
| Less: Allocation of earnings to participating securities (1)      |    | 5,882   |
| Net earnings available to common shareholders                     | \$ | 75,272  |
| <b>Shares:</b>                                                    |    |         |
| Average common shares used in basic computation                   |    | 213,732 |
| Stock options                                                     |    | 2       |
| Mandatorily redeemable convertible preferred stock                |    | 4,110   |
| Convertible debt                                                  |    |         |
| Average common shares used in diluted computation                 |    | 217,844 |
| <b>Earnings per common share:</b>                                 |    |         |
| Basic                                                             | \$ | 0.35    |
| Diluted                                                           | \$ | 0.35    |

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

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

Our ability to pay distributions to Leucadia is subject to the restrictions set forth in certain financial covenants associated with the Credit Facility as described in Note 13, Long-Term Debt and the governing provisions of the Delaware Limited Liability Company Act.

A \$0.075 dividends per share of common stock was declared during the three months ended February 28, 2013.

**Note 18. Income Taxes**

At August 31, 2014 and November 30, 2013, we had approximately \$134.1 million and \$126.8 million respectively, of total gross unrecognized tax benefits. The total amount of unrecognized benefit that, if recognized, would favorably affect the effective tax rate was \$89.3 million and \$85.5 million at August 31, 2014 and November 30, 2013, 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 August 31, 2014 and November 30, 2013, we had interest accrued of approximately \$28.4 million and \$22.9 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the nine months ended August 31, 2014 and year ended November 30, 2013.

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

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

| Jurisdiction   | Tax Year |
|----------------|----------|
| United States  | 2006     |
| United Kingdom | 2012     |
| California     | 2006     |
| Connecticut    | 2006     |

|                |      |
|----------------|------|
| Massachusetts  | 2010 |
| New Jersey     | 2007 |
| New York State | 2001 |
| New York City  | 2003 |

**Note 19. Commitments, Contingencies and Guarantees**

***Commitments***

The following table summarizes our commitments associated with our capital market and asset management business activities at August 31, 2014 (in millions):

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

|                                          | Expected Maturity Date |          |                     |                     |                      | Maximum<br>Payout |
|------------------------------------------|------------------------|----------|---------------------|---------------------|----------------------|-------------------|
|                                          | 2014                   | 2015     | 2016<br>and<br>2017 | 2018<br>and<br>2019 | 2020<br>and<br>Later |                   |
| Equity commitments (1)                   | \$ 1.6                 | \$ 7.6   | \$ 0.9              | \$                  | \$ 355.7             | \$ 365.8          |
| Loan commitments (1)                     |                        | 76.7     | 615.8               | 101.1               |                      | 793.6             |
| Mortgage-related commitments             | 976.2                  | 333.0    | 530.6               |                     |                      | 1,839.8           |
| Forward starting reverse repos and repos | 1,975.3                |          |                     |                     |                      | 1,975.3           |
| Other unfunded commitments (1)           |                        | 79.5     |                     |                     | 23.0                 | 102.5             |
|                                          | \$ 2,953.1             | \$ 496.8 | \$ 1,147.3          | \$ 101.1            | \$ 378.7             | \$ 5,077.0        |

(1) Equity, loan commitments 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 August 31, 2014. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

| Credit Ratings        | 2014   | 2015-2019 | 2020 and<br>Later | Total<br>Corporate<br>Lending<br>Exposure (1) | Corporate<br>Lending<br>Exposure at Fair<br>Value (2) | Corporate<br>Lending<br>Commitments (3) |
|-----------------------|--------|-----------|-------------------|-----------------------------------------------|-------------------------------------------------------|-----------------------------------------|
|                       |        |           |                   |                                               |                                                       |                                         |
| Investment grade      | \$     | \$ 55.2   | \$                | \$ 55.2                                       | \$                                                    | \$ 55.2                                 |
| Non-investment grade. |        | 88.8      |                   | 88.8                                          | 15.6                                                  | 73.2                                    |
| Unrated               | 1.5    | 830.4     |                   | 831.9                                         | 166.7                                                 | 665.2                                   |
| Total                 | \$ 1.5 | \$ 974.4  | \$                | \$ 975.9                                      | \$ 182.3                                              | \$ 793.6                                |

(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 \$196.9 million of funded loans included in Financial instruments owned Loans and Loans to and investments in related parties, and a \$14.6 million net liability related to lending commitments recorded in Financial instruments sold Derivatives and Financial instruments

owned Derivatives in the Consolidated Statement of Financial Condition at August 31, 2014.

(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 Friedman, one of our directors and Chairman of the Executive Committee. At August 31, 2014, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$30.5 million.

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

Additionally, At August 31, 2014, we had other outstanding equity commitments to invest up to \$1.8 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 August 31, 2014, we had \$443.6 million of outstanding loan commitments to clients.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

Loan commitments outstanding at August 31, 2014, also include our portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance.

*Mortgage-Related Commitments.* We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statements of Financial Condition was \$69.7 million at August 31, 2014.

*Underwriting Commitments.* In connection with investment banking activities, we may from time to time provide underwriting commitments to our clients in connection with capital raising transactions.

*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.

***Contingencies***

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

During the first quarter of 2014, Jefferies reached a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the Securities and Exchange Commission (SEC), relating to an investigation of purchases and sales of mortgage-backed securities. That investigation arose from a matter that came to light in late 2011, at which time the Company terminated a mortgage-backed-securities trader who was then indicted by the United States Attorney for the District of Connecticut in January 2013 and separately charged in a civil

complaint by the SEC. Those agreements include an aggregate \$25.0 million in payments, of which approximately \$11.0 million are payments to trading counterparties impacted by those activities, approximately \$10.0 million of which is a fine payable to the U.S. Attorney's Office, and approximately \$4.0 million of which is a fine payable to the SEC. At August 31, 2014, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately \$3.1 million.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)*****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 August 31, 2014 (in millions):

| Guarantee Type:                             | Expected Maturity Date |                    |                     |                     |                      | Notional/<br>Maximum<br>Payout |
|---------------------------------------------|------------------------|--------------------|---------------------|---------------------|----------------------|--------------------------------|
|                                             | 2014                   | 2015               | 2016<br>and<br>2017 | 2018<br>and<br>2019 | 2020<br>and<br>Later |                                |
| Derivative contracts non-credit related     | \$ 55,067.0            | \$ 12,274.7        | \$ 349.4            | \$ 1.1              | \$ 521.5             | \$ 68,213.7                    |
| Written derivative contracts credit related |                        |                    | 9.0                 |                     | 1,541.5              | 1,550.5                        |
| <b>Total derivative contracts</b>           | <b>\$ 55,067.0</b>     | <b>\$ 12,274.7</b> | <b>\$ 358.4</b>     | <b>\$ 1.1</b>       | <b>\$ 2,063.0</b>    | <b>\$ 69,764.2</b>             |

At August 31, 2014 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

|                                             | External Credit Rating |       |         |             |                              |         | Notional/<br>Maximum<br>Payout |
|---------------------------------------------|------------------------|-------|---------|-------------|------------------------------|---------|--------------------------------|
|                                             | AAA/<br>Aaa            | AA/Aa | A       | BBB/<br>Baa | Below<br>Investment<br>Grade | Unrated |                                |
| <b>Credit related derivative contracts:</b> |                        |       |         |             |                              |         |                                |
| Index credit default swaps                  | \$ 1,475.5             | \$    | \$      | \$          | \$                           | \$      | \$ 1,475.5                     |
| Single name credit default swaps            | \$                     | \$    | \$ 10.0 | \$ 52.0     | \$ 13.0                      | \$      | \$ 75.0                        |

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or one-sided component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments, and we manage the risk associated with these contracts in

the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At August 31, 2014, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$65.3 million.

*Loan Guarantee.* We have provided a guarantee to Jefferies Finance, whereby we are required to make certain payments to a SPE sponsored by Jefferies Finance in the event that Jefferies Finance is unable to meet its obligations to the SPE. At August 31, 2014, the maximum amount payable under the guarantee is \$21.0 million and matures in January 2021.

*Stand by Letters of Credit.* At August 31, 2014, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$37.9 million, which expire within one year. Stand by letters of credit commit us to make payment to the beneficiary if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary. Since commitments associated with these collateral instruments may expire unused, the amount shown does not necessarily reflect the actual future cash funding requirement.

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

*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 20. 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. Additionally, Jefferies Bache, LLC is registered as a Futures Commission Merchant and is subject to Rule 1.17 of the Commodities Futures Trading Commission ( CFTC ). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

At August 31, 2014, Jefferies, Jefferies Execution and Jefferies Bache, LLC's net capital, adjusted net capital, and excess net capital were as follows (in thousands):

|                      | Net Capital          | Excess Net Capital |
|----------------------|----------------------|--------------------|
| Jefferies            | \$ 902,855           | \$ 829,380         |
| Jefferies Execution  | 5,737                | 5,487              |
|                      | Adjusted Net Capital | Excess Net Capital |
| Jefferies Bache, LLC | \$ 187,645           | \$ 84,003          |

On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies (a U.S. broker-dealer), with Jefferies as the surviving entity, registering as a FCM. 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. Jefferies' minimum net capital requirement would have increased from approximately \$73.0 million to \$103.0 million had the merger occurred on August 31, 2014.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache

Limited which are subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom ( U.K. ).

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

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED****(Unaudited)****Note 21. 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<br>August 31,<br>2014 | Three Months Ended<br>August 31,<br>2014 | Successor<br>Three Months Ended<br>August 31,<br>2013 | Predecessor<br>Three Months Ended<br>February 28,<br>2013 |
|--------------------------|------------------------------------------|------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------|
| <b>Capital Markets:</b>  |                                          |                                          |                                                       |                                                           |
| Net revenues             | \$ 828.5                                 | \$ 2,423.2                               | \$ 515.3                                              | \$ 1,149.9                                                |
| Expenses                 | \$ 697.8                                 | \$ 2,020.6                               | \$ 500.1                                              | \$ 1,077.5                                                |
| <b>Asset Management:</b> |                                          |                                          |                                                       |                                                           |
| Net revenues             | \$ 14.8                                  | \$ 42.1                                  | \$ 16.4                                               | \$ 40.2                                                   |
| Expenses                 | \$ 9.9                                   | \$ 27.7                                  | \$ 8.2                                                | \$ 20.6                                                   |
| <b>Total:</b>            |                                          |                                          |                                                       |                                                           |

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|              |          |            |          |            |          |
|--------------|----------|------------|----------|------------|----------|
| Net revenues | \$ 843.3 | \$ 2,465.3 | \$ 531.7 | \$ 1,190.1 | \$ 818.5 |
| Expenses     | \$ 707.7 | \$ 2,048.3 | \$ 508.3 | \$ 1,098.1 | \$ 668.1 |

The following table summarizes our total assets by segment at August 31, 2014 and November 30, 2013 (in millions):

|                  | August 31, 2014 | November 30, 2013 |
|------------------|-----------------|-------------------|
| Segment assets:  |                 |                   |
| Capital Markets  | \$ 44,208.2     | \$ 39,276.8       |
| Asset Management | 555.9           | 900.2             |
| Total assets     | \$ 44,764.1     | \$ 40,177.0       |

***Net Revenues by Geographic Region***

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

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

|              | Nine Months Ended  |                 | Three Months Ended |                 | Predecessor        |
|--------------|--------------------|-----------------|--------------------|-----------------|--------------------|
|              | Three Months Ended | August 31, 2014 | Three Months Ended | August 31, 2013 | Three Months Ended |
|              | August 31, 2014    | 2014            | August 31, 2013    | 2013            | February 28, 2013  |
| Americas (1) | \$ 661,738         | \$ 1,893,723    | \$ 362,240         | \$ 884,386      | \$ 663,588         |
| Europe (2)   | 153,455            | 500,229         | 159,739            | 276,782         | 133,104            |
| Asia         | 28,116             | 71,377          | 9,716              | 28,965          | 21,852             |
| Net revenues | \$ 843,309         | \$ 2,465,329    | \$ 531,695         | \$ 1,190,133    | \$ 818,544         |

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

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

**Note 22. 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 August 31, 2014 and November 30, 2013, loans to and/or equity investments in Private Equity Related Funds were in aggregate \$65.3 million and \$61.7 million, respectively. The following table presents interest income earned on loans to Private Equity Related Funds and other revenues and investment income related to net gains and losses on our investment in Private Equity Related Funds (in thousands):

|                                             | Successor          |                    | Predecessor        |                    |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                             | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended |
|                                             | August 31, 2014    | August 31, 2014    | August 31, 2013    | February 28, 2013  |
| Interest income                             | \$                 | \$                 | \$ 339             | \$ 516             |
| Other revenues and investment (loss) income | 371                | (11,088)           | 4,005              | 947                |

For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 19, Commitments, Contingencies and Guarantees.

*Berkadia Commercial Mortgage, LLC.* At August 31, 2014 and November 30, 2013, we have commitments to purchase \$313.7 million and \$300.0 million, respectively, in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

*Harbinger Group Inc.* At August 31, 2014, we have a loan outstanding of \$8.8 million to a party related to Harbinger Group, Inc., which is partially owned by Leucadia. Interest income on such loan for the three months ended August 31, 2014 was \$0.2 million. In addition, 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 \$223.6 million.

*National Beef Packaging Company, LLC ( National Beef ).* We act as a futures clearing merchant for National Beef, which is partially owned by Leucadia. At August 31, 2014, we had a customer payable to National Beef of \$4.1 million and recognized commissions of \$65,000 during the three and nine months ended August 31, 2014.

*Officers, Directors and Employees.* At August 31, 2014 and November 30, 2013, we had \$14.2 million and \$13.9 million, respectively, of loans outstanding to certain of our employees (none of whom are executive officers or directors) that are included in Other assets on the Consolidated Statements of Financial Condition.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED**

**(Unaudited)**

*Leucadia*. Under a service agreement, we charge Leucadia for certain services which, for the three and nine months ended August 31, 2014 amounted to \$9.0 million and \$26.2 million, respectively. At August 31, 2014 and November 30, 2013, we had a receivable from Leucadia of \$11.3 million and \$2.3 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. At August 31, 2014 and November 30, 2013, we had a payable to Leucadia of \$23.3 million and \$6.7 million respectively, which is included within Other liabilities on the Consolidated Statements of Financial Condition.

On March 18, 2014, we sold our investment in Harbinger Group Inc., consisting of approximately 18.6 million shares, to Leucadia at the closing price on that date. In addition, on February 28, 2014, we sold our ownership interest in CoreCommodity Capital, LLC (formerly CoreCommodity Management, LLC, our commodity asset management business) to Leucadia at a fair value. During the six months ended August 31, 2013 and the three months ended February 28, 2013, we distributed \$65,000, and \$61,000 to Leucadia in respect of Leucadia's remaining investment in our high yield joint venture.

See Note 4, Leucadia and Related Transactions for information regarding the transaction on March 1, 2013 and Note 14, Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries regarding other investments by Leucadia.

For information on transactions with our equity method investees, see Note 10, Investments.

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

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

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

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

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

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

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

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

Our business, by its nature, does not produce predictable or necessarily recurring earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and our own activities and positions. For a further discussion of the factors that may affect our future operating results, see Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended November 30, 2013.

**Consolidated Results of Operations**

On March 1, 2013, Jefferies Group, Inc. converted into a limited liability company (renamed Jefferies Group LLC) and became an indirect wholly owned subsidiary of Leucadia National Corporation ( "Leucadia" ) pursuant to an agreement with Leucadia (the "Leucadia Transaction" ). Each outstanding share of Jefferies Group LLC was converted into 0.81 of a common share of Leucadia (the "Exchange Ratio" ). Jefferies Group LLC continues to operate as a full-service investment banking firm and as the holding company to its various regulated and unregulated operating subsidiaries, retain a credit rating separate from Leucadia and remain an SEC reporting company, filing annual, quarterly and periodic financial reports. Richard Handler, our Chief Executive Officer and Chairman, was also appointed the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian P. Friedman, our Chairman of the Executive Committee, was also appointed Leucadia's President and a Director of Leucadia. For further information, see Note 1, Organization and Basis of Presentation in our consolidated financial statements.

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

In Management's Discussion and Analysis of Financial Condition and Results of Operations, we have presented the historical financial results in the tables that follow for the periods before and after the Leucadia Transaction. Periods prior to March 1, 2013 are referred to as Predecessor periods, while periods after March 1, 2013 are referred to as Successor periods to reflect the fact that under U.S. generally accepted accounting principles ( U.S. GAAP ) Leucadia's cost of acquiring Jefferies Group LLC has been pushed down to create a new accounting basis for Jefferies Group LLC. The Predecessor and Successor periods have been separated by a vertical line to highlight the fact that the financial information for such periods has been prepared under two different cost bases of accounting. Our financial results of operations are discussed separately for the following periods (i) the three and nine months ended August 31, 2014 and the three and six months ended August 31, 2013 (the Successor periods ) and (ii) the three months ended February 28, 2013 (the Predecessor period ). The following table provides an overview of our consolidated results of operations (in thousands):

|                                                                        | Successor          |                   | Predecessor        |                    |
|------------------------------------------------------------------------|--------------------|-------------------|--------------------|--------------------|
|                                                                        | Three Months Ended | Nine Months Ended | Three Months Ended | Three Months Ended |
|                                                                        | August 31,         | August 31,        | August 31,         | February 28,       |
|                                                                        | 2014               | 2014              | 2013               | 2013               |
| Net revenues, less mandatorily redeemable preferred interests          | \$ 843,309         | \$ 2,465,329      | \$ 531,695         | \$ 1,186,765       |
| Non-interest expenses                                                  | 707,674            | 2,048,288         | 508,313            | 1,098,130          |
| Earnings before income taxes                                           | 135,625            | 417,041           | 23,382             | 88,635             |
| Income tax expense                                                     | 51,762             | 155,962           | 8,493              | 33,500             |
| Net earnings                                                           | 83,873             | 261,079           | 14,889             | 55,135             |
| Net earnings to noncontrolling interests                               | 312                | 3,760             | 3,149              | 3,887              |
| Net earnings attributable to Jefferies Group LLC / common stockholders | 83,561             | 257,319           | 11,740             | 51,248             |
| Effective tax rate                                                     | 38.2%              | 37.4%             | 36.3%              | 37.8%              |

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

**Executive Summary**

*Three Months Ended August 31, 2014*

Net revenues, less mandatorily redeemable preferred interests, for the three months ended August 31, 2014 were \$843.3 million. These results were primarily due to record quarterly investment banking revenues, reflecting strong revenues from our debt and equity capital markets efforts and our merger and acquisition advisory business. Our fixed income and equities revenues were also solid during the quarter. The strong net revenues during the three months ended August 31, 2014, reflect the favorable market conditions that resulted from an increase in consumer confidence, improvements in the housing sector, as well as the decline in the unemployment rate during the period, partially offset by increasing global geopolitical concerns. Reflected within Net revenues for the third quarter of 2014 is positive income of \$24.1 million from the amortization of premiums arising from recognizing our long-term debt at fair value as part of the pushdown accounting for the Leucadia Transaction.

Non-interest expenses were \$707.7 million for the three months ended August 31, 2014 and include Compensation and benefits expense of \$477.3 million recognized commensurate with the level of Net revenues for the three month period. Compensation and benefits expenses as a percentage of Net revenues was 56.6% for the three months ended August 31, 2014. Non-interest expenses include \$2.0 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of \$3.6 million associated with intangible assets and internally developed software, and \$3.4 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards, which then had future service requirements and was recognized in connection with the Leucadia Transaction.

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**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

At August 31, 2014, we had 3,885 employees globally, an increase of 100 employees from our headcount at May 31, 2014 of 3,785.

*Nine Months Ended August 31, 2014*

Net revenues, less mandatorily redeemable preferred interests, for the nine months ended August 31, 2014 were a record \$2,465.3 million, reflecting record revenues in investment banking, and strong revenues in equities and fixed income. Our fixed income revenues were solid, particularly given the challenging market conditions, continued tapering of the U.S. Federal reserve monetary stimulus and global economic pressures, primarily in the first half of the year, which were partially offset by market improvements in the third quarter. The results for the nine months of 2014 reflect within Net revenues positive income of \$76.5 million from the amortization of premiums arising from recognizing our long-term debt at fair value as part of the pushdown accounting for the Leucadia Transaction and gains of \$20.0 million in aggregate from our investments in KCG Holdings, Inc. ( Knight ) and Harbinger Group Inc. ( Harbinger ), the latter of which we sold to Leucadia in March 2014.

Non-interest expenses were \$2,048.3 million for the nine months ended August 31, 2014 and include Compensation and benefits expense of \$1,390.0 million recognized commensurate with the level of net revenues for the nine month period. Compensation and benefits expenses as a percentage of Net revenues was 56.4% for the nine months ended August 31, 2014. Non-interest expense includes \$6.2 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of \$10.6 million associated with intangible assets and internally developed software recognized at the Leucadia Transaction date, and \$11.0 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements and was recognized in connection with the Leucadia Transaction.

*Three Months Ended August 31, 2013*

Net revenues, less mandatorily redeemable preferred interests, for the three months ended August 31, 2013 were \$531.7 million, reflecting a challenging environment for our fixed income business, partially offset by strong results in our investment banking activities. The results for the third quarter of 2013 reflect within Net revenues positive income of \$24.6 million representing the amortization of premiums arising upon recognizing our long-term debt at fair value as part of the pushdown accounting for the Leucadia Transaction.

Non-interest expenses were \$508.3 million for the three months ended August 31, 2013. Non-interest expenses include \$2.5 million in transaction related professional fees, \$8.0 million of incremental amortization expense associated with intangible assets and internally developed software recognized in connection with the Leucadia Transaction, and \$13.4 million in costs related to litigation settlements during the period. Compensation expenses were \$293.8 million for the quarter reflecting compensation cost as a percentage of Net revenues of 55.3%.

*Six Months Ended August 31, 2013*

Net revenues, less mandatorily redeemable preferred interests, for the six months ended August 31, 2013 were \$1,186.8 million. The results for the six months reflect within Net revenues positive income of \$49.0 million representing the amortization of premiums arising upon recognizing our long-term debt at fair value as part of the pushdown accounting for the Leucadia Transaction and an unrealized mark down of \$21.7 million in the value of our

shares of Knight Capital, Inc. ( Knight Capital ) owned by us.

Non-interest expenses were \$1,098.1 million for the six months ended August 31, 2013. Non-interest expenses include Compensation and benefits expense of \$667.7 million for the six month period recognized commensurate with the level of Net revenues. Compensation costs as a percentage of Net revenues for the six months ended August 31, 2013 were 56.1%. Non-interest expense also includes approximately \$37.2 in transaction related costs associated with the closing of the March 1, 2013 Leucadia Transaction. These costs are comprised of \$11.6 million in transaction-related investment banking, legal and filing fees, \$4.2 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of \$14.1 million associated with intangible assets and internally developed software recognized at the transaction date, and \$7.3 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements and was recognized in connection with the Leucadia Transaction. In addition, occupancy and equipment includes a \$7.3 million charge associated with our relocating certain staff and abandoning certain London office space and \$13.4 million in costs related to litigation settlements incurred during the six month period.

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

At August 31, 2013, we had 3,805 employees globally, an increase of 20 employees compared to May 31, 2013.

*Three Months Ended February 28, 2013*

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

**Revenues by Source**

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

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

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary from period to period due to fluctuations in economic and market conditions, and our own performance. The following provides a summary of **Revenues by Source** for the Successor periods for the three and nine months ended August 31, 2014 and the three and six months ended August 31, 2013, and the Predecessor period for the three months ended February 28, 2013 (amounts in thousands):

|              | Successor          |     |                   |     |                    |     | Predecessor      |     |                    |     |
|--------------|--------------------|-----|-------------------|-----|--------------------|-----|------------------|-----|--------------------|-----|
|              | Three Months Ended |     | Nine Months Ended |     | Three Months Ended |     | Six Months Ended |     | Three Months Ended |     |
|              | August 31, 2014    |     | August 31, 2014   |     | August 31, 2013    |     | August 31, 2013  |     | February 28, 2013  |     |
|              | Amount             | (1) | Amount            | (1) | Amount             | (1) | Amount           | (1) | Amount             | (1) |
| Equities     | \$ 171,708         | 20% | \$ 537,769        | 22% | \$ 151,038         | 28% | \$ 292,628       | 25% | \$ 167,354         | 21% |
| Fixed income | 195,345            | 23  | 698,979           | 28  | 47,769             | 9   | 276,956          | 23  | 352,029            | 43  |

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|                                                                                     |            |      |              |      |            |      |              |      |            |      |
|-------------------------------------------------------------------------------------|------------|------|--------------|------|------------|------|--------------|------|------------|------|
| Total sales and trading                                                             | 367,053    | 43   | 1,236,748    | 50   | 198,807    | 37   | 569,584      | 48   | 519,383    | 64   |
| Equity                                                                              | 93,309     | 11   | 271,773      | 11   | 56,482     | 11   | 110,046      | 9    | 61,380     | 7    |
| Debt                                                                                | 175,597    | 21   | 495,635      | 20   | 120,187    | 22   | 253,901      | 21   | 140,672    | 17   |
| Capital markets                                                                     | 268,906    | 32   | 767,408      | 31   | 176,669    | 33   | 363,947      | 30   | 202,052    | 24   |
| Advisory                                                                            | 198,887    | 24   | 445,854      | 18   | 142,670    | 27   | 232,526      | 20   | 86,226     | 11   |
| Total investment banking                                                            | 467,793    | 56   | 1,213,262    | 49   | 319,339    | 60   | 596,473      | 50   | 288,278    | 35   |
| Asset management fees and investment income (loss) from managed funds:              |            |      |              |      |            |      |              |      |            |      |
| Asset management fees                                                               | 7,379      | 1    | 21,752       | 1    | 9,578      | 2    | 20,910       | 2    | 11,083     | 1    |
| Investment income (loss) from managed funds                                         | 1,084      |      | (6,433)      |      | 3,971      | 1    | 3,166        |      | (200)      |      |
| Total                                                                               | 8,463      | 1    | 15,319       | 1    | 13,549     | 3    | 24,076       | 2    | 10,883     | 1    |
| Net revenues                                                                        | 843,309    | 100% | 2,465,329    | 100% | 531,695    | 100% | 1,190,133    | 100% | 818,544    | 100% |
| Interest on mandatorily redeemable preferred interests of consolidated subsidiaries |            |      |              |      |            |      | 3,368        |      | 10,961     |      |
| Net revenues, less mandatorily redeemable preferred interests                       | \$ 843,309 |      | \$ 2,465,329 |      | \$ 531,695 |      | \$ 1,186,765 |      | \$ 807,583 |      |

(1) Amounts represent Revenues by Source as a percentage of Net revenues.



**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

***Net Revenues***

Net revenues for the three months ended August 31, 2014 of \$843.3 million were the third highest quarter on record, reflecting record revenues in investment banking and a solid performance in equities and fixed income, across all regions. Further, Asian revenues for the quarter ended August 31, 2014 were the second highest quarter on record and European revenues for the quarter ended August 31, 2014 were the third highest quarter on record.

Net revenues for the nine months ended August 31, 2014 were a record \$2,465.3 million, reflecting record investment banking revenues and strong revenues in sales and trading. The nine months results include gains of \$20.0 million from our investments in Knight and Harbinger.

Net revenues for the three months ended August 31, 2013 of \$531.7 million reflect solid results from our investment banking platform, particularly with respect to advisory services, and continued improvement in our core equity sales and trading business. However, our fixed income business experienced a very challenging quarter and was negatively impacted by the change in expectations for interest rates and widening credit spreads. Equities net revenues for the three months ended August 31, 2013 include an unrealized loss of \$16.0 million reflecting the decline in the Knight Capital stock price over the period.

Net revenues for the six months ended August 31, 2013 of \$1,186.8 million reflect improved performance in our core equity sales and trading business and continue strength in our investment banking platform. Our fixed income businesses experienced a significant slowdown in activity beginning in March 2013 and difficult trading conditions throughout the remainder of the period. The six months ended August 31, 2013 include an unrealized loss of \$21.7 million reflecting the decline in the Knight Capital stock price as of the end of August 2013 as compared to the beginning of the six month period.

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

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

***Equities Revenue***

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

*Three Months Ended August 31, 2014*

Total equities revenue was \$171.7 million for the three months ended August 31, 2014. Equities revenue includes a loss of \$6.5 million from our investment in Knight and an unrealized gain of \$2.5 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible Debentures. Also included within interest expense allocated to our equities business is positive income of \$10.6 million related to the amortization of premiums arising from the adjustment of our long-term debt to fair value as part of accounting for the Leucadia Transaction.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

The third quarter of 2014 was characterized by U.S. stock prices continuing their upward trend, as company earnings and economic data largely met expectations and monetary policy looked to remain favorable. During the fiscal quarter, revenues from our U.S. equity cash desk were driven by increased block trading revenues and increased commission revenues due to higher customer flows as compared to the comparable 2013 quarter. This was partially offset by lower revenues from the equity options trading desk in comparison to 2013, as the prior year quarter benefited from high market volatility. In Europe, decreased commission and trading revenues were in line with lower market volumes during the summer months. Asian equity commissions for the third quarter of 2014 were up, driven by an increase in client activity primarily from U.S.-based clients.

Revenues from our Jefferies Finance joint venture were higher during the 2014 quarter versus the third quarter of 2013 due to an increase in loan closings and syndications, while revenues from our LoanCore joint venture were lower during the three month period ended August 31, 2014 as compared to the three months ended August 31, 2013 due to fewer securitizations.

*Nine Months Ended August 31, 2014*

Total equities revenue was \$537.8 million for the nine months ended August 31, 2014. Equities revenue includes unrealized gains of \$20.0 million from our investments in Knight and Harbinger and an unrealized gain of \$8.1 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible Debentures. Additionally, during the first quarter of 2014, we recognized a mark-to-market gain of \$12.2 million in connection with our investment in CoreCommodity Management LLC, which was transferred to Leucadia on February 28, 2014. Also included within interest expense allocated to our equities business is positive income of \$34.2 million related to the amortization of premiums arising from the adjustment of our long-term debt to fair value as part of accounting for the Leucadia Transaction.

Equities revenue from our Jefferies Finance joint venture increased during the nine months ended August 31, 2014 as compared to the six months ended August 31, 2013 and the three months ended February 28, 2013, due to significant loan closings and syndications by the venture over the period. Equities revenue from our LoanCore joint venture decreased during the nine months ended August 31, 2014 as compared to the six months ended August 31, 2013 and the three months ended February 28, 2013, due to fewer securitizations by the venture over the period. In addition, during the first quarter of 2014, we deconsolidated certain of our strategic investment entities as additional third party investments were received during the period. Accordingly, the results from this business reflected in equities revenues for the nine months ended August 31, 2014 represent trading revenues solely from managed accounts that are solely owned by us. Results from our strategic investments business in prior periods represented 100% of strategic investment trading revenues, a portion of which was attributed to noncontrolling interests. During the second quarter of 2014, our Securities Finance desk contributed solidly to equities revenue and performance from our electronic trading platform has continued to increase.

*Three Months Ended August 31, 2013*

Total equities revenue was \$151.0 million for the three months ended August 31, 2013. Equities revenue includes within Principal transaction revenues an unrealized loss of \$16.0 million on our investment in Knight Capital and an unrealized gain of \$16.3 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible Debentures. In addition, included within Interest expense is positive income of \$13.3 million from

the allocation to our equities business of the amortization of premiums arising upon adjusting our long-term debt to fair value as part of accounting for the Leucadia Transaction.

Economic data in the U.S. continued to indicate a slow recovery during the period and, towards the end of August, geopolitical concerns regarding the Middle East added volatility in the U.S. and international markets. Overall market volumes were subdued during the summer months moderating customer flow in our U.S. and European equity cash trading desks for the third quarter of 2013 although the desks benefited from certain block trading opportunities. Equity revenues from our Jefferies LoanCore joint venture are reflective of fewer securitizations during the quarter while net earnings from our investment in Jefferies Finance were strong for the three months ended August 31, 2013.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Six Months Ended August 31, 2013*

For the six months ended August 31, 2013, total equities revenues was \$292.6 million and includes within Principal transaction revenues an unrealized loss of \$21.7 million related to our investment in Knight Capital and an unrealized gain of \$9.1 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible debenture. Additionally, positive income from the amortization of premiums arising upon adjusting our long-term debt to fair value as part of accounting for the Leucadia Transaction is partially allocated to our equities Net revenues. While stock prices over the period generally increased, trading volumes were low, which impacted our customer trading volumes. During the second quarter of 2013, our Securities Finance desk contributed solidly to equities revenue and the performance of certain strategic investment strategies were particularly robust.

*Three Months Ended February 28, 2013*

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

***Fixed Income Revenue***

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

*Three Months Ended August 31, 2014*

Fixed income revenue was \$195.3 million for the three months ended August 31, 2014. Included within Interest expense for the period is positive income of \$13.5 million from the allocation to our fixed income business of a portion of the amortization of premiums arising from adjusting our long-term debt to fair value as part of accounting for the Leucadia Transaction.

The third quarter of fiscal 2014 was characterized by improving U.S. economic data, partially offset by increased geopolitical risks. Treasury market conditions remained difficult, with extremely low volatility and low trading volumes. These conditions impacted trading revenues in our U.S. rates business. Higher revenues were seen in our corporates, mortgage, and leveraged credit businesses compared to the prior year comparable quarter, partially due to investors migrating to certain parts of these asset classes in search of higher yields. Investor interest in high yield asset classes continued to be strong. Performance from municipal securities trading for the third quarter of 2014 was markedly improved over the prior year quarter as the third quarter of 2013 was negatively impacted by concerns regarding the U.S. Federal Reserve's monetary policy. Revenues from our U.S. mortgage desk were similarly impacted when comparing 2014 results to 2013 results. While mortgage spreads were widening during the third quarter of 2014 upon the expectation of the U.S. Federal Reserve tapering its mortgage-backed securities purchasing program, the

third quarter of 2013 saw the widest spread levels of the year and significant price depreciation. Yields in Europe also tightened during the three months ended August 31, 2014, which benefited our international rates trading business and client flow increased with strong demand creating price appreciation for certain sovereigns. Futures sales and trading revenues for the three months ended August 31, 2014 remained relatively unchanged as compared to the same 2013 period, primarily attributable to improved trading opportunities, offset by low volatility in the foreign currency markets as well as geopolitical challenges.

*Nine Months Ended August 31, 2014*

Fixed income revenue was \$699.0 million for the nine months ended August 31, 2014. Included within Interest expense for the period is positive income of \$42.3 million from the allocation to our fixed income business of a portion of the amortization of premiums arising from adjusting our long-term debt to fair value as part of accounting for the Leucadia Transaction.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

The first part of the nine months ended August 31, 2014 was characterized by weaker U.S. economic data, which continued to be mixed throughout the nine month period. Additionally, geopolitical factors created market uncertainty. Credit spreads continued to tighten as the U.S. Federal Reserve continued to taper its bond buyback program at a measured pace. These factors continued to motivate investors to take on more risk in search of yield, which has reduced demand in U.S. rates while benefiting other of our fixed income businesses. Overall, volatility was low reducing client trading demand across most of the fixed income platform with the exception of increased customer flow in our municipal securities business. Futures sales and trading revenues for the nine months ended August 31, 2014 were negatively impacted by challenging market conditions for foreign currency trading given political and economic instability in various global environments.

*Three Months Ended August 31, 2013*

Fixed income revenue was \$47.8 million for the three months ended August 31, 2013. Included within Interest expense for the period is positive income of \$14.1 million from the allocation to our business of the amortization of premiums arising from adjusting our long-term debt to fair value as part of accounting for the Leucadia Transaction.

During the quarter, the Treasury market experienced a steep sell-off and credit spreads widened across the U.S. fixed income markets in reaction to an anticipated decrease in Federal Reserve treasury issuances and mortgage debt purchases in future periods. These market conditions negatively impacted our U.S. rates, corporates, U.S. mortgages and leveraged credit revenues for the quarter as the volatility made it difficult to realize net revenue from our customer flow. The volatility in interest rates also impacted the global commodities and foreign exchange markets reducing trading demand in our futures business over the period. Additionally, the municipal bond market saw significant out flows and municipal debt yields widened appreciably, which led to an absence of new issuances during the three months ended August 31, 2013. Within Europe, our international rates business was able to capitalize on the shifts in sovereign debt market yields over the period producing strong trading gains.

*Six Months Ended August 31, 2013*

Fixed income revenue was \$277.0 million for the six months ended August 31, 2013.

The second quarter of fiscal 2013 was characterized by improving U.S. macroeconomic conditions, and, through the first half of May 2013, the U.S. Federal Reserve's policies resulted in historically low yields for fixed income securities motivating investors to take on more risk in search for yield. However, in May 2013, the fixed income markets became concerned about a possible tapering of the quantitative easing program leading ultimately to negative returns for the six month period across nearly all of the U.S. fixed income markets. The U.S. rates market experienced a significant sell-off in the market in May 2013, which created a challenging environment to monetize client flow throughout the remainder of the period. Corporate credit spreads also compressed during the second quarter of 2013 and then subsequently widened in the third quarter resulting in a difficult trading environment and reduced liquidity. Spreads widened for mortgage products throughout and market volatility was amplified during the period resulting in write-downs across our inventory. Municipal securities underperformed as an asset class as investors discounted greater risk than they had previously. During the early part of the six month period, our leverage credit business produced solid results as investors also sought investment yields in this fixed income class and issuers of bank debt were active with the supply level creating a positive effect on liquidity in the secondary market; however, the unfavorable market conditions during the latter part of the period caused writedowns in our inventory. Additionally,

foreign exchange revenues were negatively impacted by volatility in the markets.

Our Europe business experienced strong trading results on market volatility and sharp shifts in yields although our international mortgage desk experienced reduced market liquidity and consequently lower levels of secondary market activity during the latter part of the six months ended August 31, 2013.

During the three months ended May 31, 2013, we redeemed the third party interests in our high yield joint venture, Jefferies High Yield Holdings, LLC. As a result of this redemption, effective April 1, 2013, results of this business are allocated to us in full.

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

For the three months ended February 28, 2013, fixed income revenue was \$352.0 million. Credit spreads narrowed through the first quarter of 2013. In January 2013, global macroeconomic conditions appeared to be improving, with the U.S. economy expanding and the U.S. Federal reserve continuing quantitative easing. U.S. rates revenues were robust, with strong treasury issuance and strong demand and yields at historic lows. Revenues from our leveraged finance and emerging markets sales and trading businesses were sound as investor confidence returned in 2013 and investors were attracted to the relatively higher yield on these products. Revenue in our emerging markets business is reflective of our efforts to strengthen our position in this business and revenues for the period include significant gains generated by certain high yield positions. Revenues from our international mortgage desk were positively impacted by the demand for European mortgage bonds and foreign exchange revenues demonstrated a successful navigation of volatile currency markets. Revenues also benefited from new client activity associated with our expansion of our global metals desk in the latter part of 2012. However, international rates sales and trading revenues were negatively impacted by investor concerns over the European markets resulting in restrained trading volumes and a high level of market volatility.

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

***Investment Banking Revenue***

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

|                 | Successor          |                    |                    |                    | Predecessor        |
|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                 | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended |
|                 | August 31,         | August 31,         | August 31,         | August 31,         | February 28,       |
|                 | 2014               | 2014               | 2013               | 2013               | 2013               |
| Equity          | \$ 93,309          | \$ 271,773         | \$ 56,482          | \$ 110,046         | \$ 61,380          |
| Debt            | 175,597            | 495,635            | 120,187            | 253,901            | 140,672            |
| Capital markets | 268,906            | 767,408            | 176,669            | 363,947            | 202,052            |
| Advisory        | 198,887            | 445,854            | 142,670            | 232,526            | 86,226             |
| Total           | \$ 467,793         | \$ 1,213,262       | \$ 319,339         | \$ 596,473         | \$ 288,278         |

*Three Months Ended August 31, 2014*

During the three months ended August 31, 2014, strong equity and debt markets, low borrowing costs and an improving U.S. and European economic environment, supported a higher level of overall investment banking activity compared to the same period last year.

Investment banking revenues were a record \$467.8 million for the three months ended August 31, 2014. From equity and debt capital raising activities, we generated \$93.3 million and \$175.6 million in revenues, respectively. During the three months ended August 31, 2014, we completed 333 public and private debt financings that raised \$62.7 billion and we completed 59 public equity financings and two convertible offerings that raised \$27.9 billion (for 53 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled \$198.9 million in the third quarter of 2014, during which we acted as financial advisor on 38 merger and acquisition transactions and five restructuring and recapitalization transactions with an aggregate transaction value of \$32.2 billion.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Nine Months Ended August 31, 2014*

Investment banking revenues were a record \$1,213.3 million for the nine months of 2014. From equity and debt capital raising activities, we generated \$271.8 million and \$495.6 million in revenues, respectively. During the nine months ended August 31, 2014, we completed 845 public and private debt financings that raised \$195.8 billion and we completed 138 public equity financings and 6 convertible offerings that raised \$51.9 billion (121 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled \$445.9 million, including revenues from 96 merger and acquisition transactions and ten restructuring and recapitalization transactions with an aggregate transaction value of \$98.2 billion.

*Three and Six Months Ended August 31, 2013*

During the third quarter of 2013, despite uneven U.S. economic growth and uncertainty surrounding the U.S. Federal Reserve's decision on quantitative easing, capital market conditions continued to show signs of improvement due to the availability of low-priced credit and a general rise in the stock market.

Investment banking revenue was \$319.3 million for the three months ended August 31, 2013, our second highest quarter ever, reflecting significantly higher advisory revenues on increased corporate activity. From equity and debt capital raising activities, we generated \$56.5 million and \$120.2 million in revenues, respectively. During the three months ended August 31, 2013, we completed 137 public and private debt financings that raised \$49.7 billion in aggregate, as companies took advantage of low borrowing costs and we completed 35 public equity financings that raised \$8.0 billion (30 of which we acted as sole or joint bookrunner). During the three months ended August 31, 2013, our financial advisory revenues totaled \$142.7 million, including fees from 42 merger and acquisition transactions where we served as financial advisor.

For the six months ended August 31, 2013, we recorded investment banking revenues of \$596.5 million. Net revenues from our equity and debt underwriting business totaled \$110.0 million and \$253.9 million, respectively. During the six month period, we completed 73 public equity financings that raised \$16.4 billion (63 of which we acted as sole or joint bookrunner). Debt capital market revenues resulted from 275 public and private debt financing transactions that raised \$104.0 billion. Our financial advisory revenue was \$232.5 million, including fees from 75 merger and acquisition transactions where we served as financial advisor.

*Three Months Ended February 28, 2013*

For the three months ended February 28, 2013, investment banking revenue was \$288.3 million, including advisory revenues of \$86.2 million and \$202.1 million in revenues from capital market activities, the third highest on record. Debt capital markets revenue were \$140.7 million, driven by a high number of debt capital market transactions as companies took advantage of lower borrowing costs and more favorable economic and market conditions. During the three months ended February 28, 2013, we completed 121 public and private debt financings that raised a total of \$42 billion. Equity capital markets revenue totaled \$61.4 million, completing 30 public equity financings that raised \$10.0 billion (25 of which we acted as sole or joint bookrunner). Reflective of a subdued mergers and acquisition deal environment, despite improving fundamentals, for the three months ended February 28, 2013, advisory revenue totaled \$86.2 million. During the three months ended February 28, 2013, we served as financial advisor on 31 merger and acquisition transactions and two restructuring transactions with an aggregate transaction value of approximately

\$21 billion.

***Asset Management Fees and Investment Income (Loss) from Managed Funds***

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

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

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

The following summarizes the results of our Asset Management businesses for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013 (in thousands):

|                                             | Successor          |                   | Predecessor        |                    |
|---------------------------------------------|--------------------|-------------------|--------------------|--------------------|
|                                             | Three Months Ended | Nine Months Ended | Three Months Ended | Three Months Ended |
|                                             | August 31, 2014    | August 31, 2014   | August 31, 2013    | February 28, 2013  |
| Asset management fees:                      |                    |                   |                    |                    |
| Fixed income                                | \$ 1,155           | \$ 5,064          | \$ 1,217           | \$ 1,154           |
| Equities                                    | 5,807              | 14,454            | 361                | 2,295              |
| Convertibles                                | 417                | 2,234             | 1,901              | 1,376              |
| Commodities                                 |                    |                   | 6,099              | 6,258              |
|                                             | 7,379              | 21,752            | 9,578              | 11,083             |
| Investment income (loss) from managed funds | 1,084              | (6,433)           | 3,971              | (200)              |
| Total                                       | \$ 8,463           | \$ 15,319         | \$ 13,549          | \$ 10,883          |

As a result of deconsolidation of certain strategic investment entities during the first quarter of 2014, results above attributed to Equities now includes asset management fees from these entities. Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to manage certain collateralized loan obligations ( CLOs ) to Babson Capital Management, LLC in January 2010. As sale consideration, we are entitled to a portion of the asset management fees earned under the contracts for their remaining lives. Investment income (loss) from managed funds comprise net unrealized markups (markdowns) in private equity funds managed by related parties.

*Assets under Management*

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

|                              | August 31, 2014 | November 30, 2013 |
|------------------------------|-----------------|-------------------|
| Assets under management (1): |                 |                   |

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|              |    |     |    |     |
|--------------|----|-----|----|-----|
| Equities     | \$ | 322 | \$ | 14  |
| Convertibles |    | 339 |    | 492 |
| Total        | \$ | 661 | \$ | 506 |

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

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Non-interest Expenses**

Non-interest expenses for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013, were as follows (in thousands):

|                                   | Three Months Ended<br>August 31,<br>2014 | Successor<br>Nine Months Ended<br>August 31,<br>2014 | Three Months Ended<br>August 31,<br>2013 | Six Months Ended<br>August 31,<br>2013 | Predecessor<br>Three Months Ended<br>February 28,<br>2013 |
|-----------------------------------|------------------------------------------|------------------------------------------------------|------------------------------------------|----------------------------------------|-----------------------------------------------------------|
| Compensation and benefits         | \$ 477,268                               | \$ 1,390,043                                         | \$ 293,771                               | \$ 667,651                             | \$ 474,217                                                |
| Non-compensation expenses:        |                                          |                                                      |                                          |                                        |                                                           |
| Floor brokerage and clearing fees | 55,967                                   | 159,500                                              | 49,166                                   | 98,068                                 | 46,155                                                    |
| Technology and communications     | 67,286                                   | 201,849                                              | 62,266                                   | 126,105                                | 59,878                                                    |
| Occupancy and equipment rental    | 28,477                                   | 81,652                                               | 26,205                                   | 58,430                                 | 24,309                                                    |
| Business development              | 27,800                                   | 79,193                                               | 17,624                                   | 40,356                                 | 24,927                                                    |
| Professional services             | 31,231                                   | 81,395                                               | 25,269                                   | 54,788                                 | 24,135                                                    |
| Other                             | 19,645                                   | 54,656                                               | 34,012                                   | 52,732                                 | 14,475                                                    |
| Total non-compensation expenses   | 230,406                                  | 658,245                                              | 214,542                                  | 430,479                                | 193,879                                                   |
| Total non-interest expenses       | \$ 707,674                               | \$ 2,048,288                                         | \$ 508,313                               | \$ 1,098,130                           | \$ 668,096                                                |

***Compensation and Benefits***

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

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in January 2010 and September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of \$55.4 million and \$183.6 million for the three and nine months ended August 31, 2014, respectively, and \$66.3 million and \$136.7 million for the three and six months ended August 31, 2013, respectively, and \$72.3 million for the three months ended February 28, 2013. In addition, compensation and benefits expense for the three and nine months ended August 31, 2014 includes approximately \$3.4 million and \$11.0 million, respectively, of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements and was recognized in

connection with the Leucadia Transaction.

Compensation and benefits expense as a percentage of Net revenues was 56.6% and 56.4% for the three and nine months ended August 31, 2014, respectively, and 55.3% and 56.1% for the three and six months ended August 31, 2013, respectively, and 57.9% for the three months ended February 28, 2013. Employee headcount was 3,885 at August 31, 2014 and 3,797 at November 30, 2013.

***Non-Compensation Expenses***

***Three Months Ended August 31, 2014***

Non-compensation expenses were \$230.4 million for the three months ended August 31, 2014, equating to 27.3% of Net revenues. Non-compensation expenses include approximately \$3.6 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of accounting for the Leucadia Transaction reported within Technology and communications expense and Other expense, and \$2.0 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

*Nine Months Ended August 31, 2014*

Non-compensation expenses were \$658.2 million for the nine months ended August 31, 2014, equating to 26.7% of Net revenues. Non-compensation expenses include approximately \$10.6 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of accounting for the Leucadia Transaction reported within Technology and communications expense and Other expense, and \$6.2 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense.

*Three and Six Months Ended August 31, 2013*

Non-compensation expenses were \$214.5 million for the three months ended August 31, 2013, equating to 40.4% of Net revenues. Non-compensation expenses for the three months ended August 31, 2013 include approximately \$8.0 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of accounting for the Leucadia Transaction recognized within Other expenses and Technology and communications expense. Additionally, \$2.5 million in transaction-related investment banking filing fees are recognized within Professional services expense, \$2.1 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense and Other expenses include \$13.4 million in litigation settlement costs. The litigation costs include the final judgment related to our last outstanding auction rate securities legal matter. Excluding these expenses, our non-compensation expenses as a percentage of Net revenues, after excluding from revenues \$27.0 million of net interest income due to the amortization of premiums arising from the one-time fair value adjustment of our long term debt to fair value as of the date of our transaction with Leucadia and the concurrent assumption of our mandatorily redeemable convertible preferred stock by Leucadia, was 37.4%.

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

Floor brokerage and clearing expenses for the period are reflective of the trading volumes in our fixed income and equities trading businesses, including a meaningful volume of trading by our foreign exchange business. Technology and communications expense includes costs associated with development of the various trading systems and various projects associated with corporate support infrastructure, including technology initiatives to support Dodd-Frank reporting requirements. In addition to transaction-related expenses as part of our Professional services expense for the period, we continue to incur legal and consulting fees as part of implementing various regulatory requirements.

Non-compensation expenses were \$430.5 million for the six months ended August 31, 2013 and include approximately \$14.1 million in amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of accounting for the Leucadia Transaction reported within Technology and communications expense and Other expense, \$4.2 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense and \$11.6 million in transaction-related investment banking filing fees recognized in Professional services expense. Additionally, during the second quarter of 2013, a \$7.3 million charge was recognized in Occupancy and equipment rental expense due to vacating certain office space in London and Other expenses include \$13.4 million in litigation settlement costs. Floor brokerage and clearing expenses for the period are reflective of the trading volumes in our fixed income and equities trading businesses, including a meaningful volume of trading by our foreign exchange business. Technology and communications expense includes costs associated with development of the various trading systems and various projects associated with corporate support infrastructure, including technology initiatives to support Dodd-Frank reporting requirements. We continue to incur legal and consulting fees as part of implementing various regulatory requirements.

*Three Months Ended February 28, 2013*

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

*Income Taxes*

For the three and nine months ended August 31, 2014, the provision for income taxes was \$51.8 million and \$156.0 million, respectively, equating to an effective tax rate of 38.2% and 37.4%, respectively. For the three months ended August 31, 2013, six months ended August 31, 2013 and the three months ended February 28, 2013, the provision for income taxes was \$8.5 million, \$33.5 million and \$48.6 million, respectively, equating to an effective tax rate of 36.3%, 37.8% and 34.9%, respectively. At August 31, 2014, the effective tax rate differed from the U.S. federal statutory rate of 35.0%, primarily due to the impact of state income taxes, the effect of which is partially offset by international earnings taxed at rates that are generally lower than the U.S. federal statutory rate.

*Earnings per Common Share*

Diluted net earnings per common share was \$0.35 for the three months ended February 28, 2013 on 217,844,000 shares. Earnings per share data is not provided for periods subsequent to February 28, 2013, coinciding with the date we became a limited liability company and wholly-owned subsidiary of Leucadia. See Note 17, Earnings per Share, in our consolidated financial statements for further information regarding the calculation of earnings per common share.

### **Accounting Developments**

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

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Critical Accounting Policies**

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

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

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

*Valuation of Financial Instruments*

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Unrealized gains or losses are generally recognized in Principal transactions in our Consolidated Statements of Earnings.

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased, at August 31, 2014 and November 30, 2013 (in thousands):

|                                                            | August 31, 2014                   |                                                           | November 30, 2013                 |                                                           |
|------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------|-----------------------------------|-----------------------------------------------------------|
|                                                            | Financial<br>Instruments<br>Owned | Financial<br>Instruments<br>Sold,<br>Not Yet<br>Purchased | Financial<br>Instruments<br>Owned | Financial<br>Instruments<br>Sold,<br>Not Yet<br>Purchased |
| Corporate equity securities                                | \$ 2,688,105                      | \$ 1,816,070                                              | \$ 2,098,597                      | \$ 1,823,299                                              |
| Corporate debt securities                                  | 3,330,959                         | 1,618,068                                                 | 2,982,768                         | 1,346,078                                                 |
| Government, federal agency and other sovereign obligations | 6,365,531                         | 5,133,105                                                 | 5,346,152                         | 3,155,683                                                 |
| Mortgage- and asset-backed securities                      | 3,884,014                         | 3,614                                                     | 4,473,135                         | 34,691                                                    |
| Loans and other receivables                                | 1,607,130                         | 832,419                                                   | 1,349,128                         | 695,300                                                   |
| Derivatives                                                | 358,675                           | 267,005                                                   | 261,093                           | 180,079                                                   |
| Investments                                                | 121,928                           |                                                           | 101,282                           |                                                           |
| Physical commodities                                       | 63,831                            | 52,966                                                    | 37,888                            | 36,483                                                    |

|               |              |               |              |
|---------------|--------------|---------------|--------------|
| \$ 18,420,173 | \$ 9,723,247 | \$ 16,650,043 | \$ 7,271,613 |
|---------------|--------------|---------------|--------------|

Fair Value Hierarchy - In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs, where Level 1 uses observable prices in active markets and Level 3 uses valuation techniques that incorporate significant unobservable inputs and broker quotes that are considered less observable. Greater use of management judgment is required in determining fair value when inputs are less observable or unobservable in the marketplace, such as when the volume or level of trading activity for a financial instrument has decreased and when certain factors suggest that observed transactions may not be reflective of orderly market transactions. Judgment must be applied in determining the appropriateness of available prices, particularly in assessing whether available data reflects current prices and/or reflects the results of recent market transactions. Prices or quotes are weighed when estimating fair value with greater reliability placed on information from transactions that are considered to be representative of orderly market transactions.

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

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 5, Fair Value Disclosures, in our consolidated financial statements.

**Level 3 Assets and Liabilities** The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class at August 31, 2014 and November 30, 2013 (in thousands):

|                                                                                 | Financial Instruments Owned |                      | Financial Instruments Sold,<br>Not Yet Purchased |                      |
|---------------------------------------------------------------------------------|-----------------------------|----------------------|--------------------------------------------------|----------------------|
|                                                                                 | August 31,<br>2014          | November 30,<br>2013 | August 31,<br>2014                               | November 30,<br>2013 |
| Loans and other receivables                                                     | \$ 188,025                  | \$ 145,890           | \$ 6,661                                         | \$ 22,462            |
| Investments at fair value                                                       | 116,387                     | 101,242              |                                                  |                      |
| Residential mortgage-backed securities                                          | 81,034                      | 105,492              |                                                  |                      |
| U.S government and federal agency securities                                    | 2,494                       |                      |                                                  |                      |
| Collateralized debt obligations                                                 | 43,740                      | 37,216               |                                                  |                      |
| Corporate debt securities                                                       | 36,884                      | 25,666               | 242                                              |                      |
| Commercial mortgage-backed securities                                           | 19,327                      | 17,568               |                                                  |                      |
| Corporate equity securities                                                     | 7,777                       | 9,884                | 38                                               | 38                   |
| Other asset-backed securities                                                   | 2,079                       | 12,611               |                                                  |                      |
| Derivatives                                                                     | 1,204                       | 1,493                | 14,784                                           | 8,398                |
| <b>Total Level 3 financial instruments</b>                                      | <b>498,951</b>              | <b>457,062</b>       | <b>\$ 21,725</b>                                 | <b>\$ 30,898</b>     |
| Level 3 financial instruments for which the firm bears no economic exposure (1) | (18,948)                    |                      |                                                  |                      |
| Level 3 financial instruments for which the firm bears economic exposure        | 480,003                     | 457,062              |                                                  |                      |
| Investments in managed funds                                                    | 58,322                      | 57,285               |                                                  |                      |
| Level 3 assets for which the firm bears economic interest                       | \$ 538,325                  | \$ 514,347           |                                                  |                      |
| <b>Total Level 3 assets</b>                                                     | <b>\$ 557,273</b>           | <b>\$ 514,347</b>    |                                                  |                      |
|                                                                                 | 2.7%                        | 2.7%                 | 0.2%                                             | 0.4%                 |

Total Level 3 financial instruments as a  
percentage of total financial instruments

(1) Consists of assets which are financed by nonrecourse secured financing.

While our Financial instruments sold, not yet purchased, which are included within liabilities on our Consolidated Statements of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities included with Other secured financings of approximately \$31.7 million and \$39.7 million at August 31, 2014 and November 30, 2013, respectively, and the conversion option to Leucadia shares embedded in our 3.875% Convertible Senior debenture of approximately \$8.1 million and \$9.6 million reported within Long-term debt at August 31, 2014 and November 30, 2013, respectively.

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

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

|                                   | Predecessor        |                    | Successor          |                    | Predecessor        |                    |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                   | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended | Three Months Ended |
|                                   | August 31,         | August 31,         | August 31,         | August 31,         | August 31,         | February 28,       |
|                                   | 2014               | 2014               | 2013               | 2013               | 2013               | 2013               |
| <b>Assets:</b>                    |                    |                    |                    |                    |                    |                    |
| Transfers from Level 3 to Level 2 | \$ 108.6           | \$ 71.8            | \$ 82.7            | \$ 48.5            | \$ 112.7           |                    |
| Transfers from Level 2 to Level 3 | 87.8               | 79.4               | 91.4               | 53.6               | 100.5              |                    |
| Net gains (losses)                | (4.8)              | 12.3               | 1.0                | (12.7)             | 14.5               |                    |
| <b>Liabilities:</b>               |                    |                    |                    |                    |                    |                    |
| Transfers from Level 3 to Level 2 | \$ 8.6             | \$ 7.2             | \$                 | \$                 | \$ 0.7             |                    |
| Transfers from Level 2 to Level 3 | 0.1                |                    |                    |                    |                    |                    |
| Net gains (losses)                | 4.2                | (2.0)              | 11.6               | 6.5                | (2.7)              |                    |

See Note 5, Fair Value Disclosures, in our consolidated financial statements for additional discussion on transfers of assets and liabilities among the fair value hierarchy levels.

**Controls Over the Valuation Process for Financial Instruments** Our Independent Price Verification Group, independent of the trading function, plays an important role in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. Where a pricing model is used to determine fair value, these control processes include reviews of the pricing model's theoretical soundness and appropriateness by risk management personnel with relevant expertise who are independent from the trading desks. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

***Goodwill***

At August 31, 2014, goodwill recorded on our Consolidated Statement of Financial Condition is \$1,723.6 billion (3.9% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies and Note 11, Goodwill and Other Intangible Assets, in our consolidated financial statements. Goodwill must be allocated to reporting units and tested for impairment at least annually by comparing the estimated fair value of each reporting unit with its carrying value. Our annual goodwill impairment testing date is August 1, which did not indicate any goodwill impairment in any of our reporting units at August 1, 2014.

We use allocated equity plus goodwill and allocated intangible assets as a proxy for the carrying amount of each reporting unit. The amount of equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. For further information on our Cash Capital Policy, refer to the Liquidity, Financial Condition and Capital Resources section herein. Intangible assets are allocated to a reporting unit based on either specifically

identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment and often involves the use of estimates and assumptions that could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Estimated fair values for our reporting units utilize market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable public companies, as well as discounted cash flow valuation methodologies that incorporate risk-adjusted discount rates. In addition, for certain reporting units, we utilize a net asset value method. Under the market approach, the key assumptions are the selected multiples and our internally developed forecasts of future profitability, growth and return on equity for each reporting unit. The weight assigned to the multiples requires judgment in qualitatively and quantitatively evaluating the size, profitability and the nature of the business activities of the reporting units as compared to the comparable publicly-traded companies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we apply a control premium to arrive at the estimate fair value of each reporting unit on a controlling basis. Similarly, in using a discounted cash flow methodology for our Futures reporting unit, the key assumptions are our internally developed forecasts of future profitability, which are dependent on market volatility and related customer activity, as well as the appropriate discount rate. We engaged an independent valuation specialist to assist us in our valuation process at August 1, 2014.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Our annual goodwill impairment testing at August 1, 2014 did not indicate any goodwill impairment in any of our reporting units. Substantially all of our goodwill is allocated to our Investment Banking, Equities, Fixed Income and Futures reporting units for which the results of our assessment indicated that these reporting units had a fair value substantially in excess of their carrying amounts based on current projections. Goodwill allocated to these reporting units is \$1,709.6 million of total goodwill of \$1,723.6 million at August 31, 2014. For the remaining less significant reporting units, which contain approximately 0.8% of our total goodwill, we have used a net asset approach for valuation and the fair value of each of the reporting units is equal to its book value.

Refer to Note 11, Goodwill and Other Intangible Assets for further details on our assessment of goodwill.

*Compensation and Benefits*

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

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

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

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

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

*Analysis of Financial Condition*

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

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

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

|                                                                                                                                     | August 31,<br>2014 | November 30,<br>2013 | % Change |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|----------|
| Total assets                                                                                                                        | \$ 44,764.1        | \$ 40,177.0          | 11%      |
| Cash and cash equivalents                                                                                                           | 4,035.2            | 3,561.1              | 13%      |
| Cash and securities segregated and on deposit<br>for regulatory purposes or deposited with<br>clearing and depository organizations | 3,301.2            | 3,616.6              | -9%      |
| Financial instruments owned                                                                                                         | 18,420.2           | 16,650.0             | 11%      |
| Financial instruments sold, not yet purchased                                                                                       | 9,723.2            | 7,271.6              | 34%      |
| Total Level 3 assets                                                                                                                | 557.3              | 514.3                | 8%       |
| Securities borrowed                                                                                                                 | \$ 6,270.5         | \$ 5,359.8           | 17%      |
| Securities purchased under agreements to resell                                                                                     | 4,570.5            | 3,746.9              | 22%      |

|                                                                               |             |             |     |
|-------------------------------------------------------------------------------|-------------|-------------|-----|
| Total securities borrowed and securities purchased under agreements to resell | \$ 10,841.0 | \$ 9,106.7  | 19% |
| Securities loaned                                                             | \$ 2,468.5  | \$ 2,506.1  | -2% |
| Securities sold under agreements to repurchase                                | 10,532.1    | 10,779.8    | -2% |
| Total securities loaned and securities sold under agreements to repurchase    | \$ 13,000.6 | \$ 13,285.9 | -2% |

Total assets at August 31, 2014 and November 30, 2013 were \$44.8 billion and \$40.2 billion, respectively. During the three and nine months ended August 31, 2014, average total assets were approximately 15% and 12%, respectively, higher than total assets at August 31, 2014.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

Our total Financial instruments owned inventory at August 31, 2014 was \$18.4 billion, an increase of 11% from inventory of \$16.7 billion at November 30, 2013, primarily driven by increases in inventory positions of government and federal agency securities as a result of higher trading volumes due to rate volatility in the U.S. rates business and increases in equity and corporate debt products as a result of greater customer trading demand. The increase was partially offset by decreases in inventory positions of mortgage- and asset- backed securities as trading volumes are lower in anticipation of interest rate increases. Financial instruments sold, not yet purchased inventory was \$9.7 billion and \$7.3 billion at August 31, 2014 and November 30, 2013, respectively, with the increase primarily driven by increased trading by our U.S. and international rates businesses. Our overall net inventory position was \$8.7 billion and \$9.4 billion at August 31, 2014 and November 30, 2013, respectively.

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

We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. As a Primary Dealer in the U.S. and with our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. For further detail on our outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain at August 31, 2014, refer to the Risk Management section herein.

Of our total Financial instruments owned, approximately 75% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of our policy, a portion of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Additionally, our Financial instruments owned primarily consisting of bank loans, investments and non-agency mortgage-backed securities are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent than the haircuts used in the market for secured funding; and we maintain surplus capital at these maximum levels.

At August 31, 2014 and November 30, 2013, our Level 3 financial instruments owned was 3% of our financial instruments owned.

Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 19% from November 30, 2013 to August 31, 2014, primarily due to an increase in firm financing of our short inventory. The outstanding balance of our securities loaned and securities sold under agreement to repurchase decreased by 2% from November 30, 2013 to August 31, 2014 due to a decrease in our matched book activity, partially offset by an increase in firm financing of our inventory. By executing repurchase agreements with central clearing corporations to finance liquid inventory, rather than bi-lateral arrangements, we reduce the credit risk associated with these arrangements and decrease net outstanding balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the nine months ended August 31, 2014 were 20% and 25% higher, respectively, than the August 31, 2014 balances.

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

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

|                                                         | Successor       |                   | Predecessor       |
|---------------------------------------------------------|-----------------|-------------------|-------------------|
|                                                         | Nine Months     | Nine Months       | Three Months      |
|                                                         | Ended           | Ended             | Ended             |
|                                                         | August 31, 2014 | November 30, 2013 | February 28, 2013 |
| <b>Securities Purchased Under Agreements to Resell:</b> |                 |                   |                   |
| Period end                                              | \$ 4,571        | \$ 3,747          | \$ 3,578          |
| Month end average                                       | 5,961           | 4,936             | 5,132             |
| Maximum month end                                       | 8,081           | 6,007             | 6,288             |
| <b>Securities Sold Under Agreements to Repurchase:</b>  |                 |                   |                   |
| Period end                                              | \$ 10,532       | \$ 10,780         | \$ 7,976          |
| Month end average                                       | 13,307          | 13,308            | 11,895            |
| Maximum month end                                       | 16,586          | 16,502            | 15,168            |

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

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

The following table presents total assets, adjusted assets, total equity, total member's equity, tangible equity and tangible member's equity with the resulting leverage ratios at August 31, 2014 and November 30, 2013 (in thousands):

|                                                                                                                                             | August 31,<br>2014 | November 30,<br>2013 |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| Total assets                                                                                                                                | \$ 44,764,080      | \$ 40,176,996        |
| Deduct: Securities borrowed                                                                                                                 | (6,270,452)        | (5,359,846)          |
| Securities purchased under agreements to resell                                                                                             | (4,570,533)        | (3,746,920)          |
| Add: Financial instruments sold, not yet purchased                                                                                          | 9,723,246          | 7,271,613            |
| Less derivative liabilities                                                                                                                 | (267,005)          | (180,079)            |
| Subtotal                                                                                                                                    | 9,456,241          | 7,091,534            |
| Deduct: Cash and securities segregated and on deposit<br>for regulatory purposes or deposited with<br>clearing and depository organizations | (3,301,185)        | (3,616,602)          |
| Goodwill and intangible assets                                                                                                              | (1,978,356)        | (1,986,436)          |
| Adjusted assets                                                                                                                             | \$ 38,099,795      | \$ 32,558,726        |
| Total equity                                                                                                                                | \$ 5,602,413       | \$ 5,421,674         |
| Deduct: Goodwill and intangible assets                                                                                                      | (1,978,356)        | (1,986,436)          |
| Tangible equity                                                                                                                             | \$ 3,624,057       | \$ 3,435,238         |
| Total member's equity                                                                                                                       | \$ 5,571,206       | \$ 5,304,520         |
| Deduct: Goodwill and intangible assets                                                                                                      | (1,978,356)        | (1,986,436)          |
| Tangible member's equity                                                                                                                    | \$ 3,592,850       | \$ 3,318,084         |
| Leverage ratio (1)                                                                                                                          | 8.0                | 7.4                  |
| Tangible gross leverage ratio (2)                                                                                                           | 11.9               | 11.5                 |
| Leverage ratio excluding impacts of the Leucadia<br>Transaction (3)                                                                         | 10.1               | 9.3                  |
| Adjusted leverage ratio (4)                                                                                                                 | 10.5               | 9.5                  |

- (1) Leverage ratio equals total assets divided by total equity.
- (2) Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets less goodwill and identifiable intangible assets divided by tangible member's equity. The tangible gross leverage ratio is used by Rating Agencies in assessing our leverage ratio.
- (3) Leverage ratio excluding impacts of the Leucadia Transaction (a non-GAAP financial measure) equals total assets less the increase in goodwill and asset fair values in accounting for the Leucadia Transaction of \$1,957 million less amortization of \$42 million and \$27 million during the period since the Leucadia Transaction to August 31, 2014 and November 30, 2013, respectively, on assets recognized at fair value in accounting for the Leucadia Transaction divided by the sum of total equity less \$1,359 million and \$1,326 million at August 31, 2014 and November 30, 2013, respectively, being the increase in equity arising from consideration of \$1,426 million excluding the \$125 million attributable to the assumption of our preferred stock by Leucadia, and less the impact on equity due to amortization of \$58 million and \$25 million at August 31, 2014 and November 30, 2013, respectively, on assets and liabilities recognized at fair value in accounting for the Leucadia Transaction.
- (4) Adjusted leverage ratio (a non-GAAP financial measure) equals adjusted assets divided by tangible total equity. Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self-financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

#### *Liquidity Management*

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

*Cash Capital Policy.* We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (*i.e.*, margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of \$12.0 billion at August 31, 2014 exceeded our cash capital requirements.

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

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

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

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

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

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

Liquidity needs over a 30-day scenario.

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

No support from government funding facilities.

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

No diversification benefit across liquidity risks. We assume that liquidity risks are additive. The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

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

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

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

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

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

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

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

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

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

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At August 31, 2014, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

*Sources of Liquidity*

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

|                                        | August 31,<br>2014 | Average balance<br>Quarter ended<br>August 31, 2014 (1) | November 30,<br>2013 |
|----------------------------------------|--------------------|---------------------------------------------------------|----------------------|
| Cash and cash equivalents:             |                    |                                                         |                      |
| Cash in banks                          | \$ 721,011         | \$ 603,459                                              | \$ 830,438           |
| Certificate of deposit                 | 50,000             | 46,875                                                  | 50,005               |
| Money market investments               | 3,264,228          | 2,222,351                                               | 2,680,676            |
| <b>Total cash and cash equivalents</b> | <b>4,035,239</b>   | <b>2,872,685</b>                                        | <b>3,561,119</b>     |

## Other sources of liquidity:

|                                                                                                                      |                  |                  |                  |
|----------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| Debt securities owned and securities purchased under agreements to resell (2)                                        | 1,529,586        | 1,189,258        | 1,316,867        |
| Other (3)                                                                                                            | 348,112          | 582,585          | 403,738          |
| <b>Total other sources</b>                                                                                           | <b>1,877,698</b> | <b>1,771,843</b> | <b>1,720,605</b> |
| Total cash and cash equivalents and other liquidity sources                                                          | \$ 5,912,937     | \$ 4,644,528     | \$ 5,281,724     |
| Total cash and cash equivalents and other liquidity sources as % of Total Assets                                     | 13.2%            |                  | 13.1%            |
| Total cash and cash equivalents and other liquidity sources as % of Total Assets less Goodwill and Intangible Assets | 13.8%            |                  | 13.8%            |

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

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

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. At August 31, 2014, we have the ability to readily obtain repurchase financing for 75% of our inventory at haircuts of 10% or less, which reflects the liquidity of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at August 31, 2014 and November 30, 2013 (in thousands):

|                                                     | August 31, 2014  |                                                 | November 30, 2013 |                                                 |
|-----------------------------------------------------|------------------|-------------------------------------------------|-------------------|-------------------------------------------------|
|                                                     | Liquid Financial | Unencumbered<br>Liquid Financial<br>Instruments | Liquid Financial  | Unencumbered<br>Liquid Financial<br>Instruments |
|                                                     | Instruments      | (2)                                             | Instruments       | (2)                                             |
| Corporate equity securities                         | \$ 2,292,155     | \$ 345,555                                      | \$ 1,982,877      | \$ 137,721                                      |
| Corporate debt securities                           | 2,507,820        | 8,552                                           | 2,250,512         | 26,983                                          |
| U.S. Government, agency and<br>municipal securities | 3,609,806        | 296,362                                         | 2,513,388         | 400,821                                         |
| Other sovereign obligations                         | 2,240,202        | 1,310,164                                       | 2,346,485         | 991,774                                         |
| Agency mortgage-backed securities<br>(1)            | 3,112,890        |                                                 | 2,976,133         |                                                 |
| Physical commodities                                | 63,831           |                                                 | 37,888            |                                                 |
|                                                     | \$ 13,826,704    | \$ 1,960,633                                    | \$ 12,107,283     | \$ 1,557,299                                    |

- (1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These securities include pass-through securities, securities backed by adjustable rate mortgages ( ARMs ), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.
- (2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments for the three and nine months ended August 31, 2014 were \$16.6 billion and \$17.2 billion, respectively, and for three and twelve months ended November 30, 2013 were \$15.7 billion and \$16.1 billion, respectively.

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

*Sources of Funding and Capital Resources*

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

### Secured Financing

We rely principally on readily available secured funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate-term secured funding, primarily through securities financing transactions. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively "repos"), respectively. Approximately 82% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

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

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

In addition to the above financing arrangements, in November 2012, we initiated a program whereby we issue notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory (our repurchase agreement financing program). At August 31, 2014, the outstanding amount of the notes issued under the program was \$585.0 million in aggregate, which is presented within Other secured financings on the Consolidated Statement of Financial Condition. Of the \$585.0 million aggregate notes, \$60.0 million matures in November 2014, \$60.0 million in February 2015, \$85.0 million matures in March 2015, \$200.0 million in July 2016 and \$80.0 million in August 2016, all bearing interest at a spread over one month LIBOR. The remaining \$100.0 million matures in February 2016 and bears interest at a spread over three month LIBOR. For additional discussion on the program, refer to Note 9, Variable Interest Entities, in our consolidated financial statements.

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at August 31, 2014. Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our ability to draw bank loans on an uncommitted basis under our various banking arrangements. At August 31, 2014, short-term borrowings, which include bank loans, as well as borrowings under revolving credit facilities which must be repaid within one year or less, totaled \$92.0 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily short-term borrowings for the three and nine months ended August 31, 2014 were \$31.3 million and \$87.9 million, respectively.

**Total Capital**

At August 31, 2014 and November 30, 2013, we have total long-term capital of \$12.0 billion and \$11.2 billion resulting in a long-term debt to equity capital ratio of 1.14:1 and 1.07:1, respectively. Our total capital base at August 31, 2014 and November 30, 2013 was as follows (in thousands):

|                      | August 31,<br>2014   | November 30,<br>2013 |
|----------------------|----------------------|----------------------|
| Long-Term Debt (1)   | \$ 6,367,978         | \$ 5,777,130         |
| Total Equity         | 5,602,413            | 5,421,674            |
| <b>Total Capital</b> | <b>\$ 11,970,391</b> | <b>\$ 11,198,804</b> |

- (1) Long-term debt for purposes of evaluating long-term capital at August 31, 2014 and November 30, 2013 excludes \$258.0 million and \$200.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility and excludes \$255.7 million of our 5.875% Senior Notes at November 30, 2013, as the notes

mature in less than one year from the period end.

Long-Term Debt

On August 26, 2011, we entered into a committed senior secured revolving credit facility ( Credit Facility ) with a group of commercial banks in Dollars, Euros and Sterling, for an aggregate committed amount of \$950.0 million with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. On June 26, 2014, we amended and restated the Credit Facility to extend the term of 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 LLC ( Jefferies ), (a U.S. broker-dealer), with Jefferies as the surviving entity, Jefferies is a borrower under the Credit Facility. At August 31, 2014 and November 30, 2013, we had borrowings outstanding under the Credit Facility amounting to \$258.0 million and \$200.0 million, respectively.

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

Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. The Credit Facility is guaranteed by Jefferies Group LLC and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group LLC to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis we provide a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At August 31, 2014 and November 30, 2013, the minimum tangible net worth requirement was \$2,649.3 million and \$2,564.0 million, respectively and the minimum liquidity requirement was \$575.1 million and \$532.8 million, respectively for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility occurred and we expect to remain in compliance given our current liquidity, anticipated additional funding requirements given our business plan and profitability expectations. While our subsidiaries are restricted under the Credit Facility from incurring additional indebtedness beyond trade payable and derivative liabilities in the normal course of business, we do not believe that these restrictions will have a negative impact on our liquidity.

On May 20, 2014, under our \$2.0 billion Euro Medium Term Note Program we issued senior unsecured notes with a principal amount of 500.0 million, due 2020, which bear interest at 2.375% per annum. Proceeds amounted to 498.7 million.

At August 31, 2014, our long-term debt, excluding the Credit Facility, has a weighted average maturity exceeding 8 years. Our 5.875% Senior Notes with a principal amount of \$250.0 million matured in June 2014.

Our long-term debt ratings at August 31, 2014 are as follows:

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

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

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the

event of a credit rating downgrade. At August 31, 2014, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade was \$62.0 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management's best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

Table of Contents**JEFFERIES GROUP LLC AND SUBSIDIARIES***Contractual Obligations and Commitments*

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts at August 31, 2014. The table presents principal cash flows with expected maturity dates (in millions):

|                                                                                                     | Expected Maturity Date |             |                     |                     |                      |             |
|-----------------------------------------------------------------------------------------------------|------------------------|-------------|---------------------|---------------------|----------------------|-------------|
|                                                                                                     | 2014                   | 2015        | 2016<br>and<br>2017 | 2018<br>and<br>2019 | 2020<br>and<br>Later | Total       |
| <b>Debt obligations:</b>                                                                            |                        |             |                     |                     |                      |             |
| Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) | \$                     | \$ 510.0    | \$ 365.7            | \$ 1,684.6          | \$ 3,807.7           | \$ 6,368.0  |
| Senior secured revolving credit facility                                                            |                        |             | 258.0               |                     |                      | 258.0       |
| Interest payment obligations on senior notes                                                        | 82.6                   | 329.2       | 588.0               | 467.5               | 1,449.1              | 2,916.4     |
|                                                                                                     | \$ 82.6                | \$ 839.2    | \$ 1,211.7          | \$ 2,152.1          | \$ 5,256.8           | \$ 9,542.4  |
| <b>Commitments and guarantees:</b>                                                                  |                        |             |                     |                     |                      |             |
| Equity commitments                                                                                  | \$ 1.6                 | \$ 7.6      | \$ 0.9              | \$                  | \$ 355.7             | \$ 365.8    |
| Loan commitments                                                                                    |                        | 76.7        | 615.8               | 101.1               |                      | 793.6       |
| Mortgage-related commitments                                                                        | 976.2                  | 333.0       | 530.6               |                     |                      | 1,839.8     |
| Forward starting repos                                                                              | 1,975.3                |             |                     |                     |                      | 1,975.3     |
| Other unfunded commitments                                                                          |                        | 79.5        |                     |                     | 23.0                 | 102.5       |
| <b>Derivative Contracts:</b>                                                                        |                        |             |                     |                     |                      |             |
| Derivative contracts-non credit related                                                             | 55,067.0               | 12,274.7    | 349.4               | 1.1                 | 521.5                | 68,213.7    |
| Derivative contracts credit related                                                                 |                        |             | 9.0                 |                     | 1,541.5              | 1,550.5     |
|                                                                                                     | \$ 58,020.1            | \$ 12,771.5 | \$ 1,505.7          | \$ 102.2            | \$ 2,441.7           | \$ 74,841.2 |

(1) Certain of our derivative contracts meet the definition of a guarantee and are therefore included in the above table. For additional information on commitments, see Note 19, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

In addition, in April 2014, we entered into an information technology outsourcing agreement. Beginning in June 2014, we have a contractual obligation to pay \$957,000 per month for eight years, with a remaining obligation to pay of approximately \$89.9 million.

In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the Consolidated Statements of Financial Condition as Financial instruments owned' derivative contracts or Financial instruments sold, not yet purchased' derivative contracts as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 5, Fair Value Disclosures, and Note 6, Derivative Financial Instruments, in our consolidated financial statements.

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

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

At August 31, 2014, we did not have any commitments to purchase assets from our securitization vehicles. For additional information regarding our involvement with VIEs, see Note 8, Securitization Activities and Note 9, Variable Interest Entities, in our consolidated financial statements.

Due to the uncertainty regarding the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table. See Note 18, Income Taxes, in our consolidated financial statements for further information.

*Equity Capital*

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

As compared to November 30, 2013, the increase to total member's equity at August 31, 2014 is attributed to net earnings and foreign currency translation adjustments during the nine months ended August 31, 2014.

*Net Capital*

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

At August 31, 2014, Jefferies, Jefferies Execution and Jefferies Bache, LLC's net capital, adjusted net capital, and excess net capital were as follows (in thousands):

|                      | Net Capital          | Excess Net Capital |
|----------------------|----------------------|--------------------|
| Jefferies            | \$ 902,855           | \$ 829,380         |
| Jefferies Execution  | 5,737                | 5,487              |
|                      | Adjusted Net Capital | Excess Net Capital |
| Jefferies Bache, LLC | \$ 187,645           | \$ 84,003          |

On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies (a U.S. broker-dealer), with Jefferies as the surviving entity, registering as a FCM. 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. Jefferies' minimum net capital requirement would have increased from approximately \$73.0 million to \$103.0 million had the merger occurred on August 31, 2014.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. While entities that register under these provisions will be subject to regulatory capital requirements, these regulatory capital requirements have not yet been finalized. We expect that these provisions will result in modifications to the regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products LLC and Jefferies Bache Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013 and Jefferies Financial Products LLC, which registered during August 2014.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

**Risk Management**

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

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

For discussion of liquidity and capital risk management refer to the Liquidity, Financial Condition and Capital Resources section herein.

*Governance and Risk Management Structure*

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

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

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

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

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

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Risk Management Key Metrics*

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

**Market Risk**

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

**Value-at-Risk**

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

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

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

Our average daily VaR decreased to \$13.50 million for the three months ended August 31, 2014 from \$14.94 million for the three months ended May 31, 2014. The decrease was driven by lower credit spread and interest rate volatility. We also saw an increase in the diversification benefit across asset classes. The decrease was partially offset by an increase in equity price risk as a result of an increase in an equity block position. Market risk from currency rates and commodity prices risk did not change significantly from the prior fiscal quarter. Excluding our investment in Knight, the average VaR for the three months ended August 31, 2014 and May 31, 2014 was \$8.25 million and \$8.63 million, respectively. Excluding both our investment in Knight and Harbinger our average VaR for the three months ended May 31, 2014 was \$7.97 million. On March 18, 2014, we sold our investment in Harbinger to Leucadia at the closing price on that date.

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

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

| Risk Categories            | Daily VaR (1)<br>Value-at-Risk In Trading Portfolios |          |                 |          |          |                                         |          |              |     |
|----------------------------|------------------------------------------------------|----------|-----------------|----------|----------|-----------------------------------------|----------|--------------|-----|
|                            | Daily VaR for the<br>Three Months<br>Ended           |          |                 |          |          | Daily VaR for the Three Months<br>Ended |          |              |     |
|                            | VaR at<br>August 31, 2014                            |          | August 31, 2014 |          |          | VaR at<br>May 31, 2014                  |          | May 31, 2014 |     |
|                            | Average                                              | High     | Low             | Average  | High     | Low                                     | Average  | High         | Low |
| Interest Rates             | \$ 3.92                                              | \$ 4.92  | \$ 7.90         | \$ 3.18  | \$ 5.58  | \$ 6.82                                 | \$ 8.62  | \$ 5.58      |     |
| Equity Prices              | 12.93                                                | 12.01    | 14.57           | 8.60     | 9.11     | 9.97                                    | 14.68    | 7.85         |     |
| Currency Rates             | 1.33                                                 | 1.23     | 6.59            | 0.37     | 1.14     | 0.67                                    | 1.95     | 0.26         |     |
| Commodity Prices           | 0.53                                                 | 0.40     | 0.93            | 0.08     | 0.48     | 1.11                                    | 2.14     | 0.25         |     |
| Diversification Effect (2) | (4.24)                                               | (5.06)   | N/A             | N/A      | (0.11)   | (3.63)                                  | N/A      | N/A          |     |
| Firmwide                   | \$ 14.47                                             | \$ 13.50 | \$ 17.34        | \$ 10.31 | \$ 16.20 | \$ 14.94                                | \$ 19.68 | \$ 10.70     |     |

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

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

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

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

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



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

trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (*i.e.*, once in every 20 days). During the three months ended August 31, 2014, results of the evaluation at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR.

Certain positions within financial instruments are not included in the VaR model because VaR is not the most appropriate measure of risk. Accordingly, Risk Management has additional procedures in place to assure that the level of potential loss that would arise from market movements are within acceptable levels. Such procedures include performing stress tests, monitoring concentration risk and tracking price target/stop loss levels. The table below presents the potential reduction in net income associated with a 10% stress of the fair value of the positions that are not included in the VaR model at August 31, 2014 (in thousands):

|                                      | 10% Sensitivity |
|--------------------------------------|-----------------|
| Private investments                  | \$ 32,761       |
| Corporate debt securities in default | 10,941          |
| Trade claims                         | 4,488           |

**Daily Net Trading Revenue**

Excluding trading losses associated with the daily marking to market of our position in Knight, there were two days with trading losses out of a total of 64 trading days in the three months ended August 31, 2014. Including these losses, there were nine days with trading losses. The histogram below presents the distribution of our actual daily net trading revenue for substantially all of our trading activities for the three months ended August 31, 2014 (in millions).

**Scenario Analysis and Stress Tests**

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



**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

*Counterparty Credit Risk and Issuer Country Exposure*

Counterparty Credit Risk

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

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

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

- defining credit limit guidelines and credit limit approval processes;
- providing a consistent and integrated credit risk framework across the enterprise;
- approving counterparties and counterparty limits with parameters set by the Risk Management Committee;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- delivering credit limits to all relevant sales and trading desks;
- maintaining credit reviews for all active and new counterparties;
- operating a control function for exposure analytics and exception management and reporting;

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

actively managing daily exposure, exceptions, and breaches;

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

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

#### Credit Exposures

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

Loans and lending arise in connection with our capital markets activities and represents the notional value of loans that have been drawn by the borrower and lending commitments that were outstanding at August 31, 2014.

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

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

Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks.

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

Current counterparty credit exposures at August 31, 2014 and November 30, 2013 are summarized in the tables below and provided by credit quality, region and industry (in millions). Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at August 31, 2014, excluding cash and cash equivalents, 64% are investment grade counterparties, compared to 66% at November 30, 2013, and are mainly concentrated in North America. When comparing our credit exposure at August 31, 2014 with credit exposure at November 30, 2013, excluding cash and cash equivalents, current exposure has increased 37% to approximately \$1.4 billion from \$1.0 billion. All business areas contributed to the increase over the period, with the largest increase from securities and margin finance.

**Counterparty Credit Exposure by Credit Rating**

|               | <b>Loans and Lending</b> |                          | <b>Securities and Margin Finance</b> |                          | <b>OTC Derivatives</b> |                          | <b>Total</b>           |                          | <b>Cash and Cash Equivalents</b> |                          | <b>Total with Cash and Cash Equivalents</b> |                          |
|---------------|--------------------------|--------------------------|--------------------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|----------------------------------|--------------------------|---------------------------------------------|--------------------------|
|               | <b>At</b>                | <b>At</b>                | <b>At</b>                            | <b>At</b>                | <b>At</b>              | <b>At</b>                | <b>At</b>              | <b>At</b>                | <b>At</b>                        | <b>At</b>                | <b>At</b>                                   | <b>At</b>                |
|               | <b>August 31, 2014</b>   | <b>November 30, 2013</b> | <b>August 31, 2014</b>               | <b>November 30, 2013</b> | <b>August 31, 2014</b> | <b>November 30, 2013</b> | <b>August 31, 2014</b> | <b>November 30, 2013</b> | <b>August 31, 2014</b>           | <b>November 30, 2013</b> | <b>August 31, 2014</b>                      | <b>November 30, 2013</b> |
| A Range       | \$                       | \$                       | \$ 2.9                               | \$ 0.2                   | \$                     | \$                       | \$ 2.9                 | \$ 0.2                   | \$ 3,264.2                       | \$ 2,680.6               | \$ 3,267.1                                  | \$ 2,680.6               |
| BBB- Range    | 0.7                      |                          | 94.1                                 | 104.8                    | 9.7                    | 14.7                     | 104.5                  | 119.5                    | 31.4                             | 144.1                    | 135.9                                       | 263.3                    |
| BBB- Range    | 4.9                      |                          | 493.5                                | 374.4                    | 69.6                   | 56.7                     | 568.0                  | 431.1                    | 737.4                            | 734.7                    | 1,305.4                                     | 1,165.5                  |
| BBB- Range    | 125.0                    | 71.0                     | 74.1                                 | 39.9                     | 26.1                   | 16.2                     | 225.2                  | 127.1                    | 2.2                              | 1.7                      | 227.4                                       | 128.8                    |
| BBB- or Lower | 157.0                    | 120.3                    | 217.8                                | 115.4                    | 18.3                   | 9.5                      | 393.1                  | 245.2                    |                                  |                          | 393.1                                       | 245.2                    |
| Not Rated     | 116.7                    | 86.6                     |                                      |                          | 0.1                    | 18.6                     | 116.8                  | 105.2                    |                                  |                          | 116.8                                       | 105.2                    |
| Total         | \$ 404.3                 | \$ 277.9                 | \$ 882.4                             | \$ 634.7                 | \$ 123.8               | \$ 115.7                 | \$ 1,410.5             | \$ 1,028.3               | \$ 4,035.2                       | \$ 3,561.1               | \$ 5,445.7                                  | \$ 4,589.5               |

**Counterparty Credit Exposure by Region**

|  | <b>Loans and Lending</b> |                          | <b>Securities and Margin Finance</b> |                          | <b>OTC Derivatives</b> |                          | <b>Total</b>           |                          | <b>Cash and Cash Equivalents</b> |                          | <b>Total with Cash and Cash Equivalents</b> |                          |
|--|--------------------------|--------------------------|--------------------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|----------------------------------|--------------------------|---------------------------------------------|--------------------------|
|  | <b>At</b>                | <b>At</b>                | <b>At</b>                            | <b>At</b>                | <b>At</b>              | <b>At</b>                | <b>At</b>              | <b>At</b>                | <b>At</b>                        | <b>At</b>                | <b>At</b>                                   | <b>At</b>                |
|  | <b>August 31, 2014</b>   | <b>November 30, 2013</b> | <b>August 31, 2014</b>               | <b>November 30, 2013</b> | <b>August 31, 2014</b> | <b>November 30, 2013</b> | <b>August 31, 2014</b> | <b>November 30, 2013</b> | <b>August 31, 2014</b>           | <b>November 30, 2013</b> | <b>August 31, 2014</b>                      | <b>November 30, 2013</b> |

|             |         |         |         |         |         |         |           |           |           |           |           |           |
|-------------|---------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|
| a/Latin     |         |         |         |         |         |         |           |           |           |           |           |           |
| erica/Other | \$ 38.4 | \$      | \$ 70.6 | \$ 30.9 | \$ 5.9  | \$ 11.6 | \$ 114.9  | \$ 42.5   | \$ 202.0  | \$ 183.3  | \$ 316.9  | \$ 225.0  |
| ope         | 11.9    |         | 239.2   | 180.3   | 51.7    | 47.6    | 302.8     | 227.9     | 251.3     | 269.3     | 554.1     | 497.0     |
| th America  | 354.0   | 277.9   | 572.6   | 423.5   | 66.2    | 56.5    | 992.8     | 757.9     | 3,581.9   | 3,108.5   | 4,574.7   | 3,866.0   |
| al          | \$404.3 | \$277.9 | \$882.4 | \$634.7 | \$123.8 | \$115.7 | \$1,410.5 | \$1,028.3 | \$4,035.2 | \$3,561.1 | \$5,445.7 | \$4,589.0 |

#### Interparty Credit Exposure by Industry

|             | Loans and Lending  |                      | Securities and Margin Finance |                      | OTC Derivatives    |                      | Total              |                      | Cash and Cash Equivalents |                      | Total with Cash and Cash Equivalents |                      |
|-------------|--------------------|----------------------|-------------------------------|----------------------|--------------------|----------------------|--------------------|----------------------|---------------------------|----------------------|--------------------------------------|----------------------|
|             | At August 31, 2014 | At November 30, 2013 | At August 31, 2014            | At November 30, 2013 | At August 31, 2014 | At November 30, 2013 | At August 31, 2014 | At November 30, 2013 | At August 31, 2014        | At November 30, 2013 | At August 31, 2014                   | At November 30, 2013 |
| et          |                    |                      |                               |                      |                    |                      |                    |                      |                           |                      |                                      |                      |
| managers    | \$                 | \$                   | \$ 23.8                       | \$ 7.1               | \$ 0.4             | \$ 0.5               | \$ 24.2            | \$ 7.6               | \$3,264.2                 | \$2,680.7            | \$3,288.4                            | \$2,688.0            |
| ks,         |                    |                      |                               |                      |                    |                      |                    |                      |                           |                      |                                      |                      |
| ker-dealers | 5.6                |                      | 421.2                         | 354.9                | 98.3               | 73.8                 | 525.1              | 428.7                | 771.0                     | 880.4                | 1,296.1                              | 1,309.0              |
| nmodities   |                    |                      | 52.8                          | 35.6                 | 7.5                | 9.4                  | 60.3               | 45.0                 |                           |                      | 60.3                                 | 45.0                 |
| er          | 398.7              | 277.9                | 384.6                         | 237.1                | 17.6               | 32.0                 | 800.9              | 547.0                |                           |                      | 800.9                                | 547.0                |
| al          | \$404.3            | \$277.9              | \$882.4                       | \$634.7              | \$123.8            | \$115.7              | \$1,410.5          | \$1,028.3            | \$4,035.2                 | \$3,561.1            | \$5,445.7                            | \$4,589.0            |

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 6, Derivative Financial Instruments, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

#### Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk as the country of jurisdiction or domicile of the obligor. The following tables reflect our top exposure at August 31, 2014 and November 30, 2013 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****August 31, 2014**

|               | Issuer Risk          |                       |                   | Counterparty Risk |                                 |                | Issuer and Counterparty Risk |                           |                           |
|---------------|----------------------|-----------------------|-------------------|-------------------|---------------------------------|----------------|------------------------------|---------------------------|---------------------------|
|               | Fair Value of        | Fair Value of         | Net Derivative    |                   |                                 |                | Cash and                     | Excluding Cash            | Including Cash            |
|               | Long Debt Securities | Short Debt Securities | Notional Exposure | Loans and Lending | Securities and Margin Financial | OTC Derivative | Cash and Cash Equivalents    | Cash and Cash Equivalents | Cash and Cash Equivalents |
| Germany       | \$ 245.2             | \$ (196.0)            | \$ 493.8          | \$                | \$ 105.9                        | \$ 2.7         | \$ 34.7                      | \$ 651.6                  | \$ 686.3                  |
| Great Britain | 397.3                | (200.1)               | (15.3)            | 4.3               | 35.4                            | 20.1           | 235.1                        | 241.7                     | 476.8                     |
| Italy         | 1,731.2              | (1,140.7)             | (127.9)           |                   | 1.5                             | 0.3            |                              | 464.4                     | 464.4                     |
| Canada        | 187.7                | (57.2)                | 18.0              |                   | 117.3                           | 7.8            | 2.6                          | 273.6                     | 276.2                     |
| Belgium       | 155.5                | (18.7)                |                   |                   | 4.4                             |                | 17.0                         | 141.2                     | 158.2                     |
| Hong Kong     | 17.4                 | (8.2)                 | 4.7               |                   | 1.5                             |                | 121.9                        | 15.4                      | 137.3                     |
| Puerto Rico   | 120.1                |                       |                   |                   |                                 |                |                              | 120.1                     | 120.1                     |
| Switzerland   | 51.4                 | (18.2)                | 4.1               |                   | 58.3                            | 14.7           | 0.5                          | 110.3                     | 110.8                     |
| Portugal      | 213.3                | (111.6)               |                   |                   |                                 |                |                              | 101.7                     | 101.7                     |
| Spain         | 379.4                | (286.7)               |                   |                   | 0.1                             | 0.1            | 0.7                          | 92.9                      | 93.6                      |
| <b>Total</b>  | <b>\$ 3,498.5</b>    | <b>\$ (2,037.4)</b>   | <b>\$ 377.4</b>   | <b>\$ 4.3</b>     | <b>\$ 324.4</b>                 | <b>\$ 45.7</b> | <b>\$ 412.5</b>              | <b>\$ 2,212.9</b>         | <b>\$ 2,625.4</b>         |

**November 30, 2013**

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

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

The table below reflects our exposure to the sovereign debt and economic derivative positions in Greece, Ireland, Italy, Portugal, and Spain at August 31, 2014, and our exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries. This table is presented in a manner consistent with how management views and monitors these exposures as part of our risk management framework. Our issuer exposure to these European countries arises primarily in the context of our market making activities and our role as a major dealer in the debt securities of these countries. While the economic derivative positions are presented on a notional basis, we believe this best reflects the underlying market risk due to interest rates or the issuer's credit as a result of our positions. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities.

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

|                        | August 31, 2014          |                           |                        |                  |                   |                 |
|------------------------|--------------------------|---------------------------|------------------------|------------------|-------------------|-----------------|
|                        | Fair Value               |                           | Notional Amount (4)    |                  |                   |                 |
|                        | Long Debt Securities (1) | Short Debt Securities (2) | Net Cash Inventory (3) | Long Derivatives | Short Derivatives | Net Derivatives |
| <b>Greece:</b>         |                          |                           |                        |                  |                   |                 |
| Sovereigns             | \$ 2.7                   | \$ 2.5                    | \$ 0.2                 | \$               | \$                | \$              |
| Corporations           | 11.0                     | 3.5                       | 7.5                    | 0.1              | 0.2               | (0.1)           |
| Financial Institutions | 1.6                      |                           | 1.6                    |                  |                   |                 |
| <b>Total Greece</b>    | <b>15.3</b>              | <b>6.0</b>                | <b>9.3</b>             | <b>0.1</b>       | <b>0.2</b>        | <b>(0.1)</b>    |
| <b>Ireland:</b>        |                          |                           |                        |                  |                   |                 |
| Sovereigns             | 6.0                      | 1.3                       | 4.7                    |                  |                   |                 |
| Corporations           | 5.4                      | 0.4                       | 5.0                    | 0.2              | 0.3               | (0.1)           |
| Financial Institutions | 30.9                     | 0.3                       | 30.6                   |                  |                   |                 |
| <b>Total Ireland</b>   | <b>42.3</b>              | <b>2.0</b>                | <b>40.3</b>            | <b>0.2</b>       | <b>0.3</b>        | <b>(0.1)</b>    |
| <b>Italy:</b>          |                          |                           |                        |                  |                   |                 |
| Sovereigns             | 1,465.3                  | 1,116.1                   | 349.2                  | 272.5(5)         | 381.5             | (109.0)         |
| Corporations           | 15.9                     | 11.9                      | 4.0                    | 0.8              | 19.7              | (18.9)          |
| Financial Institutions | 190.5                    | 12.7                      | 177.8                  |                  |                   |                 |
| Structured Products    | 59.6                     |                           | 59.6                   |                  |                   |                 |
| <b>Total Italy</b>     | <b>1,731.3</b>           | <b>1,140.7</b>            | <b>590.6</b>           | <b>273.3</b>     | <b>401.2</b>      | <b>(127.9)</b>  |
| <b>Portugal:</b>       |                          |                           |                        |                  |                   |                 |
| Sovereigns             | 166.8                    | 101.4                     | 65.4                   |                  |                   |                 |
| Corporations           | 0.6                      | 2.4                       | (1.8)                  |                  |                   |                 |
| Financial Institutions | 17.0                     | 7.8                       | 9.2                    |                  |                   |                 |
| Structured Products    | 28.9                     |                           | 28.9                   |                  |                   |                 |
| <b>Total Portugal</b>  | <b>213.3</b>             | <b>111.6</b>              | <b>101.7</b>           |                  |                   |                 |
| <b>Spain:</b>          |                          |                           |                        |                  |                   |                 |
| Sovereigns             | 248.0                    | 269.3                     | (21.3)                 |                  |                   |                 |
| Corporations           | 22.7                     | 12.7                      | 10.0                   |                  |                   |                 |
| Financial Institutions | 70.2                     | 4.7                       | 65.5                   |                  |                   |                 |
| Structured Products    | 38.4                     |                           | 38.4                   |                  |                   |                 |
| <b>Total Spain</b>     | <b>379.3</b>             | <b>286.7</b>              | <b>92.6</b>            |                  |                   |                 |

|                     |            |            |          |          |          |            |
|---------------------|------------|------------|----------|----------|----------|------------|
| Total               | \$ 2,381.5 | \$ 1,547.0 | \$ 834.5 | \$ 273.6 | \$ 401.7 | \$ (128.1) |
| Total Sovereign     | \$ 1,888.8 | \$ 1,490.6 | \$ 398.2 | \$ 272.5 | \$ 381.5 | \$ (109.0) |
| Total Non-sovereign | \$ 492.7   | \$ 56.4    | \$ 436.3 | \$ 1.1   | \$ 20.2  | \$ (19.1)  |

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

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

For the quarter ended August 31, 2014, our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain calculated on an average daily basis was as follows (in millions):

|                                                                 | Remaining Maturity<br>Less Than One Year | Remaining Maturity<br>Greater Than or Equal<br>to One Year | Total Average Balance |
|-----------------------------------------------------------------|------------------------------------------|------------------------------------------------------------|-----------------------|
| <b>Financial instruments owned</b>                              |                                          |                                                            |                       |
| <b>- Debt securities</b>                                        |                                          |                                                            |                       |
| Greece                                                          | \$                                       | \$ 6.0                                                     | \$ 6.0                |
| Ireland                                                         | 2.9                                      | 4.1                                                        | 7.0                   |
| Italy                                                           | 567.4                                    | 1,819.3                                                    | 2,386.7               |
| Portugal                                                        | 4.8                                      | 135.3                                                      | 140.1                 |
| Spain                                                           | 16.1                                     | 422.2                                                      | 438.3                 |
| <b>Total average fair value of<br/>long debt securities (1)</b> | <b>591.2</b>                             | <b>2,386.9</b>                                             | <b>2,978.1</b>        |
| <b>Financial instruments sold -<br/>Debt securities</b>         |                                          |                                                            |                       |
| Greece                                                          |                                          | 6.2                                                        | 6.2                   |
| Ireland                                                         | 1.2                                      | 0.8                                                        | 2.0                   |
| Italy                                                           | 195.7                                    | 1,433.1                                                    | 1,628.8               |
| Portugal                                                        | 1.1                                      | 97.6                                                       | 98.7                  |
| Spain                                                           | 7.3                                      | 413.4                                                      | 420.7                 |
| <b>Total average fair value of<br/>short debt securities</b>    | <b>205.3</b>                             | <b>1,951.1</b>                                             | <b>2,156.4</b>        |
| <b>Total average net fair value<br/>of debt securities</b>      | <b>385.9</b>                             | <b>435.8</b>                                               | <b>821.7</b>          |
| <b>Derivative contracts - long<br/>notional exposure Italy</b>  |                                          | <b>129.2(2)</b>                                            | <b>129.2</b>          |
| <b>Total average notional<br/>amount - long</b>                 |                                          | <b>129.2</b>                                               | <b>129.2</b>          |
| <b>Derivative contracts - short<br/>notional exposure Italy</b> |                                          | <b>248.5</b>                                               | <b>248.5</b>          |
| <b>Total average notional<br/>amount - short</b>                |                                          | <b>248.5</b>                                               | <b>248.5</b>          |

|                                                       |  |         |  |         |
|-------------------------------------------------------|--|---------|--|---------|
| Total average net derivative<br>notional exposure (3) |  | (119.3) |  | (119.3) |
|-------------------------------------------------------|--|---------|--|---------|

|                                                            |    |       |    |       |    |       |
|------------------------------------------------------------|----|-------|----|-------|----|-------|
| Total average net exposure to<br>select European countries | \$ | 385.9 | \$ | 316.5 | \$ | 702.4 |
|------------------------------------------------------------|----|-------|----|-------|----|-------|

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

In addition, our non-U.S. sovereign obligations recorded in financial instruments owned and financial instruments sold, not yet purchased are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion are executed with central clearing organizations. Accordingly, we utilize foreign sovereign obligations as underlying collateral for our repurchase financing arrangements. At August 31, 2014, repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Greece, Ireland, Italy, Portugal and Spain as follows (in millions):

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

|          | August 31, 2014    |                |            |
|----------|--------------------|----------------|------------|
|          | Reverse Repurchase |                |            |
|          | Agreements         | Repurchase     |            |
|          | (1)                | Agreements (1) | Net        |
| Greece   | \$                 | \$             | \$         |
| Ireland  | 3.7                | 115.4          | (111.7)    |
| Italy    | 1,365.0            | 1,582.4        | (217.4)    |
| Portugal | 117.3              | 174.0          | (56.7)     |
| Spain    | 279.2              | 361.3          | (82.1)     |
| Total    | \$ 1,765.2         | \$ 2,233.1     | \$ (467.9) |

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

Our collateral management of the risk due to exposure from these sovereign obligations is subject to our overall collateral and cash management risk framework. For further discussion regarding our cash and liquidity management framework and processes, see the *Liquidity, Financial Condition and Capital Resources* section herein.

*Operational Risk*

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

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

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

*Legal and Compliance Risk*

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

*New Business Risk*

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

*Reputational Risk*

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

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

**Item 4. Controls and Procedures.**

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of August 31, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of August 31, 2014 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in our internal control over financial reporting occurred during the quarter ended August 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

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

During the first quarter of 2014, we reached a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the SEC 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 are payments to trading counterparties impacted by those activities, approximately \$10.0 million of which is a fine payable to the U.S. Attorney's Office, and approximately \$4.0 million of which is a fine payable to the SEC. All such amounts were recognized in our year-end 2013 financial statements. At August 31, 2014, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately \$3.1 million. Additionally, pursuant to an undertaking required by the SEC settlement, Jefferies has retained an Independent Compliance Consultant.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Item 1A. Risk Factors**

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

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

None

**Item 6. Exhibits**

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Certificate of Formation of Jefferies Group LLC, effective as of March 1, 2013 is incorporated by reference to Exhibit 3.2 of Registrant's Form 8-K filed on March 1, 2013.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 3.2         | Certificate of Conversion of Jefferies Group LLC, effective as of March 1, 2013 is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on March 1, 2013.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 3.3         | Limited Liability Company Agreement of Jefferies Group LLC, dated as of March 1, 2013 is incorporated by reference to Exhibit 3.3 of Registrant's Form 8-K filed on March 1, 2013.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 4           | Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 12*         | Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 31.1*       | Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 31.2*       | Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 32*         | Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 101*        | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of August 31, 2014 and November 30, 2013; (ii) the Consolidated Statements of Earnings for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013; (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended August 31, 2014, the three and six months ended August 31, 2013 and the three months ended February 28, 2013; (iv) the Consolidated Statements of Changes in Equity for the nine months ended August 31, 2014, nine months ended November 30, 2013 and the three months ended February 28, 2013; (v) the Consolidated Statements of Cash Flows for the nine months ended August 31, 2014, six months ended August 31, 2013 and the |

three months ended February 28, 2013; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

**Table of Contents**

**SIGNATURES**

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

**JEFFERIES GROUP LLC**

(Registrant)

Date: October 8, 2014

By: /s/ Peregrine C. Broadbent  
Peregrine C. Broadbent

Chief Financial Officer

(duly authorized officer)