Jefferies Group LLC
Form 10-Q
July 09, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 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)

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

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

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

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

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

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

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

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

MAY 31, 2014

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands)

	May 31, 2014	November 30, 2013
ASSETS		
Cash and cash equivalents	$ 3,958,288	$ 3,561,119
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,288,517	3,616,602
Financial instruments owned, at fair value, including securities pledged of $13,994,936 and $13,253,537 at May 31, 2014 and November 30, 2013, respectively	17,143,518	16,650,043
Investments in managed funds	75,369	57,285
Loans to and investments in related parties	508,570	701,873
Securities borrowed	6,097,098	5,359,846
Securities purchased under agreements to resell	4,609,422	3,746,920
Securities received as collateral	126,106	11,063
Receivables:		
Brokers, dealers and clearing organizations	2,588,654	2,119,279
Customers	1,805,451	1,046,945
Fees, interest and other	290,838	251,072
Premises and equipment	234,258	202,467
Goodwill	1,725,117	1,722,346
Other assets	1,158,780	1,130,136
Total assets	$ 43,609,986	$ 40,176,996
LIABILITIES AND EQUITY		
Short-term borrowings	$ 12,000	$ 12,000
Financial instruments sold, not yet purchased, at fair value	8,172,300	7,271,613
Collateralized financings:		
Securities loaned	2,901,159	2,506,122
Securities sold under agreements to repurchase	11,668,130	10,779,845
Other secured financings	240,288	234,711
Obligation to return securities received as collateral	126,106	11,063
Payables:		
Brokers, dealers and clearing organizations	1,475,140	1,281,253
Customers	5,623,278	5,208,768
Accrued expenses and other liabilities	1,135,000	1,217,141
Long-term debt	6,729,484	6,232,806
Total liabilities	38,082,885	34,755,322

EQUITY		
Member s paid-in capital	5,455,461	5,280,420
Accumulated other comprehensive income:		
Currency translation adjustments	37,984	21,341
Additional minimum pension liability	2,759	2,759
Total accumulated other comprehensive income	40,743	24,100
Total member s equity	5,496,204	5,304,520
Noncontrolling interests	30,897	117,154
Total equity	5,527,101	5,421,674
Total liabilities and equity	$ 43,609,986	$ 40,176,996

Continued on next page.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION CONTINUED (UNAUDITED)

(In thousands)

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

	May 31, 2014	November 30, 2013
Assets		
Cash and cash equivalents	$ 175	$ 176
Financial instruments owned, at fair value		
Loans and other receivables		97,500
Investments, at fair value	374	412
Total financial instruments owned, at fair value	374	97,912
Other assets		2,275
Total assets	$ 549	$ 100,363
Liabilities		
Other secured financings	$ 222,000	$ 226,000
Accrued expenses and other liabilities		706
Total liabilities	$ 222,000	$ 226,706

See accompanying notes to consolidated financial statements.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share amounts)

	Successor	
	Three Months Ended May 31, 2014	Three Months Ended May 31, 2013
Revenues:		
Commissions	$ 167,378	$ 162,759
Principal transactions	183,416	134,571
Investment banking	331,149	277,134
Asset management fees and investment income from managed funds	(3,101)	10,527
Interest	283,540	258,665
Other	8,404	26,245
Total revenues	970,786	869,901
Interest expense	247,794	211,463
Net revenues	722,992	658,438
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries		3,368
Net revenues, less interest on mandatorily redeemable preferred interests of consolidated subsidiaries	722,992	655,070
Non-interest expenses:		
Compensation and benefits	404,876	373,880
Non-compensation expenses:		
Floor brokerage and clearing fees	54,020	48,902
Technology and communications	70,257	63,839
Occupancy and equipment rental	26,673	32,225
Business development	24,917	22,732
Professional services	25,345	29,519
Other	17,767	18,720
Total non-compensation expenses	218,979	215,937
Total non-interest expenses	623,855	589,817
Earnings before income taxes	99,137	65,253
Income tax expense	37,323	25,007
Net earnings	61,814	40,246

Net earnings attributable to noncontrolling interests	488	738
Net earnings attributable to Jefferies Group LLC	$ 61,326	$ 39,508

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		Predecessor
	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Revenues:			
Commissions	$ 329,441	$ 162,759	$ 146,240
Principal transactions	421,779	134,571	300,278
Investment banking	745,469	277,134	288,278
Asset management fees and investment income from managed funds	6,856	10,527	10,883
Interest	532,808	258,665	249,277
Other	31,473	26,245	27,004
Total revenues	2,067,826	869,901	1,021,960
Interest expense	445,806	211,463	203,416
Net revenues	1,622,020	658,438	818,544
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries		3,368	10,961
Net revenues, less interest on mandatorily redeemable preferred interests of consolidated subsidiaries	1,622,020	655,070	807,583
Non-interest expenses:			
Compensation and benefits	912,775	373,880	474,217
Non-compensation expenses:			
Floor brokerage and clearing fees	103,533	48,902	46,155
Technology and communications	134,563	63,839	59,878
Occupancy and equipment rental	53,175	32,225	24,309
Business development	51,393	22,732	24,927
Professional services	50,164	29,519	24,135
Other	35,011	18,720	14,475
Total non-compensation expenses	427,839	215,937	193,879
Total non-interest expenses	1,340,614	589,817	668,096
Earnings before income taxes	281,406	65,253	139,487
Income tax expense	104,200	25,007	48,645

Net earnings	177,206	40,246	90,842
Net earnings attributable to noncontrolling interests	3,448	738	10,704
Net earnings attributable to Jefferies Group LLC/common stockholders	$ 173,758	$ 39,508	$ 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)

	Successor	
	Three Months Ended May 31, 2014	Three Months Ended May 31, 2013
Net earnings	$ 61,814	$ 40,246
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	2,859	(11,466)
Total other comprehensive income (loss), net of tax (1)	2,859	(11,466)
Comprehensive income:	64,673	28,780
Net earnings attributable to noncontrolling interests	488	738
Comprehensive income attributable to Jefferies Group LLC	$ 64,185	$ 28,042

	Successor		Predecessor
	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Net earnings	$ 177,206	$ 40,246	$ 90,842
Other comprehensive income (loss), net of tax:			
Currency translation adjustments	16,643	(11,466)	(10,018)
Total other comprehensive income (loss), net of tax (1)	16,643	(11,466)	(10,018)
Comprehensive income:	193,849	28,780	80,824
Net earnings attributable to noncontrolling interests	3,448	738	10,704
Comprehensive income attributable to Jefferies Group LLC/ common stockholders	$ 190,401	$ 28,042	$ 70,120

(1) No other comprehensive income (loss) is attributable to noncontrolling interests.

See accompanying notes to consolidated financial statements.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In thousands, except per share amounts)

	Successor		Predecessor
	Six Months Ended May 31, 2014	Nine Months Ended November 30, 2013	Three Months Ended February 28, 2013
Common stock, par value $0.0001 per share			
Balance, beginning of period	$	$	$ 20
Issued			1
Balance, end of period	$	$	$ 21
Member s paid-in capital			
Balance, beginning of period	$ 5,280,420	$ 4,754,101	$
Contributions		362,255	
Net earnings to Jefferies Group LLC	173,758	161,191	
Tax benefit for issuance of share-based awards	1,283	2,873	
Balance, end of period	$ 5,455,461	$ 5,280,420	$
Additional paid-in capital			
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
Retained earnings			
Balance, beginning of period	$	$	$ 1,281,855
Net earnings to common shareholders			80,138
Dividends			(17,217)
Balance, end of period	$	$	$ 1,344,776
Accumulated other comprehensive income (loss) (2) (3)			
Balance, beginning of period	$ 24,100	$	$ (53,137)

Currency adjustment		16,643		21,341		(10,018)
Pension adjustment, net of tax				2,759		
Balance, end of period	$	40,743	$	24,100	$	(63,155)
Treasury stock, at cost						
Balance, beginning of period	$		$		$	(12,682)
Purchases						(166,541)
Returns / forfeitures						(1,922)
Balance, end of period	$		$		$	(181,145)
Total member s / common stockholders equity	$	5,496,204	$	5,304,520	$	3,331,927
Noncontrolling interests						
Balance, beginning of period	$	117,154	$	356,180	$	346,738
Net earnings attributable to noncontrolling interests		3,448		8,418		10,704
Contributions		31,076		100,210		
Distributions				(25)		(1,262)
Redemptions				(347,629)		
Deconsolidation of asset management entity		(120,781)				
Balance, end of period	$	30,897	$	117,154	$	356,180
Total equity	$	5,527,101	$	5,421,674	$	3,688,107

(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 loss during the six months ended May 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)

	Successor		Predecessor
	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Cash flows from operating activities:			
Net earnings	$ 177,206	$ 40,246	$ 90,842
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Depreciation and amortization	(10,052)	(1,511)	17,393
(Gain) loss on conversion option	(5,679)	7,109	
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	(37,893)	(28,540)	
Distributions received on investments in related parties	41,260	19,353	
Other adjustments	(3,909)	(1,329)	(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	329,559	671,426	352,891
Receivables:			
Brokers, dealers and clearing organizations	(466,846)	(845,322)	(1,027,671)
Customers	(756,884)	(144,938)	(130,543)
Fees, interest and other	(39,072)	(39,832)	(29,149)
Securities borrowed	(732,449)	(47,036)	(224,557)
Financial instruments owned	(661,495)	1,116,683	229,394
Loans to and investments in related parties			(197,166)
Investments in managed funds	12,469	4,835	(2,213)
Securities purchased under agreements to resell	(852,859)	106,129	(224,418)
Other assets	(31,835)	36,500	25,489
Payables:			
Brokers, dealers and clearing organizations	192,375	205,037	(1,031,335)
Customers	406,233	(18,807)	(111,139)
Securities loaned	390,165	780,579	(28,138)
Financial instruments sold, not yet purchased	1,071,678	(2,979,532)	2,327,667
Securities sold under agreements to repurchase	878,120	1,521,605	(197,493)

Accrued expenses and other liabilities	(88,488)	151,616	(267,336)
Net cash (used in) provided by operating activities	(188,396)	557,639	(394,170)
Cash flows from investing activities:			
Contributions to loans to and investments in related parties	(941,725)	(345,955)	
Distributions from loans to and investments in related parties	1,131,661	644,666	
Net payments on premises and equipment	(59,595)	(10,071)	(10,706)
Deconsolidation of asset management entity	(137,856)		
Cash received from contingent consideration	3,979	1,284	1,203
Net cash (used in) provided by investing activities	(3,536)	289,924	(9,503)

Continued on next page.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS CONTINUED (UNAUDITED)

(In thousands)

	Successor		Predecessor
	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Cash flows from financing activities:			
Excess tax benefits from the issuance of share-based awards	$ 1,364	$ 1,857	$ 5,682
Proceeds from short-term borrowings	6,081,157	3,838,000	6,744,000
Payments on short-term borrowings	(6,081,157)	(3,938,000)	(6,794,000)
Proceeds from secured credit facility	655,000	265,000	900,000
Payments on secured credit facility	(790,000)	(450,000)	(990,007)
Net proceeds from other secured financings	5,577	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
Proceeds from contributions of noncontrolling interests	31,076	27,200	
Payments on distributions to noncontrolling interests		(306,830)	(1,262)
Net cash provided by (used in) financing activities	584,239	(457,837)	733,538
Effect of exchange rate changes on cash and cash equivalents	4,862	(4,205)	(4,502)
Net increase in cash and cash equivalents	397,169	385,521	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	$ 3,958,288	$ 3,403,479	$ 3,017,958
Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for:			

Interest	$ 460,219	$ 195,409	$ 178,836
Income taxes paid (refunds), net	60,220	(7,475)	(34,054)

Noncash financing activities:

In connection with the transaction with Leucadia National Corporation, Jefferies Group LLC recorded acquisition accounting adjustments 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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

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

On March 1, 2013, Jefferies Group LLC, through a series of transactions, became an indirect wholly owned subsidiary of Leucadia National Corporation (Leucadia) (referred to herein as the Leucadia Transaction). Each outstanding share of Jefferies Group LLC was converted into 0.81 of a share of Leucadia common stock (the Exchange Ratio). Leucadia did not assume nor guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 are now convertible into Leucadia common shares at a price that reflects the Exchange Ratio and the 3.25% Series A Convertible Cumulative Preferred Stock of Jefferies Group, Inc. was exchanged for a comparable series of convertible preferred shares of Leucadia. Jefferies Group LLC continues to operate as a full-service investment banking firm and as the holding company of its various regulated and unregulated operating subsidiaries, 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 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.

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

Basis of Presentation

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Intercompany accounts and transactions are eliminated in consolidation.

Immaterial 2013 Adjustments

As indicated in our Quarterly Report on Form 10-Q for the three months ended August 31, 2013 and our Annual Report on Form 10-K for the year ended November 30, 2013, we have made correcting adjustments (referred to as adjustments) to our historical financial statements for the first 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

(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 as of the reported date.

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

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

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

prices and inputs that are current as of the measurement date. For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

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

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

Valuation Process for Financial Instruments

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

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

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

(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. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods.

Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

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

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

Income Taxes

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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. As of May 31, 2014, we have reserved approximately $5.1 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Share-based Compensation

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

Foreign Currency Translation

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

Earnings per Common Share

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

Prior to the 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 are currently evaluating the impact of the new guidance on 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.

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 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):

Purchase Price		
Jefferies common stock outstanding		205,368,031
Less: Jefferies common stock owned by Leucadia		(58,006,024)
Jefferies common stock acquired by Leucadia		147,362,007
Exchange ratio		0.81
Leucadia s shares issued (excluding for Jefferies shares held by Leucadia)		119,363,226
Less: restricted shares issued for share-based payment awards (1)		(6,894,856)
Leucadia s shares issued, excluding share-based payment awards		112,468,370
Closing price of Leucadia s common stock (2)	$	26.90

Fair value of common shares acquired by Leucadia		3,025,399
Fair value of 3.25% cumulative convertible preferred shares (3)		125,000
Fair value of shares-based payment awards (4)		343,811
Fair value of Jefferies shares owned by Leucadia (5)		1,259,891
Total purchase price	**$**	**4,754,101**

(1) Represents shares of restricted stock included in Jefferies common stock outstanding that contained a future service requirement as of March 1, 2013.

(2) The value of the shares of common stock exchanged with Jefferies shareholders was based upon the closing price of Leucadia s common stock at February 28, 2013, the last trading day prior to the date of acquisition.

(3) Represents Leucadia s 3.25% Cumulative Convertible Preferred Shares issued in exchange for Jefferies Group, Inc. s 3.25% Series A-1 Convertible Cumulative Preferred Stock.

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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
Total assets	$ 38,036,242
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:	
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
Total liabilities	$ 34,646,341
Noncontrolling interests	356,180

Fair value of net assets acquired, excluding goodwill	$ 3,033,721
Goodwill	$ 1,720,380

(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.

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

(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 as of May 31, 2014 and November 30, 2013 by level within the fair value hierarchy (in thousands):

	May 31, 2014				
	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting (1)	Total
Assets:					
Financial instruments owned:					
Corporate equity securities	$ 1,997,684	$ 345,139	$ 16,402	$	$ 2,359,225
Corporate debt securities		3,171,520	31,648		3,203,168
Collateralized debt obligations		290,292	42,313		332,605
U.S. government and federal agency securities	2,176,254	74,996			2,251,250
Municipal securities		690,649			690,649
Sovereign obligations	1,540,017	1,018,348			2,558,365
Residential mortgage-backed securities		3,024,940	71,962		3,096,902
Commercial mortgage-backed securities		579,591	24,246		603,837
Other asset-backed securities		13,603	45,444		59,047
Loans and other receivables		1,426,045	138,643		1,564,688
Derivatives	87,612	2,813,166	913	(2,648,507)	253,184
Investments at fair value		5,361	118,071		123,432
Physical commodities		47,166			47,166
Total financial instruments owned	$ 5,801,567	$ 13,500,816	$ 489,642	$ (2,648,507)	$ 17,143,518
Cash and cash equivalents	$ 3,958,288	$	$	$	$ 3,958,288
Investments in managed funds	$	$ 19,250	$ 56,119	$	$ 75,369
Cash and securities segregated and on deposit for regulatory purposes (2)	$ 3,288,517	$	$	$	$ 3,288,517
Securities received as collateral	$ 126,106	$	$	$	$ 126,106
Total Level 3 assets			$ 545,761		

Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	$ 1,632,106	$ 52,160	$ 38	$	$ 1,684,304
Corporate debt securities		1,510,841	2,780		1,513,621
U.S. government and federal agency securities	1,554,835				1,554,835
Municipal securities					
Sovereign obligations	1,517,111	716,275			2,233,386
Residential mortgage-backed securities		16,837			16,837
Loans		872,322	31,534		903,856
Derivatives	75,585	2,881,585	16,195	(2,747,077)	226,288
Physical commodities		39,173			39,173
Total financial instruments sold, not yet purchased	$ 4,779,637	$ 6,089,193	$ 50,547	$ (2,747,077)	$ 8,172,300
Obligation to return securities received as collateral	$ 126,106	$	$	$	$ 126,106
Other secured financings	$	$	$ 20,288	$	$ 20,288
Embedded conversion option	$	$ 3,895	$	$	$ 3,895

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

(2) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of $564.7 million.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	November 30, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
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	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
Cash and cash equivalents	$ 3,561,119	$	$	$	$ 3,561,119
Investments in managed funds	$	$	$ 57,285	$	$ 57,285
Cash and securities segregated and on deposit for regulatory purposes (3)	$ 3,616,602	$	$	$	$ 3,616,602
Securities received as collateral	$ 11,063	$	$	$	$ 11,063
Total Level 3 assets			$ 514,347		
Liabilities:					
Financial instruments sold,					
Corporate equity securities	$ 1,782,903	$ 40,358	$ 38	$	$ 1,823,299
Corporate debt securities		1,346,078			1,346,078
U.S. government and federal agency securities	1,324,326				1,324,326
Sovereign obligations	1,360,269	471,088			1,831,357
Residential mortgage-backed securities		34,691			34,691

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

(1) During the nine months ended November 30, 2013, we transferred listed equity options with a fair value of $403.0 million within Financial instruments owned and $423.0 million within Financial instruments sold, not yet purchased from Level 1 to Level 2 as adjustments to the exchange closing price are necessary to best reflect the fair value of the population at its exit price.

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

(3) Cash and securities segregated and on deposit for regulatory purposes include U.S. government securities with a fair value of $304.2 million.

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:

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

26

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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. Non-callable U.S. agency securities are generally categorized within Level 1 and callable U.S. agency securities are categorized within Level 2 of the fair value hierarchy.

Municipal Securities

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

Sovereign Obligations

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

Residential Mortgage-Backed Securities

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

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Physical Commodities

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

Investments at Fair Value and Investments in Managed Funds

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	May 31, 2014		
	Fair Value (6)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (1)	$ 38,315	$	Monthly, Quarterly
High Yield Hedge Funds(2)	232		
Fund of Funds(3)	388	94	
Equity Funds(4)	69,047	27,409	
Convertible Bond Funds(5)	3,647		At Will
Total(7)	$ 111,629	$ 27,503	

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

(1) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At May 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 $15.6 million at May 31, 2014. The remaining investments in this category cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. We are unable to estimate when the underlying assets will be liquidated.

(2)

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

(3) Includes investments in fund of funds that invest in various private equity funds. At May 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.

(4) At May 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 May 31, 2014 and November 30, 2013, this category includes investments in equity funds managed by us with a fair value of $56.6 million and $54.4 million and unfunded commitments of $25.8 million and $39.2 million, respectively.

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

(6) Where fair value is calculated based on net asset value, fair value has been derived from each of the funds capital statements.

(7) Investments at fair value in the Consolidated Statements of Financial Condition at May 31, 2014 and November 30, 2013 include $87.2 million and $66.9 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table. We have unfunded commitments to such investments of $-0- and $3.3 million in aggregate at May 31, 2014 and November 30, 2013, respectively.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Other Secured Financings

Other secured financings include the notes issued by consolidated VIEs, which are classified as Level 2 within the fair value hierarchy. Fair value is based on recent transaction prices. In addition, at May 31, 2014, Other secured financings includes $20.3 million related to transfers of loans accounted for as secured financings rather than as sales and classified as Level 3 within the fair value hierarchy.

Embedded Conversion Option

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

Pricing Information

At May 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:

	May 31, 2014		November 30, 2013	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	12%	20%	12%	25%
Recently observed transaction prices	4%	5%	5%	4%
External pricing services	72%	70%	68%	66%
Broker quotes	3%	2%	3%	3%
Valuation techniques	9%	3%	12%	2%
	100%	100%	100%	100%

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Successor Three Months Ended May 31, 2014 (3)							
	Balance, February 28, 2014	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, May 31, 2014	Change in unrealized gains/ (losses) relating to instruments still held at May 31, 2014 (1)
Assets:								
Financial instruments owned:								
Corporate equity securities	$ 12,341	$ (178)	$ 90	$ (84)	$	$ 4,233	$ 16,402	$ (178)
Corporate debt securities	29,315	5,659	1,937	(5,831)		568	31,648	7,999
Collateralized debt obligations	66,028	4,706	19,146	(49,636)	(331)	2,400	42,313	238
Residential mortgage-backed securities	116,992	(791)	10,955	(24,618)	(459)	(30,117)	71,962	(422)
Commercial mortgage-backed securities	17,486	(903)	18,026	(21,038)	(1,189)	11,864	24,246	(1,933)
Other asset-backed securities	2,375	(314)	15,686		(438)	28,135	45,444	(314)
Loans and other receivables	128,832	11,933	42,278	(48,064)	(21,482)	25,146	138,643	11,922
Investments, at fair value	118,268	2,872	7,660	(4,101)		(6,628)	118,071	224
Investments in managed funds	59,528	(8,151)	11,305			(6,563)	56,119	(8,151)
Liabilities:								
Financial instruments sold, not yet purchased:								

Corporate equity securities	$ 1,015	$ (977)	$	$	$	$	$ 38	$ 558
Corporate debt securities		(84)	(4,082)	3,012		3,934	2,780	$ 84
Net derivatives (2)	5,773	9,485	(2,150)	2,149	25		15,282	(9,485)
Loans	10,260	62	(9,629)	18,995	139	11,707	31,534	(57)
Other secured financings	30,394		(992)		(9,114)		20,288	

(1) Realized and unrealized gains/losses are reported in Principal transactions in the Consolidated Statements of Earnings.
(2) Net derivatives represent Financial instruments owned Derivatives and Financial instruments sold, not yet purchased Derivatives.
(3) There were no issuances during the three months ended May 31, 2014.

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

During the three months ended May 31, 2014, transfers of assets of $95.4 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of $5.5 million, commercial mortgage-backed securities of $14.2 million and other asset-backed securities of $29.9 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of $26.3 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Corporate equity securities of $11.6 million, and corporate debt securities of $0.6 million due to lack of observable market transactions;
- Collateralized debt obligations of $7.1 million which have little to no transparency in trade activity;

During the three months ended May 31, 2014, transfers of assets of $66.4 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of $35.6 million, commercial mortgage-backed securities of $2.3 million and other asset-backed securities of $1.8 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of $4.7 million, loans and other receivables of $1.1 million and investments at fair value of $6.6 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 investments in managed funds of $6.7 million due to an increase in observable market transactions.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

During the three months ended May 31, 2014, there were transfers of loan liabilities of $11.7 million from Level 2 to Level 3 due to a decrease in observable inputs in the valuation. There were $3.9 million transfers of corporate debt liabilities from Level 2 to Level 3 due to a lower number of observable market transactions.

Net gains on Level 3 assets were $14.8 million and net losses on Level 3 liabilities were $8.5 million for the three months ended May 31, 2014. Net gains on Level 3 assets were primarily due to increased valuations of certain loans and other receivables, collateralized debt obligations, corporate debt securities and investments at fair value, partially offset by a decrease in valuation of certain corporate equity securities, residential and 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, partially offset by decrease in valuation of certain corporate equity and 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 six months ended May 31, 2014 (in thousands):

	Successor Six Months Ended May 31, 2014								
	Balance, November 30, 2013	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances	Net transfers into/ (out of) Level 3	Balance, May 31, 2014	Change in unrealized ga (losses) relating to instrument still held at May 31, 201
ssets:									
nancial instruments owned:									
orporate equity securities	$ 9,884	$ (1,583)	$ 608	$ (370)	$	$	$ 7,863	$ 16,402	$ (494
orporate debt securities	25,666	5,116	3,835	(3,224)			255	31,648	7,420
ollateralized debt bligations	37,216	14,169	36,200	(55,963)			10,691	42,313	5,656
esidential mortgage-backed curities	105,492	(4,114)	21,893	(37,356)	(529)		(13,424)	71,962	(1,324
ommercial ortgage-backed securities	17,568	(2,191)	32,449	(29,864)	(1,710)		7,994	24,246	(3,236
ther asset-backed securities	12,611	(537)	17,361	(5,496)	(438)		21,943	45,444	(569

oans and other receivables	145,890	3,946	92,579	(88,674)	(26,685)		11,587	138,643	3,382
vestments, at fair value	101,242	27,757	30,160	(33,684)			(7,404)	118,071	25,110
vestments in managed nds	57,285	(11,284)	13,407				(3,289)	56,119	(11,284
iabilities:									
nancial instruments sold, ot yet purchased:									
orporate equity securities	$ 38	$	$	$	$	$	$	$ 38	$
orporate debt securities		(203)	(28,319)	31,431			(129)	2,780	203
et derivatives (2)	6,905	11,591	(179)	(21)	318		(3,332)	15,282	(11,591
oans	22,462	754	(22,491)	27,908	139		2,762	31,534	(57
ther secured financings	8,711				(9,114)	20,691		20,288	

(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 Six Months Ended May 31, 2014

During the six months ended May 31, 2014, transfers of assets of $95.1 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

33

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- Non-agency residential mortgage-backed securities of $20.9 million, commercial mortgage-backed securities of $8.4 million and other asset-backed securities of $25.5 million for which no recent trade activity was observed for purposes of determining observable inputs;

- Loans and other receivables of $14.2 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

- Corporate equity securities of $11.5 million, and corporate debt securities of $0.3 million due to lack of observable market transactions;

- Collateralized debt obligations of $14.3 million which have little to no transparency in trade activity.

During the six months ended May 31, 2014, transfers of assets of $58.9 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of $34.3 million, commercial mortgage-backed securities of $0.4 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 $3.6 million, loans and other receivables of $2.6 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 $3.6 million and investments in managed funds $3.5 million due to an increase in observable market transactions.

During the six months ended May 31, 2014, there were transfers of loan liabilities of $2.8 million from Level 2 to Level 3 due to a decrease in observable inputs in the valuation. There were $3.3 million transfers of net derivative liabilities from Level 3 to Level 2 and $0.1 million transfers of corporate debt securities from Level 2 to Level 3 due to an increase in observable inputs used in the valuing of derivative contracts and an increase in observable market transactions, respectively.

Net gains on Level 3 assets were $31.3 million and net losses on Level 3 liabilities were $12.1 million for the six months ended May 31, 2014. Net gains on Level 3 assets were primarily due to increased valuations of certain corporate debt securities, collateralized debt obligations, loans and other receivables and investments at fair value, partially offset by a decrease in valuation of certain corporate equity securities, residential and commercial mortgage-backed securities, other asset backed securities and investments in managed funds. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments and loan positions, partially offset by decrease in valuation of 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 three months ended May 31, 2013 (in thousands):

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Successor Three Months Ended May 31, 2013 (3)							
	Balance, February 28, 2013	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, May 31, 2013	Change in unrealized gains/ (losses) relating to instruments still held at May 31, 2013 (1)
Assets:								
Financial instruments owned:								
Corporate equity securities	$ 13,234	$ 2,906	$ 5,023	$ (2,984)	$	$ 1,398	$ 19,577	$ 2,058
Corporate debt securities	31,820	(2,867)	918	(11,989)		733	18,615	(2,242)
Collateralized debt obligations	29,776	6,698	17,864	(6,270)		(2,944)	45,124	6,148
Residential mortgage-backed securities	169,426	(86)	57,750	(71,534)	(5,436)	(6,354)	143,766	(367)
Commercial mortgage-backed securities	17,794	(2,905)	1,403	(2,744)	(1,578)	4,098	16,068	(3,835)
Other asset-backed securities	1,252	(4)				196	1,444	(4)
Loans and other receivables	170,986	(5,049)	160,409	(24,741)	(188,268)	4,159	117,496	(6,925)
Investments, at fair value	70,067	(1,197)	5,000		(2,493)	4,987	76,364	(1,349)
Investments in managed funds	59,976	(927)	2,532		(6,562)	122	55,141	(926)
Liabilities:								
Financial instruments sold, not yet purchased:								
Corporate equity securities	$ 38	$	$	$	$	$	$ 38	$
	$ 1,542	$	$ (1,542)					$

Residential mortgage-backed securities								
Net derivatives (2)	11,185	(386)					10,799	386
Loans	7,398		(7,398)	15,212			15,212	
Other secured financings						2,294	2,294	

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

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

During the three months ended May 31, 2013, transfers of assets of $54.9 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

Non-agency residential mortgage-backed securities of $29.7 million and commercial mortgage-backed securities of $5.6 million for which no recent trade activity was observed for purposes of determining observable inputs;

Loans and other receivables of $6.9 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2.

Corporate equity securities of $2.7 million and corporate debt securities of $2.0 million due to lack of observable market transactions;

Collateralized debt obligations of $2.8 million which have little to no transparency in trade activity;

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

During the three months ended May 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 $36.0 million and commercial mortgage-backed securities of $1.5 million for which market trades were observed in the period for either identical or similar securities;

- Collateralized debt obligations of $5.7 million and loans and other receivables of $2.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

- Corporate equity securities of $1.3 million and corporate debt securities of $1.2 million due to an increase in observable market transactions.

During the three months ended May 31, 2013, there were $2.3 million of 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 $3.4 million and net gains on Level 3 liabilities were $0.4 million for the three months ended May 31, 2013. Net losses on Level 3 assets were primarily due to decreased valuations of certain loans and other receivables, commercial mortgage-backed securities, corporate debt securities, investments at fair value, investments in managed funds and residential mortgage-backed securities, partially offset by an increase in valuation of certain collateralized debt obligations and corporate equity securities. Net gains on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

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

	Predecessor Three Months Ended February 28, 2013 (3)							
	Balance, November 30, 2012	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3	Balance, February 28, 2013	Change in unrealized gains/ (losses) relating to instruments still held at

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

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

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

(3) There were no issuances during the three months ended February 28, 2013.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

- Non-agency residential mortgage-backed securities of $78.4 million and commercial mortgage-backed securities of $1.3 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Corporate debt securities of $10.8 million and corporate equity securities of $0.1 million due to lack of observable market transactions;
- Collateralized debt obligations of $5.3 million which have little to no transparency in trade activity;
- Loans and other receivables of $4.8 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2.

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

- Non-agency residential mortgage-backed securities of $73.5 million, commercial mortgage-backed securities of $10.9 million and $0.2 million of other asset-backed securities for which market trades were observed in the period for either identical or similar securities;
- Loans and other receivables of $19.9 million and collateralized debt obligations of $2.4 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate equity securities of $4.7 million due to an increase in observable market transactions.

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

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at May 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

(Unaudited)

May 31, 2014

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	$ 16,402				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.3 to 3.5	3.5
Corporate debt securities	$ 29,739				
		Scenario analysis	Estimated recovery percentage	25% to 50%	42%
Collateralized debt obligations	$ 40,213				
		Discounted cash flows	Constant prepayment rate	10% to 20%	13%
			Constant default rate	0% to 3%	2%
			Loss severity	30% to 85%	57%
			Yield	5% to 43%	20%
Residential mortgage-backed securities	$ 71,962				
		Discounted cash flows	Constant prepayment rate	1% to 50%	13%
			Constant default rate	1% to 100%	20%
			Loss severity	0% to 90%	50%
			Yield	3% to 14%	9%
Commercial mortgage-backed securities	$ 24,246				
		Discounted cash flows	Yield	9% to 18%	12%
			Cumulative loss rate	0% to 9%	4%
Other asset-backed securities	$ 45,444				
		Comparable pricing	Comparable bond price	$100	
		Discounted cash flows	Constant prepayment rate	0%	
			Constant default rate	0%	
			Loss severity	0%	
			Yield	4%	
Loans and other receivables	$ 130,068				
		Comparable pricing	Comparable bond or loan price	$93.50 to $100.375	$ 98
		Market approach	Yield	3% to 4%	4%
			EBITDA (a) multiple	3 to 8	6
		Scenario analysis	Estimated recovery percentage	10% to 100%	88%

Derivatives	$ 913				
Forward contract		Comparable pricing	Comparable loan price	$100.38	
Investments at fair value					
Private equity securities	$ 26,463				
		Comparable pricing	Comparable share price	$27	

Financial Instruments Sold, Not Yet Purchased	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weight Averag
Corporate debt securities	$ 2,780				
		Comparable pricing	Comparable bond price	$30	
Derivatives	$ 15,033				
Unfunded Commitment		Comparable pricing	Comparable loan price	$92.25 to $102.20	$ 94
Loans	$ 31,534				
		Comparable pricing	Comparable loan price	$100.38	

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

39

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

November 30, 2013

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	$ 8,034				
Non-exchange traded securities					
Warrants		Market approach	EBITDA (a) multiple	4.0 to 5.5	4.53
		Option model	Volatility	36%	
Corporate debt securities	$ 17,699				
		Scenario analysis	Estimated recovery percentage	24%	
		Comparable pricing	Comparable bond or loan price	$69.10 to $70.50	$69.91
		Market approach	Yield	13%	
Collateralized debt obligations	$ 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%
Residential mortgage-backed securities	$ 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%
Commercial mortgage-backed securities	$ 17,568				
		Discounted cash flows	Yield	12% to 20%	14%
			Cumulative loss rate	5% to 28.2%	11%
Other asset-backed securities	$ 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%
Loans and other receivables	$ 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%
Derivatives	$ 1,493				
Loan commitments		Comparable pricing	Comparable bond or loan price	$100.875	
Investments at fair value	$ 30,203				
Private equity securities		Comparable pricing	Comparable share price	$414	
		Market approach	Discount rate	15% to 30%	23%

nancial Instruments Sold, Not Yet urchased	**Fair Value (in thousands)**	**Valuation Technique**	**Significant Unobservable Input(s)**	**Input / Range**	**Weight Averag**
erivatives	$ 8,398				
uity options		Option model	Volatility	36.25% to 41%	39%
oans	8,106				
		Comparable pricing	Comparable bond or loan price	$101.88	

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

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above tables. At May 31, 2014 and November 30, 2013, asset exclusions consisted of $104.2 million and $127.7 million, respectively, primarily comprised of investments in private equity securities, investments in reinsurance contracts and certain corporate loans. At May 31, 2014 and November 30, 2013, liability exclusions consisted of $1.2 million and $14.4 million, respectively of corporate loan commitments.

40

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

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

Private equity securities, corporate debt securities, 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-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 structural 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

(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):

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Financial Instruments Owned:				
Loans and other receivables	$ 2,038	$ 1,430	$ 13,474	$ 3,924
Financial Instruments Sold:				
Loans	$ (1,555)	$ (2,591)	$	$
Loan commitments	(9,024)	(11,090)	(5,421)	(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):

	May 31, 2014	November 30, 2013
Financial Instruments Owned:		
Loans and other receivables (2)	$ 276,420	$ 264,896
Loans greater than 90 days past due (1) (2)		

(1) The aggregate fair value of loans that were 90 or more days past due was $-0- million and $-0- at May 31, 2014 and November 30, 2013.

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

There were no loan receivables on nonaccrual status at May 31, 2014 and November 30, 2013.

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.)

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 May 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. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands, except contract amounts). See Note 7, Collateralized Transactions, for information related to offsetting of certain secured financing transactions.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	May 31, 2014 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts				
Exchange-traded	$ 1,828	44,290	$ 704	64,517
Cleared OTC	876,853	2,650	930,315	2,386
Bilateral OTC	793,513	1,913	747,723	830
Foreign exchange contracts				
Exchange-traded	166	53,799	339	50,513
Bilateral OTC	474,467	11,146	488,424	12,430
Equity contracts				
Exchange-traded	543,402	1,818,081	541,357	1,750,939
Bilateral OTC	10,220	2,531	13,856	850
Commodity contracts				
Exchange-traded	68,481	844,560	69,765	837,632
Bilateral OTC	128,079	4,330	151,310	4,082
Credit contracts				
Cleared OTC	3,386	4	6,550	9
Bilateral OTC	1,295	15	23,022	31
Total gross derivative assets/ liabilities:				
Exchange-traded	613,877		612,165	
Cleared OTC	880,239		936,865	
Bilateral OTC	1,407,574		1,424,335	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(606,007)		(606,007)	
Cleared OTC	(875,817)		(889,732)	
Bilateral OTC	(1,166,683)		(1,251,338)	
Net amounts per Consolidated Statements of Financial Condition (3)	$ 253,183		$ 226,288	

(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

(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

(Unaudited)

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

	Successor			Predecessor
Gains (Losses)	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Interest rate contracts	$ (49,738)	$ (49,946)	$ 29,381	$ 38,936
Foreign exchange contracts	(4,281)	1,156	4,135	11,895
Equity contracts	(73,529)	(164,630)	33,892	(22,021)
Commodity contracts	21,794	37,980	21,513	19,585
Credit contracts	(11,441)	(15,330)	(11,010)	(3,742)
Total	$ (117,195)	$ (190,770)	$ 77,911	$ 44,653

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

	OTC Derivative Assets (1) (2) (4)				
	0 12 Months	1 5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	Total
Commodity swaps, options and forwards	$ 52,226	$ 1,435	$	$	$ 53,661
Equity swaps and options	1,297				1,297
Total return swaps	6,559				6,559
Foreign currency forwards, swaps and options	85,715	15,283	51	(14,167)	86,882
Interest rate swaps, options and forwards	80,802	114,082	129,218	(70,493)	253,609
Total	$ 226,599	$ 130,800	$ 129,269	$ (84,660)	402,008
Cross product counterparty netting					(17,810)
Total OTC derivative assets included in Financial instruments owned					$ 384,198

(1) At May 31, 2014, we held exchange traded derivative assets and other credit agreements with a fair value of $11.6 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 May 31, 2014, cash collateral received was $143.0 million.
(3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
(4) Derivative fair values include counterparty netting within product category.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	OTC Derivative Liabilities (1) (2) (4)				
	0 12 Months	1 5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	Total
Commodity swaps, options and forwards	$ 78,158	$ 9,117	$	$	$ 87,275
Credit default swaps	51	8,744	898		9,693
Equity swaps and options			9,300		9,300
Total return swaps	2,200				2,200
Foreign currency forwards, swaps and options	88,516	16,380		(14,167)	90,729
Interest rate swaps, options and forwards	56,392	111,734	166,652	(70,493)	264,285
Total	$ 225,317	$ 145,975	$ 176,850	$ (84,660)	463,482
Cross product counterparty netting					(17,810)
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					$ 445,672

(1) At May 31, 2014, we held exchange traded derivative liabilities and other credit agreements with a fair value of $22.2 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 May 31, 2014, cash collateral pledged was $241.6 million.

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

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

At May 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	$ 179,090
BBB- to BBB+	52,347
BB+ or lower	82,789

Unrated	69,972
Total	$ 384,198

(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 May 31, 2014 and November 30, 2013 is $47.3 million and $170.2 million, respectively, for which we have posted collateral of $42.4 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 May 31, 2014 and November 30, 2013, we would have been required to post an additional $5.6 million and $49.4 million, respectively, of collateral to our counterparties.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 May 31, 2014 and November 30, 2013, the approximate fair value of securities received as collateral by us that may be sold or repledged was $22.5 billion and $21.9 billion, respectively.

At May 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 May 31, 2014 and November 30, 2013, $126.1 million and $11.1 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

Offsetting of Securities Financing Agreements

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

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

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	May 31, 2014					
(in thousands)	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
Assets						
Securities borrowing arrangements	$ 6,097,098	$	$ 6,097,098	$ (807,137)	$ (877,639)	$ 4,412,322
Reverse repurchase agreements	$ 11,402,865	$ (6,793,443)	$ 4,609,422	$ (230,295)	$ (4,355,647)	$ 23,480
Liabilities						
Securities lending arrangements	$ 2,901,159	$	$ 2,901,159	$ (807,137)	$ (2,063,606)	$ 30,416
Repurchase agreements	$ 18,461,573	$ (6,793,443)	$ 11,668,130	$ (230,295)	$ (10,996,643)	$ 441,192

(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 $4,358.7 million of securities borrowing arrangements, for which we have received securities collateral of $4,242.4 million, and $431.0 million of repurchase agreements, for which we have pledged securities collateral of $448.4 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

(Unaudited)

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

(1) Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty s outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty s default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met.

(2) Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty s rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

(3) Amounts include $3,818.4 million of securities borrowing arrangements, for which we have received securities collateral of $3,721.8 million, and $1,410.0 million of repurchase agreements, for which we have pledged securities collateral of $1,438.9 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.

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 $3,288.5 million and $3,616.6 million at May 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. Revenues subsequent to such identification and isolation, including revenues recognized from the sales of the beneficial interests to investors, are reflected as net underwriting revenues. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

secured borrowing is recognized in Other secured financings. The carrying value of assets and liabilities resulting from transfers made as part of our securitization activities for which we have not relinquished control over the related assets was $20.3 million and $20.3 million, respectively, at May 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.

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

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

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Transferred assets	$ 1,599.7	$ 3,226.6	$ 2,184.0	$ 2,735.2
Proceeds on new securitizations	1,600.1	3,228.2	2,190.9	2,751.3
Net revenues	0.9	1.6	4.8	12.9
Cash flows received on retained interests	$ 20.4	$ 28.9	$ 11.1	$ 32.3

Assets received as proceeds in the form of mortgage-backed-securities or collateralized loan obligations issued by the SPEs have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies and Note 5, Fair Value Disclosures. We have no explicit or implicit arrangements to provide additional financial support to these SPEs and have no liabilities related to these SPEs at May 31, 2014 and November 30, 2013. Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these SPEs. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these SPEs, although the securities are included in Financial instruments owned   Mortgage- and asset-backed securities. To the extent the securities purchased through these market-marking activities meet specific thresholds and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities table presented in Note 9, Variable Interest Entities.

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

	May 31, 2014	
Securitization Type	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	$ 11,466.7	$ 254.3
U.S. government agency commercial mortgage-backed securities	3,655.2	100.2
Collateralized loan obligations	728.5	8.6

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Note 9. Variable Interest Entities

Variable interest entities (VIEs) are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Financing of agency and non-agency mortgage- and other asset-backed securities through financing vehicles utilizing master repurchase agreements, participation certificates and revolving loan commitments,

Management and performance fees in the Jefferies Umbrella Fund, and

Loans to and investments in investment fund vehicles.

Consolidated VIEs

The following table presents information about the assets and liabilities of our consolidated VIEs, which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of May 31, 2014 and November 30, 2013. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. We have aggregated our consolidated VIEs based upon principal business activity.

	May 31, 2014		November 30, 2013	
(in millions)	Securitization Vehicles	Other	Securitization Vehicles	Other
Cash	$	$ 0.2	$	$ 0.2
Financial instruments owned		0.4	97.5	0.4
Securities purchased under agreement to resell (1)	220.0		195.1	
Other assets			2.3	
	$ 220.0	$ 0.6	$ 294.9	$ 0.6
Other secured financings (2)	$ 220.0	$	$ 292.5	$
Other liabilities		0.2	2.1	0.2

$ 220.0	$ 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 $66.5 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at November 30, 2013.

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

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. Our variable interests in this vehicle consists of the securities retained. The assets of the VIE consist of a corporate loan, which is available for the benefit of the vehicle s beneficial interest holders. 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 May 31, 2014 and no gain or loss was recognized upon deconsolidation.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Nonconsolidated VIEs

We also hold variable interests in VIEs in which we are not the primary beneficiary and do not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. We have not provided financial or other support to these VIEs during the three and six months ended May 31, 2014 and three months ended May 31, 2013, and the three months ended February 28, 2013. We have no explicit or implicit arrangements to provide additional financial support to these VIEs at May 31, 2014 and November 30, 2013.

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

	May 31, 2014			
	Carrying Amount		Maximum	
(in millions)	Assets	Liabilities	Exposure to loss	VIE Assets
Collateralized loan obligations (1)	$ 174.1	$ 0.3	$ 678.2	$ 3,564.6
Agency mortgage- and asset-backed securitizations (2) (3)	859.4		859.4(5)	13,570.6
Non-agency mortgage- and asset-backed securitizations (2) (3)	956.3		956.3(5)	217,889.8
Asset management vehicle (4)	3.6		3.6(5)	394.6
Private equity vehicles (4)	45.2		61.4	94.8
Total	$ 2,038.6	$ 0.3	$ 2,558.9	$ 235,514.4

(1) Assets consist of debt securities and participation interests in corporate loans accounted for at fair value, which are included within Financial instruments owned. Liabilities consist of forward sale agreements and a guarantee provided to a CLO managed by Jefferies Finance, which are accounted for at fair value and included within Financial instruments sold, not yet purchased.

(2) VIE assets represent the unpaid principal balance of the assets in these vehicles at May 31, 2014, and represent the underlying assets that provide the cash flows supporting our variable interests.

(3) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned.

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

(5) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

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

(1) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned. Liabilities consist of forward sale agreements accounted for at fair value, which are included within Financial instruments sold, not yet purchased.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(2) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2013 and represent the underlying assets that provide the cash flows supporting our variable interests.
(3) Assets consist of debt securities accounted for at fair value, which are included within Financial instruments owned.
(4) Assets consist of equity interests, which are included within Investments in managed funds.
(5) Our maximum exposure to loss in these non-consolidated VIEs is limited to our investment, which is represented by the financial statement carrying amount of our purchased or retained interests.

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

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

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

Asset Management Vehicle. We manage the Jefferies Umbrella Fund, an umbrella structure company that invests primarily in convertible bonds and enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. Accounting changes to consolidation standards under generally accepted accounting principles have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and we are not the primary beneficiary as of May 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). As of May 31, 2014 and November 30, 2013, we funded approximately $58.8 million and $47.0 million, respectively, of our commitment. The carrying amount of our equity investment was $43.9 million and $39.2 million at May 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 May 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.

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.

As of May 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. As of May 31, 2014, we have funded $331.1 million of our $600.0 million commitment, leaving $268.9 million unfunded. The investment commitment is scheduled to expire on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party.

Jefferies Finance has executed a Secured Revolving Credit Facility with us and MassMutual, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total committed Secured Revolving Credit Facility is $700.0 million at May 31, 2014. The facility is scheduled to mature on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party. At May 31, 2014 and November 30, 2013, we have funded $0.0 million and $123.8 million, respectively, of our $350.0 million commitment. During the three and six months ended May 31, 2014, $0.6 million and $1.1 million of interest income and $0.4 million and $1.1 million of unfunded commitment fees, respectively, are included in the Consolidated Statements of Earnings related to the Secured Revolving Credit Facility. During the three months ended May 31 and February 28, 2013, we earned interest income of $0.4 million and $4.1 million and unfunded commitment fees of $0.4 million and $0.3 million, respectively.

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

	May 31, 2014	November 30, 2013
Total assets	$ 4,226.6	$ 3,271.9
Total liabilities	3,564.4	2,597.0
Total equity	662.2	674.9
Our total equity balance	331.1	337.3

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The net earnings of Jefferies Finance were $29.3 million and $58.5 million for the three and six months ended May 31, 2014, respectively, and $20.3 million and $36.7 million for the three months ended May 31 and February 28, 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 $38.8 million and $86.4 million during the three and six months ended May 31, 2014, respectively, and $35.2 million and $39.9 million during the three months ended May 31 and 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 $3.4 million and $7.7 million during the three and six months ended May 31, 2014, respectively, and $6.2 million and $0.8 million during the three months ended May 31 and February 28, 2013, respectively, which are recognized as Business development expenses on the Consolidated Statements of Earnings. Under a service agreement, we charged Jefferies Finance $7.0 million and $28.7 million for services provided during the three and six months ended May 31, 2014, respectively, and $5.4 million and $15.7 million for the three months ended May 31 and February 28, 2013, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were $14.2 million and $31.1 million at May 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. As of May 31, 2014 and November 30, 2013, we have funded $108.1 million and $175.5 million, respectively, of our $291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

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

	May 31, 2014	November 30, 2013
Total assets	$ 899.0	$ 974.9
Total liabilities	568.4	507.9
Total equity	330.6	467.0
Our total equity balance	160.3	226.5

The net earnings of Jefferies LoanCore were $6.8 million and $11.8 million for the three and six months ended May 31, 2014, respectively, and $41.7 million and $7.3 million for the three months ended May 31 and February 28, 2013, respectively.

Under a service agreement, we charged Jefferies LoanCore $16,000 and $0.1 million for the three and six months ended May 31, 2014, respectively, and $0.1 million and $0.6 million for the three months ended May 31 and February 28, 2013, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were $4,900 and $230,000 at May 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 $0.3 million and $0.6 million, respectively, during the three and six months ended May 31, 2014.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Knight Capital

On August 6, 2012, we entered into a Securities Purchase Agreement with Knight Capital Group, Inc., a publicly-traded global financial services firm, (the Agreement). Under the Agreement, we purchased preferred stock, which contained certain conversion options, in exchange for cash consideration of $125.0 million. On August 29, 2012, we exercised our conversion options and converted our holding of Series A Securities to common stock. On July 1, 2013, Knight Capital Group, Inc. merged with GETCO Holding Company, LLC (the merged company referred to as KCG Holdings, Inc.). In connection with the consummation of the merger, we received cash consideration of $3.75 per share, or approximately $192.0 million, with respect to approximately 63% of our holdings in Knight Capital Group, Inc. and stock consideration of one third of a share of KCG Holdings, Inc. common stock for each share of Knight Capital Group Inc. common stock for the remainder of our holdings. As of May 31, 2014, we owned approximately 18.0% 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 May 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 $7.6 million and $6.6 million for three and six months ended May 31, 2014, respectively, and $(5.7) million and $26.5 million for the three months ended May 31 and 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 as of March 31, 2014, the most recently available public financial information for the company (in millions):

	March 31, 2014
Total assets	$ 7,030.3
Total liabilities	5,464.1
Total equity	1,566.2

Knight s net income was $35.7 million for the three months ended March 31, 2014.

We have separately entered into securities lending transactions with Knight in the normal course of our capital markets activities. At May 31, 2014, the balances of securities borrowed and securities loaned were $10.8 million and $2.1 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, as of March 1, 2013, certain existing intangible assets and new intangible assets were identified and recorded at their fair values. See Note 4, Leucadia and Related Transactions for further information.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Goodwill

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

	May 31, 2014	November 30, 2013
Capital Markets	$ 1,720,017	$ 1,717,246
Asset Management	5,100	5,100
Total goodwill	$ 1,725,117	$ 1,722,346

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

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Nine Months Ended November 30, 2013	Three Months Ended February 28, 2013
Balance, at beginning of period	$ 1,724,883	$ 1,722,346	$ 1,720,380	$ 365,670
Less: Disposal			(5,700)(1)	
Add: Contingent consideration				2,394(2)
Add: Translation adjustments	234	2,771	7,666	(1,287)
Balance, at end of period	$ 1,725,117	$ 1,725,117	$ 1,722,346	$ 366,777(3)

(1) As a result of a restructuring of our ownership interest in the commodities asset management business, we no longer hold a controlling interest and accordingly do not consolidate this business. In addition, we sold Jefferies International Management Limited to Leucadia. Goodwill associated with these entities was included in the net assets disposed of in the transactions.

(2) Contingent consideration recorded during the three months ended February 28, 2013 relates to the lapse of certain conditions as specified in the purchase agreements associated with an acquisition in 2007.

(3) Predecessor Company goodwill as of February 28, 2013 was reduced to $-0- as of March 1, 2013, as a result of purchase accounting adjustments.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Intangible Assets

The following tables present the gross carrying amount, accumulated amortization, net carrying amount and weighted average amortization period of identifiable intangible assets as of May 31, 2014 and November 30, 2013 (in thousands):

	May 31, 2014			
	Gross cost	Accumulated amortization	Net carrying amount	Weighted average remaining lives (years)
Customer relationships	$ 137,205	$ (22,095)	$ 115,110	14.3
Trade name	133,468	(4,930)	128,538	33.8
Exchange and clearing organization membership interests and registrations	14,979		14,979	N/A
	$ 285,652	$ (27,025)	$ 258,627	

	November 30, 2013				
	Gross cost	Impairment losses	Accumulated amortization	Net carrying amount	Weighted average remaining lives (years)
Customer relationships	$ 136,740	$	$ (17,567)	$ 119,173	14.8
Trade name	132,967		(2,966)	130,001	34.3
Exchange and clearing organization membership interests and registrations	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, as of August 1, 2013. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices, and a qualitative assessment of the remainder of our intangible assets. In applying our quantitative assessment, we recognized an impairment loss of $378,000 on certain exchange memberships based on a decline in fair value at August 1, 2013 as observed based on quoted sales prices. With regard to our qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions, the utilization of the assets and the replacement costs associated with the assets since the most recent valuation date of March 1, 2013 as part of acquisition accounting, we have concluded that it is not more likely than not that the intangible assets are impaired.

For intangible assets with a finite life, aggregate amortization expense amounted to $3.2 million and $6.4 million for the three and six months ended May 31, 2014, respectively, and $6.8 million and $0.4 million for the three months ended May 31 and February 28, 2013, respectively, which is included in Other expenses on the Consolidated Statements of Earnings.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Remainder of fiscal 2014	$ 6,334
Year ended November 30, 2015	12,668
Year ended November 30, 2016	12,668
Year ended November 30, 2017	12,668
Year ended November 30, 2018	12,668

Note 12. Short-Term Borrowings

Bank loans represent short-term borrowings that are payable on demand and generally bear interest at a spread over the federal funds rate. Bank loans are typically overnight loans used to finance financial instruments owned or clearing related balances, but are not part of our systemic funding model. Bank loans at May 31, 2014 and November 30, 2013 were $12.0 million and $12.0 million, respectively. At May 31, 2014, the interest rate on short-term borrowings outstanding is 0.66% per annum. Average daily bank loans outstanding for the three and six months ended May 31, 2014 were $181.3 million and $97.6 million, respectively, and for the three months ended May 31 and February 28, 2013 were $66.3 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	May 31, 2014	November 30, 2013
Unsecured Long-Term Debt		
5.875% Senior Notes, due June 8, 2014 (effective interest rate of 1.51%)	$ 250,243	$ 255,676
3.875% Senior Notes, due November 9, 2015 (effective interest rate of 2.17%)	512,096	516,204
5.5% Senior Notes, due March 15, 2016 (effective interest rate of 2.52%)	368,235	373,178
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)	848,235	854,011
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)	845,739	858,425
2.375% Euro Medium Term Notes, due May 20, 2020 (effective rate of 2.42%)	679,951	
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)	860,021	866,801
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)	4,762	4,792
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)	624,482	625,626
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)	382,381	383,224
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (1)	353,037	359,281
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)	513,197	513,343
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)	422,105	422,245
	$ 6,664,484	$ 6,032,806
Secured Long-Term Debt		
Credit facility, due August 26, 2014	65,000	200,000

	$ 6,729,484	$ 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 May 31, 2014 and November 30, 2013, includes the fair value of the conversion feature of $3.9 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 $3.7 million and a gain of $5.7 million for the three and six months ended May 31, 2014 and a loss of $7.1 million for the three months ended May 31, 2013.

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. As of June 12, 2014, each $1,000 debenture is currently convertible into 22.0775 shares of Leucadia s common stock (equivalent to a conversion price of approximately $45.29 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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceed $1,200 per $1,000 debenture. As of March 1, 2013, the conversion option to Leucadia common shares embedded within the debentures meets the definition of a derivative contract, does not qualify to be accounted for within member s equity and is not clearly and closely related to the economic interest rate or credit risk characteristics of our debt. 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. 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 May 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 May 31, 2014 and November 30, 2013 (in thousands):

	May 31, 2014	November 30, 2013
Jefferies Structured Alpha Fund B, LLC (1)	$	$ 115,958
Global Equity Event Opportunity Fund, LLC (2)	25,543	
Other	5,354	1,196

Noncontrolling interests	$ 30,897	$ 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 include $75.0 million invested by Leucadia.

(2) At May 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 $19.2 million and $19.7 million at May 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

U.S. Pension Plan	Successor Three Months Ended May 31, 2014	Successor Six Months Ended May 31, 2014	Predecessor Three Months Ended May 31, 2013	Predecessor Three Months Ended February 28, 2013
Components of net periodic pension (income) cost:				
Service cost	$ 56	$ 112	$ 56	$ 56
Interest cost on projected benefit obligation	607	1,214	557	529
Expected return on plan assets	(789)	(1,578)	(680)	(665)
Net amortization	(36)	(72)		300
Net periodic pension (income)/cost	$ (162)	$ (324)	$ (67)	$ 220

German Pension Plan	Successor Three Months Ended May 31, 2014	Successor Six Months Ended May 31, 2014	Predecessor Three Months Ended May 31, 2013	Predecessor Three Months Ended February 28, 2013
Components of net periodic pension cost:				
Service cost	$ 11	$ 22	$ 16	$ 16
Interest cost on projected benefit obligation	221	442	213	220
Net amortization	63	125	44	45
Net periodic pension cost	$ 295	$ 589	$ 273	$ 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 six months ended May 31, 2014 and we expect to make $1.0 million in contributions to the plan during the remainder of the 2014 fiscal year. We did not contribute to the German Pension Plan during the six months ended May 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 three and six months ended May 31, 2014 and three months ended May 31, 2013, and for the three months ended February 28, 2013.

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

The total compensation cost associated with restricted stock and RSUs amounted to $18.1 million, $50.0 million and $23.4 million for three months and six months ended May 31, 2014 and the three months ended May 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. As of May 31, 2014, we had $129.5 million of total unrecognized compensation cost allocated to us related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 2.3 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.

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 $1.4 million, $4.8 million and $1.6 million for the three and six months ended May 31, 2014 and the three months ended May 31, 2013, respectively, and $2.6 million for the three months ended February 28, 2013.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 $35.0 million, $78.2 million and $47.0 million for the three months and six months ended May 31, 2014 and the three months ended May 31, 2013, respectively, and $48.2 million for the three months ended February 28, 2013. At May 31, 2014 and November 30, 2013, the remaining unamortized amount of these awards was $274.1 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 Three Months Ended February 28, 2013	
Earnings for basic earnings per common share:		
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
Earnings for diluted earnings per common share:		
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
		5,882

Less: Allocation of earnings to participating securities (1)		
Net earnings available to common shareholders	$	75,272
Shares:		
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
Earnings per common share:		
Basic	$	0.35
Diluted	$	0.35

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Note 18. Income Taxes

As of May 31, 2014 and November 30, 2013, we had approximately $136.1 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 $90.6 million and $85.5 million at May 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. As of May 31, 2014 and November 30, 2013, we had interest accrued of approximately $26.3 million and $22.9 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the six months ended May 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	2006
New Jersey	2007
New York State	2001
New York City	2003

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 19. Commitments, Contingencies and Guarantees

Commitments

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

	Expected Maturity Date					
	2014	2015	2016 and 2017	2018 and 2019	2020 and Later	Maximum Payout
Equity commitments (1)	$ 1.6	$ 7.5	$ 0.9	$	$ 475.4	$ 485.4
Loan commitments (1)	10.8	26.3	515.1	175.9		728.1
Mortgage-related commitments	862.0	387.9	496.5			1,746.4
Underwriting commitments	85.9					85.9
Forward starting reverse repos and repos	206.2					206.2
	$ 1,166.5	$ 421.7	$ 1,012.5	$ 175.9	$ 475.4	$ 3,252.0

(1) Equity and loan 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 as of May 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 Later	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Investment grade	$	$ 69.4	$	$ 69.4	$	$ 69.4
Non-investment grade		78.9		78.9	17.9	61.0
Unrated	14.8	641.0		655.8	58.1	597.7

Total	$ 14.8	$ 789.3	$	$ 804.1	$ 76.0	$ 728.1

(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 $91.9 million of funded loans included in Financial instruments owned Loans and Loans to and investments in related parties, and a $15.9 million net liability related to lending commitments recorded in Financial instruments sold Derivatives and Financial instruments owned Derivatives in the Consolidated Statement of Financial Condition as of May 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. As of May 31, 2014, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was $31.8 million.

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Additionally, as of May 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. As of May 31, 2014, we had $378.1 million of outstanding loan commitments to clients.

Loan commitments outstanding at May 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 $67.2 million at May 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.

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 May 31, 2014, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately $5.1 million.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 May 31, 2014 (in millions):

	Expected Maturity Date					
Guarantee Type:	2014	2015	2016 and 2017	2018 and 2019	2020 and Later	Notional/ Maximum Payout
Derivative contracts non-credit related	$ 37,589.9	$ 1,141.8	$ 43.7	$ 1.2	$ 534.5	$ 39,311.1
Written derivative contracts credit related				420.8		420.8
Total derivative contracts	$ 37,589.9	$ 1,141.8	$ 43.7	$ 422.0	$ 534.5	$ 39,731.9

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

	External Credit Rating						
	AAA/ Aaa	AA/Aa	A	BBB/Baa	Below Investment Grade	Unrated	Notional/ Maximum Payout
Credit related derivative contracts:							
Index credit default swaps	$ 344.8	$	$	$	$	$	$ 344.8
Single name credit default swaps	$	$	$	$ 61.0	$ 15.0	$	$ 76.0

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or one-sided component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We 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 May 31, 2014, the fair value of derivative contracts meeting the definition of a guarantee is approximately $110.7 million.

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

Stand by Letters of Credit. At May 31, 2014, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of $31.6 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

(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 which may limit distributions from the broker-dealers. Jefferies and Jefferies Execution have elected to calculate minimum capital requirements under the alternative method permitted by Rule 15c3-1 in calculating net capital. Jefferies Bache, LLC is registered as a Futures Commission Merchant and is subject to Rule 1.17 of the Commodities Futures Trading Commission (CFTC). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

As of May 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	$ 1,090,453	$ 1,016,424
Jefferies Execution	5,307	5,057

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	$ 196,264	$ 80,938

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

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

Note 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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):

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Capital Markets:				
Net revenues	$ 717.8	$ 1,594.7	$ 647.9	$ 807.6
Expenses	$ 617.1	$ 1,322.8	$ 582.2	$ 660.6
Asset Management:				
Net revenues	$ 5.2	$ 27.3	$ 10.5	$ 10.9
Expenses	$ 6.7	$ 17.8	$ 7.6	$ 7.5
Total:				
Net revenues	$ 723.0	$ 1,622.0	$ 658.4	$ 818.5
Expenses	$ 623.8	$ 1,340.6	$ 589.8	$ 668.1

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

	May 31, 2014	November 30, 2013
Segment assets:		

Capital Markets	$ 43,025.9	$ 39,276.8
Asset Management	584.1	900.2
Total assets	$ 43,610.0	$ 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

(Unaudited)

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Americas (1)	$ 538,930	$ 1,231,985	$ 522,146	$ 663,588
Europe (2)	159,983	346,774	117,043	133,104
Asia	24,079	43,261	19,249	21,852
Net revenues	$ 722,992	$ 1,622,020	$ 658,438	$ 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 May 31, 2014 and November 30, 2013, loans to and/or equity investments in Private Equity Related Funds were in aggregate $63.7 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 May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Interest income	$	$	$ 137	$ 516
Other revenues and investment (loss) income	(9,036)	(11,459)	(973)	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 May 31, 2014 and November 30, 2013, we have commitments to purchase $433.1 million and $300.0 million, respectively, in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Officers, Directors and Employees. At May 31, 2014 and November 30, 2013, we had $15.5 million and $13.9 million, respectively, of loans outstanding to certain of our employees (none of whom are executive officers or directors) that are included in Other assets on the Consolidated Statements of Financial Condition.

Leucadia. Under a service agreement, we charge Leucadia for certain services which, for the three and six months ended May 31, 2014 amounted to $9.2 million and $17.2 million, respectively. As of May 31, 2014 and November 30, 2013, we had a receivable from Leucadia of $9.8 million and $2.3 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. As of May 31, 2014 and November 30, 2013, we had a payable to Leucadia of $12.3 million and $6.7 million respectively, which is included within Other liabilities on the Consolidated Statements of Financial Condition.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

On March 18, 2014, we sold our investment in Harbinger Group Inc., consisting of approximately 18.6 million shares, to Leucadia at the closing price on that date. In addition, on February 28, 2014, we sold our ownership interest in CoreCommodity Capital, LLC (formerly CoreCommodity Management, LLC, our commodity asset management business) to Leucadia at a fair value. During the three months ended May 31 and 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.

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 ;
- the discussion of our risk management policies, procedures and methodologies contained in this report under the caption Risk Management included within Management s Discussion and Analysis of Financial Condition and Results of Operations;
- the notes to the consolidated financial statements contained in this report; and
- cautionary statements we make in our public documents, reports and announcements.

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

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

Consolidated Results of Operations

On March 1, 2013, Jefferies Group, Inc. converted into a limited liability company (renamed Jefferies Group LLC) and became an indirect wholly owned subsidiary of Leucadia National Corporation (Leucadia) pursuant to an agreement with Leucadia (the Leucadia Transaction). Each outstanding share of Jefferies Group LLC was converted into 0.81 of a common share of Leucadia (the Exchange Ratio). Jefferies Group LLC continues to operate as a full-service investment banking firm and as the holding company to its various regulated and unregulated operating subsidiaries, 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 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 periods (i) three and six months ended May 31, 2014 and the three months ended May 31, 2013 (the Successor period) and (ii) the three months ended February 28, 2013 (the Predecessor period). The following table provides an overview of our consolidated results of operations (in thousands):

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Net revenues, less mandatorily redeemable preferred interests	$ 722,992	$ 1,622,020	$ 655,070	$ 807,583
Non-interest expenses	623,855	1,340,614	589,817	668,096
Earnings before income taxes	99,137	281,406	65,253	139,487
Income tax expense	37,323	104,200	25,007	48,645
Net earnings	61,814	177,206	40,246	90,842
Net earnings to noncontrolling interests	488	3,448	738	10,704
Net earnings attributable to Jefferies Group LLC / common stockholders	61,326	173,758	39,508	80,138
Effective tax rate	37.6%	37.0%	38.3%	34.9%

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. 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 May 31, 2014

Net revenues, less mandatorily redeemable preferred interests, for the three months ended May 31, 2014 were $723.0 million. Our fixed income and equities revenues reflect the challenging market conditions with continued tapering of the U.S. Federal reserve monetary stimulus, persistent global geopolitical concerns and, towards the end of the quarter, a sharp reduction in volatility to record lows across many asset classes manifesting in lower client activity. Reflected within Net revenues for the second quarter of 2014 is positive income of $26.4 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 $39.6 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 $623.9 million for the three months ended May 31, 2014 and include Compensation and benefits expense of $404.9 million recognized commensurate with the level of net revenues for the three month period. Compensation and benefits expenses as a percentage of Net revenues was 56.0% for the three months ended May 31, 2014. Non-interest expense includes $2.1 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of $3.5 million associated with intangible assets and internally developed software recognized at the Leucadia Transaction date and $3.9 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

At May 31, 2014, we had 3,785 employees globally, slightly below our headcount at November 30, 2013 of 3,797.

Six Months Ended May 31, 2014

Net revenues, less mandatorily redeemable preferred interests, for the six months ended May 31, 2014 were $1,622.0 million reflecting strong revenues in investment banking and equities. Our fixed income revenues were solid, particularly given challenging market conditions, continued tapering of the U.S. Federal reserve monetary stimulus and global economic pressures. The results for the six months of 2014 reflect within Net revenues positive income of $52.5 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 $26.5 million in aggregate from our investments in Knight and Harbinger.

Non-interest expenses were $1,340.6 million for the six months ended May 31, 2014 and include Compensation and benefits expense of $912.8 million recognized commensurate with the level of net revenues for the six month period. Compensation and benefits expenses as a percentage of Net revenues was 56.3% for the six months ended May 31, 2014. Non-interest expense includes $4.2 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of $7.0 million associated with intangible assets and internally developed software recognized at the Leucadia Transaction date, and $7.5 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements.

Three Months Ended May 31, 2013

Net revenues, less mandatorily redeemable preferred interests, for the three months ended May 31, 2013 were $655.1 million. The results for the second quarter of 2013 reflect within Net revenues positive income of $24.4 million representing the amortization of premiums arising upon increasing the balance our long-term debt to fair value in connection with the pushdown accounting for the Leucadia Transaction and an unrealized mark down of $5.7 million on our share ownership in Knight Capital, Inc.

Non-interest expenses were $589.8 million for the three months ended May 31, 2013. Non-interest expenses include Compensation and benefits expense of $373.9 million for the quarter recognized commensurate with the level of net revenues. Compensation costs as a percentage of Net revenues for the three months ended May 31, 2013 were 57.1%. Non-interest expense also includes approximately $22.1 in costs associated with the closing of the March 1, 2013 Leucadia Transaction. These costs are comprised of $9.0 million in investment banking and filing fees, $2.1 million in additional lease expense related to recognizing existing leases at their current market value, incremental amortization expense of $6.1 million associated with intangible assets and internally developed software recognized at the Leucadia Transaction date, and $4.9 million of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements at the Leucadia Transaction date. In addition, occupancy and equipment includes a $7.3 million charge associated with our relocating certain staff and abandoning certain London office space.

At May 31, 2013, we had 3,785 employees globally.

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%.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Revenues by Source

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

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

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

	Successor						Predecessor	
	Three Months Ended May 31, 2014		Six Months Ended May 31, 2014		Three Months Ended May 31, 2013		Three Months Ended February 28, 2013	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues
Equities	$ 177,238	24%	$ 366,061	23%	$ 141,590	21%	$ 167,354	21%
Fixed income	217,706	30	503,634	31	229,187	35	352,029	43
Total sales and trading	394,944	54	869,695	54	370,777	56	519,383	64
Equity	83,726	12	178,464	11	53,564	8	61,380	7
Debt	147,000	20	320,038	20	133,714	20	140,672	17
Capital markets	230,726	32	498,502	31	187,278	28	202,052	24
Advisory	100,423	14	246,967	15	89,856	14	86,226	11
Total investment banking	331,149	46	745,469	46	277,134	42	288,278	35
Asset management fees and investment income (loss) from managed funds:								

Asset management fees	4,927	1	14,373	1	11,332	2	11,083	1
Investment income (loss) from managed funds	(8,028)	(1)	(7,517)	(1)	(805)		(200)	
Total	(3,101)		6,856		10,527	2	10,883	1
Net revenues	722,992	100%	1,622,020	100%	658,438	100%	818,544	100%
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries					3,368		10,961	
Net revenues, less mandatorily redeemable preferred interests	$ 722,992		$ 1,622,020		$ 655,070		$ 807,583	

Net Revenues

Net revenues for the three months ended May 31, 2014 were $723.0 million, reflecting solid revenues in investment banking, and a steady performance in Equities and Fixed Income despite lower client trading volume. Further, European and Asian revenues for the second quarter of 2014 were the third highest quarter on record. The three months results include gains of $39.6 million from our investments in Knight and Harbinger.

Net revenues for the six months ended May 31, 2014 of $1,622.0 million. The six months results include gains of $26.5 million from our investments in Knight and Harbinger.

JEFFERIES GROUP LLC AND SUBSIDIARIES

Net revenues for the three months ended May 31, 2013 of $658.4 million reflect improved performance in our core equity sales and trading business and continued strength in our investment banking platform. However, there was a significant slowdown in fixed income activity during March and April 2013, that offset better fixed income results in May 2013. The three months ended May 31, 2013 include an unrealized loss of $5.7 million reflecting the Knight stock price at the end of the 2013 second quarter compared to the end of the prior quarter. Asset management revenues from management fees and investment income were consistent across all asset classes of funds and investment income.

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

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

Equities Revenue

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

Three Months Ended May 31, 2014

Total equities revenue was $177.2 million for the three months ended May 31, 2014. Equities revenue includes gains of $39.6 million from our investment in Knight and Harbinger and an unrealized gain of $3.7 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 $11.9 million related to the amortization of premiums arising from the adjustment of our long-term debt to fair value as part of accounting for the Leucadia Transaction.

The second 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. Towards the end of the fiscal quarter, our equity option trading desk benefited from a decrease in volatility, although offset by reduced trading revenues on our U.S. equity cash desk driven by decreased customer flows, and lower trading revenues from equity block trading. Our securities financing business contributed solidly to revenues during the quarter while reduced liquidity in the secondary market due to fewer new issuances led to lower revenues from our convertibles desk. In Europe, with the economy continuing to show signs of strengthening, increased commission and trading revenues resulted from improved customer flows. Asian equity commissions for the second quarter of 2014 also were up driven by an increase in client activity.

Revenue contributions from our Jefferies Finance joint venture was consistently strong while revenue from our LoanCore joint venture was lower during the three month period ended May 31, 2014 as compared to the three months ended May 31, 2013 due to fewer securitizations during the 2014 six month period.

Six Months Ended May 31, 2014

Total equities revenue was $366.1 million for the six months ended May 31, 2014. Equities revenue includes unrealized gains of $26.5 million from our investments in Knight and Harbinger and an unrealized gain of $5.7 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

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 $23.6 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.

Equities revenues from our Jefferies Finance and LoanCore joint ventures decreased during the six month period ended May 31, 2014 as compared to the three months ended May 31, 2013 and the three months ended February 28, 2013 due to fewer loan closings and securitizations by the ventures over the periods. In addition, during the three months ended February 28, 2014, we deconsolidated certain of our strategic investment entities as additional third party investments were received during the period. Accordingly, the results from this business reflected in equities revenues for the six months of 2014 represent trading revenues solely from our managed accounts. Results from our strategic investments business in prior periods represented 100% of strategic investment trading revenues, a portion of which was attributed to noncontrolling interests.

Three Months Ended May 31, 2013

Total equities revenue was $141.6 million for the three months ended May 31, 2013. Equities revenue includes within Principal transaction revenues an unrealized loss of $5.7 million recognized on our investment in Knight Capital and an unrealized loss of $3.2 million from marking to market the option on Leucadia shares embedded in our 3.875% Senior Convertible debenture. In addition, included within Interest expense is positive income from the allocation to our business of the amortization of premiums arising upon adjusting our long-term debt to fair value as part of acquisition accounting.

U.S. equity market conditions during the second quarter of fiscal 2013 were characterized by increasing stock prices, although trading volume was low. In equity markets, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average increased by 9.4%, 7.7% and 7.6%, respectively, over the quarter, with the S&P Index reaching a new high in May 2013. The New York Stock Exchange and NASDAQ exchange volumes were down 12% and 2%, respectively, compared to the three months ended May 31, 2012. Although market volumes were subdued, our U.S. equity cash and electronic trading desks experienced greater customer flow for the second quarter of 2013 as compared to prior periods. In Europe, liquidity has returned to the market as compared to 2012 aiding results, although our results are still impacted by relatively low trading volumes. Additionally, Asian equity commissions are stronger, particularly in Japan with new monetary policies increasing trading volumes on the Nikkei Exchange. Our Securities Finance desk also contributed solidly to Equities revenue for the 2013 second quarter. The performance of certain strategic investment strategies were strong during the 2013 second quarter.

Equity revenues from our investments in our joint ventures, Jefferies Finance and LoanCore, were impacted by additional interest expense on new long term debt issued by both ventures during the second quarter of 2013, the proceeds of which have not yet been deployed in the business.

Three Months Ended February 28, 2013

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

Fixed Income Revenue

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

JEFFERIES GROUP LLC AND SUBSIDIARIES

Three Months Ended May 31, 2014

Fixed income revenue was $217.7 million for the three months ended May 31, 2014. Included within Interest expense for the period is positive income of $14.5 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 acquisition accounting.

The second quarter of fiscal 2014 was characterized by mixed U.S. economic data combined with increased geopolitical risks. Credit spreads continued to tighten and volatility was extremely low. These conditions impacted trading revenues in our U.S. rates, corporates, emerging markets and mortgage business, though this effect was partially offset by investors migrating to certain parts of the latter asset classes in search of higher yields. While investor interest in high yield asset classes continues to be strong, distressed credit trading was more subdued in the second quarter than during the first quarter of 2014. Municipal securities as an asset class continue to outperform and experience increasing customer inflows benefiting our municipal securities business. Yields in Europe also tightened during the three months ended May 31, 2014 and, during the latter part of the quarter, economic data for certain European countries negatively impacted results for the period from our international rates and mortgage businesses. Futures sales and trading revenues for the three months ended May 31, 2014 declined as compared to the same 2013 period primarily attributable to low volatility in the foreign currency markets as well as generally subdued client demand.

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

Six Months Ended May 31, 2014

Fixed income revenue was $503.6 million for the six months ended May 31, 2014. Included within Interest expense for the period is positive income of $28.9 million from the allocation to our fixed income business of a portion of the amortization of premiums arising from adjusting our long-term debt to fair value as part of acquisition accounting.

The first part of the six month period ended May 31, 2014 was characterized by weaker U.S. economic data, which continued to be mixed throughout the six 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 six months ended May 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 May 31, 2013

Fixed income revenue was $229.2 million for the three months ended May 31, 2013. Included within Interest expense for the period is positive income from the allocation to our business of the amortization of premiums arising from adjusting our long-term debt to fair value as part of acquisition accounting.

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 period across nearly all of the U.S. fixed income markets. Spreads tightened significantly in the U.S. rates market, with a significant sell-off in the market in May 2013 creating a challenging environment to monetize client flow. Corporate credit spreads also compressed during the second quarter of 2013 and a difficult trading environment prevailed. Conversely, spreads widened for mortgage products and market volatility was amplified during the period resulting in sizable write-downs in our inventory. Municipal securities underperformed as an asset class as the yields compared to other asset classes when considering the risk of the asset class did not

JEFFERIES GROUP LLC AND SUBSIDIARIES

appear attractive to investors. 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. Additionally, foreign exchange revenues were negatively impacted by volatility in the markets.

Europe experienced strong trading volume as U.S. and Japanese investors began to search for yield, despite continuing macroeconomic and political risks in the eurozone. International mortgage revenues benefited from the demand for European mortgage bonds in the second quarter of 2013. Revenues in our international credit business were affected by an overall slowdown in market activity, as renewed uncertainty over the debt crisis in certain peripheral European countries remain.

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 to our clients across most industry sectors 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	Six Months Ended	Three Months Ended	Three Months Ended

	May 31, 2014	May 31, 2014	May 31, 2013	February 28, 2013
Equity	$ 83,726	$ 178,464	$ 53,564	$ 61,380
Debt	147,000	320,038	133,714	140,672
Capital markets	230,726	498,502	187,278	202,052
Advisory	100,423	246,967	89,856	86,226
Total	$ 331,149	$ 745,469	$ 277,134	$ 288,278

83

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Three Months Ended May 31, 2014

During the three month period ended May 31, 2014, strong equity and debt markets, low borrowing costs and an improving U.S. and European economic environment, increased the volume of both capital market transactions and mergers and acquisition activity compared to the same period last year.

Investment banking revenue was $331.1 million for the quarter. From equity and debt capital raising activities, we generated $83.7 million and $147.0 million in revenues, respectively. During the three months ended May 31, 2014, we completed 171 public and private debt financings that raised $42.5 billion and we completed 42 public equity financings and one convertible offerings that raised $12.6 billion (35 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled $100.4 million in the second quarter of 2014, during which we acted as financial advisor on 31 merger and acquisition transactions with an aggregate transaction value of $14.5 billion.

Six Months Ended May 31, 2014

Investment banking revenue was $745.5 million for the six months of 2014. From equity and debt capital raising activities, we generated $178.5 million and $320.0 million in revenues, respectively. During the six months ended May 31, 2014, we completed 300 public and private debt financings that raised $95.6 billion and we completed 79 public equity financings and 4 convertible offerings that raised $24.0 billion (68 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled $247.0 million, including revenues from 59 merger and acquisition transactions with an aggregate transaction value of $35.6 billion.

Three Months Ended May 31, 2013

During the 2013 second quarter, capital market conditions continued to show signs of improvement with increased corporate bond issuance amid record-low borrowing costs; however the market weakened towards the end of May due to uncertainty regarding the timing of the Federal Reserve s tapering of its stimulus plan.

Investment banking revenue was $277.1 million for the three months ended May 31, 2013. From equity and debt capital raising activities, we recognized $53.6 million and $133.7 million, respectively, in revenues. During the three months ended May 31, 2013, we completed 138 public and private debt financings that raised $54.4 billion in aggregate, as companies took advantage of low borrowing costs and we completed 38 public equity financings that raised $8.4 billion (33 of which we acted as sole or joint bookrunner). Advisory revenue for the three months ended May 31, 2013 was $89.9 million. During the second quarter of 2013, we served as financial advisor on 33 merger and acquisition transactions with an aggregate transaction value of approximately $42.0 billion.

Three Months Ended February 28, 2013

For the three months ended February 28, 2013, investment banking revenue was $288.3 million, including advisory revenues of $86.2 million and $202.1 million in revenues from capital market activities, the third highest on record. Debt capital markets revenue were $140.7 million, driven by a high number of debt capital market transactions as companies took advantage of lower borrowing costs and more favorable economic and market conditions. During the three months ended February 28, 2013, we completed 121 public and private debt financings that raised a total of $42 billion. Equity capital markets revenue totaled $61.4 million, completing 30 public equity financings that raised $10.0

billion (25 of which we acted as sole or joint bookrunner). Reflective of a subdued mergers and acquisition deal environment, despite improving fundamentals, for the three months ended February 28, 2013, advisory revenue totaled $86.2 million. During the first quarter of 2013, we served as financial advisor on 31 merger and acquisition transactions and two restructuring transactions with an aggregate transaction value of approximately $21 billion.

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.

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 six months ended May 31, 2014, and the three months ended May 31, 2013 and February 28, 2013 (in thousands):

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Asset management fees:				
Fixed income	$ 2,571	$ 3,909	$ 1,329	$ 1,154
Equities	3,364	8,647	2,323	2,295
Convertibles	(1,008)	1,817	1,755	1,376
Commodities			5,925	6,258
	4,927	14,373	11,332	11,083
Investment income (loss) from managed funds	(8,028)	(7,517)	(805)	(200)
Total	$ (3,101)	$ 6,856	$ 10,527	$ 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):

	May 31, 2014	November 30, 2013
Assets under management (1):		

Equities	$	227	$	14
Convertibles		435		492
Total	$	662	$	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 six months ended May 31, 2014, and three months ended May 31, 2013 and February 28, 2013, were as follows (in thousands):

	Successor			Predecessor
	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Compensation and benefits	$ 404,876	$ 912,775	$ 373,880	$ 474,217
Non-compensation expenses:				
Floor brokerage and clearing fees	54,020	103,533	48,902	46,155
Technology and communications	70,257	134,563	63,839	59,878
Occupancy and equipment rental	26,673	53,175	32,225	24,309
Business development	24,917	51,393	22,732	24,927
Professional services	25,345	50,164	29,519	24,135
Other	17,767	35,011	18,720	14,475
Total non-compensation expenses	$ 218,979	$ 427,839	$ 215,937	$ 193,879
Total non-interest expenses	$ 623,855	$ 1,340,614	$ 589,817	$ 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 nonannual share-based and cash compensation awards to employees. Cash- and historical share-based awards granted to employees as part of year end compensation generally contain provisions such that employees who terminate their employment or are terminated without cause may continue to vest in their awards, so long as those awards are not forfeited as a result of other forfeiture provisions (primarily non-compete clauses) of those awards. Accordingly, the compensation expense for a substantial portion of awards granted at year end as part of annual compensation is fully recorded in the year of the award.

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in January 2010 and September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of $51.6 million and $117.7 million for the three and six months ended May 31, 2014, respectively, and $67.1 million and $68.8 million for the three months ended May 31, 2013 and February 28, 2013, respectively. In addition, compensation and benefits expense for the three and six months ended May 31, 2014 includes approximately $3.9 million and $7.5 million, respectively, of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements at the Leucadia Transaction date.

Compensation and benefits expense as a percentage of Net revenues was 56.0% and 56.3% for the three and six months ended May 31, 2014, respectively, and 57.8% and 57.9% for the three months ended May 31, 2013 and February 28, 2013, respectively. Employee headcount was 3,785 at May 31, 2014 and 3,797 at November 30, 2013.

Non-Compensation Expenses

Three Months Ended May 31, 2014

Non-compensation expenses were $219.0 million for the three months ended May 31, 2014, equating to 30.3% of Net revenues. Non-compensation expenses include approximately $3.5 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of acquisition accounting reported within Technology and communications expense and Other expense, and $2.1 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense.

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 520 Madison Avenue, our global headquarters and executive offices. For the quarter, Occupancy and equipment rental expense reflects office re-configuration expenditure at 520 Madison Avenue. Seasonally higher Business development costs reflect our continued efforts to build market share, including our loan origination business conducted through Jefferies Finance joint venture. We continue to incur legal and consulting fees as part of implementing various regulatory requirements, which is recognized in Professional services expense.

Six Months Ended May 31, 2014

Non-compensation expenses were $427.8 million for the six months ended May 31, 2014, equating to 26.4% of Net revenues. Non-compensation expenses include approximately $7.0 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of acquisition accounting reported within Technology and communications expense and Other expense, and $4.2 million in additional lease expense related to recognizing existing leases at their current market value in Occupancy and equipment rental expense.

Three Months Ended May 31, 2013

Non-compensation expenses were $215.9 million for the three months ended May 31, 2013. Included within Non-compensation expense is approximately $8.2 million in amortization expense associated with fair value adjustments to identifiable tangible and intangibles assets recognized as part of acquisition accounting, recognized within Occupancy and equipment rental expense, Technology and communications expense and Other expense, and $9.0 million in investment banking filing fees related to the Leucadia transaction, recognized within Professional services expense. Additionally, during the 2013 second quarter, a $7.3 million charge was recognized in Occupancy and equipment rental expense due to vacating certain office space in London. Non-compensation expenses as a percentage of Net revenues was 33%, or 29% excluding these expenses.

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 six months ended May 31, 2014, the provision for income taxes was $37.3 million and $104.2 million, respectively, equating to an effective tax rate of 37.6% and 37.0%, respectively. For the three months ended

May 31, 2013 and February 28, 2013, the provision for income taxes was $25.0 million and $48.6 million, equating to an effective tax rate of 38.3% and 34.9%, respectively. At May 31, 2014, the effective tax rate differed from the U.S. federal statutory rate of 35% primarily due to the impact of state income taxes, the effect of which is partially offset by international earnings taxed at rates that are generally lower than the U.S. federal statutory rate.

Earnings per Common Share

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Accounting Developments

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

Critical Accounting Policies

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

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

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

Valuation of Financial Instruments

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

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

	May 31, 2014		November 30, 2013	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	$ 2,359,225	1,684,304	$ 2,098,597	$ 1,823,299
Corporate debt securities	3,203,168	1,513,621	2,982,768	1,346,078
Government, federal agency and other sovereign obligations	5,500,264	3,788,221	5,346,152	3,155,683
Mortgage- and asset-backed securities	4,092,391	16,837	4,473,135	34,691

Loans and other receivables	1,564,688	903,856	1,349,128	695,300
Derivatives	253,184	226,288	261,093	180,079
Investments	123,432		101,282	
Physical commodities	47,166	39,173	37,888	36,483
	$ 17,143,518	$ 8,172,300	$ 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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Note 2, Summary of Significant Accounting Policies and Note 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 May 31, 2014 and November 30, 2013 (in thousands):

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013
Loans and other receivables	$ 138,643	$ 145,890	$ 31,534	$ 22,462
Investments at fair value	118,071	101,242		
Residential mortgage-backed securities	71,962	105,492		
Collateralized debt obligations	42,313	37,216		
Corporate debt securities	31,648	25,666	2,780	
Commercial mortgage-backed securities	24,246	17,568		
Corporate equity securities	16,402	9,884	38	38
Other asset-backed securities	45,444	12,611		
Derivatives	913	1,493	16,195	8,398
Total Level 3 financial instruments	489,642	457,062	$ 50,547	$ 30,898
Investments in managed funds	56,119	57,285		
Total Level 3 assets	$ 545,761	$ 514,347		

Total Level 3 financial instruments as a percentage of total financial instruments	2.9%	2.7%	0.6%	0.4%

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 $20.3 million and $39.7 million at May 31, 2014 and November 30, 2013, respectively, and the conversion option to Leucadia shares embedded in our 3.875% Convertible Senior debenture of approximately $3.9 million and $9.6 million reported within Long-term debt at May 31, 2014 and November 30, 2013, respectively.

JEFFERIES GROUP LLC AND SUBSIDIARIES

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

	Three Months Ended May 31, 2014	Six Months Ended May 31, 2014	Three Months Ended May 31, 2013	Three Months Ended February 28, 2013
Assets:				
Transfers from Level 3 to Level 2	$ 66.4	$ 58.9	$ 48.5	$ 112.7
Transfers from Level 2 to Level 3	95.4	95.1	54.9	100.5
Net gains (losses)	14.8	31.3	(3.4)	14.5
Liabilities:				
Transfers from Level 3 to Level 2	$	$ 3.4	$	$ 0.7
Transfers from Level 2 to Level 3	15.6	2.8	2.3	
Net gains (losses)	(8.5)	(12.1)	0.4	(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

As of May 31, 2014, goodwill recorded on our Consolidated Statement of Financial Condition is $1.7 billion (4.0% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies and Note 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, 2013.

We use allocated equity plus goodwill and allocated intangible assets as a proxy for the carrying amount of each reporting unit. The amount of equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. Refer to the discussion of our Cash Capital Policy of the Liquidity, Financial Condition and Capital Resources section within Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations to this Quarterly Report on Form 10-Q for further information. Intangible assets are allocated to a reporting unit based on either specifically identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit s benefit from the intangible asset in order to generate results.

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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

Compensation and Benefits

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

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Liquidity, Financial Condition and Capital Resources

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

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

Analysis of Financial Condition

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

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

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

	May 31, 2014	November 30, 2013	% Change
Total assets	$ 43,610.0	$ 40,177.0	9%
Cash and cash equivalents	3,958.3	3,561.1	11%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,288.5	3,616.6	-9%
Financial instruments owned	17,143.5	16,650.0	3%
Financial instruments sold, not yet purchased	8,172.3	7,271.6	12%
Total Level 3 assets	545.8	514.3	6%
Securities borrowed	$ 6,097.1	$ 5,359.8	14%
Securities purchased under agreements to resell	4,609.4	3,746.9	23%

Total securities borrowed and securities purchased under agreements to resell	$ 10,706.5	$ 9,106.7	18%
Securities loaned	$ 2,901.2	$ 2,506.1	16%
Securities sold under agreements to repurchase	11,668.1	10,779.8	8%
Total securities loaned and securities sold under agreements to repurchase	$ 14,569.3	$ 13,285.9	10%

92

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Total assets at May 31, 2014 and November 30, 2013 were $43.6 billion and $40.2 billion, respectively. During the three and six months ended May 31, 2014, average total assets were approximately 16% and 14%, respectively, higher than total assets at May 31, 2014.

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

Our total Financial instruments owned inventory at May 31, 2014 was $17.1 billion, an increase of 3.0% from inventory of $16.7 billion at November 30, 2013, primarily driven by increases in inventory positions of equity and corporate debt as a result of greater customer trading demand and the shifting yield curve as impacted by the U.S. Federal Reserve bond buyback program, partially offset by decreases in inventory positions of mortgage- and asset-backed securities due to the tightening of credit spreads in agency and commercial mortgage-backed securities. Financial instruments sold, not yet purchased inventory was $8.2 billion and $7.3 billion at May 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 $9.0 billion and $9.4 billion at May 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 as of May 31, 2014, refer to the Risk Management section within Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, within this Quarterly Report on Form 10-Q.

Of our total Financial instruments owned, approximately 74% 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 May 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

JEFFERIES GROUP LLC AND SUBSIDIARIES

securities purchased under agreements to resell increased by 18% from November 30, 2013 to May 31, 2014 commensurate with the change in our net inventory position of U.S. government and agency securities, partially offset by a decline in matched book activity driven by less customer trading activity. The outstanding balance of our securities loaned and securities sold under agreement to repurchase increased by 10% from November 30, 2013 to May 31, 2014 due to an increase in firm financing of our inventory, partially offset by a decrease in our matched book activity. By executing repurchase agreements with central clearing corporations to finance liquid inventory, rather than bi-lateral arrangements, we reduce the credit risk associated with these arrangements and decrease net outstanding balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the three months ended May 31, 2014 were 18% and 10% higher, respectively, than the May 31, 2014 balances.

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

	Successor		Predecessor
	Six Months Ended May 31, 2014	Nine Months Ended November 30, 2013	Three Months Ended February 28, 2013
Securities Purchased Under Agreements to Resell			
Period end	$ 4,609	$ 3,747	$ 3,578
Month end average	5,924	4,936	5,132
Maximum month end	8,081	6,007	6,288
Securities Sold Under Agreements to Repurchase			
Period end	$ 11,668	$ 10,780	$ 7,976
Month end average	13,090	13,308	11,895
Maximum month end	14,643	16,502	15,168

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Leverage Ratios

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

		Successor	
		May 31, 2014	November 30, 2013
Total assets		$ 43,609,986	$ 40,176,996
Deduct:	Securities borrowed	(6,097,098)	(5,359,846)
	Securities purchased under agreements to resell	(4,609,422)	(3,746,920)
Add:	Financial instruments sold, not yet purchased	8,172,300	7,271,613
	Less derivative liabilities	(226,288)	(180,079)
Subtotal		7,946,012	7,091,534
Deduct:	Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(3,288,517)	(3,616,602)
	Goodwill and intangible assets	(1,983,744)	(1,986,436)
Adjusted assets		$ 35,577,217	$ 32,558,726
Total equity		$ 5,527,101	$ 5,421,674
Deduct:	Goodwill and intangible assets	(1,983,744)	(1,986,436)
Tangible equity		$ 3,543,357	$ 3,435,238
Total member s equity		$ 5,496,205	$ 5,304,520
Deduct:	Goodwill and intangible assets	(1,983,744)	(1,986,436)
Tangible member s equity		$ 3,512,461	$ 3,318,084
Leverage ratio (1)		7.9	7.4
Tangible gross leverage ratio (2)		11.9	11.5
Leverage ratio - excluding merger impacts (3)		10.0	9.3
Adjusted leverage ratio (4)		10.0	9.5

1) Leverage ratio equals total assets divided by total equity.
2) Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets less goodwill and identifiable intangible assets divided by tangible member s equity. The tangible gross leverage ratio is used by Rating Agencies in assessing our leverage ratio.
3) Leverage ratio - excluding impacts of the Leucadia Transaction (a non-GAAP financial measure) equals total assets less the increase in goodwill and asset fair values in acquisition accounting of $1,957 million less amortization of $37 million and $27 million during the period since the Leucadia Transaction to May 31, 2014 and November 30, 2013, respectively, on assets recognized at fair value in acquisition accounting divided by the sum of total equity less $1,349 million and $1,326 million at May 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 $48 million and $25 million at May 31, 2014 and November 30, 2013, respectively, on assets and liabilities recognized at fair value in acquisition accounting.
4) Adjusted leverage ratio (a non-GAAP financial measure) equals adjusted assets divided by tangible total equity.

Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self-financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

JEFFERIES GROUP LLC AND SUBSIDIARIES

Liquidity Management

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

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

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

Cash Capital Policy. We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity, preferred stock and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total capital of $11.9 billion as of May 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

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

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

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

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

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

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

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

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

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

- Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At May 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):

	May 31, 2014	Average balance Quarter ended May 31, 2014 (1)	November 30, 2013
Cash and cash equivalents:			
Cash in banks	$ 690,979	$ 543,088	$ 830,438
Certificate of deposit	50,003	50,005	50,005
Money market investments	3,217,306	1,900,604	2,680,676
Total cash and cash equivalents	3,958,288	2,493,697	3,561,119
Other sources of liquidity:			
Debt securities owned and securities purchased under agreements to resell (2)	1,201,761	1,090,394	1,316,867
Other (3)	663,711	782,793	403,738
Total other sources	1,865,472	1,873,187	1,720,605
Total cash and cash equivalents and other liquidity sources	$ 5,823,760	$ 4,366,884	$ 5,281,724
Total cash and cash equivalents and other liquidity sources as % of Total Assets	13.4%		13.1%
Total cash and cash equivalents and other liquidity sources as % of Total Assets less Goodwill and Intangibles	14.0%		13.8%

JEFFERIES GROUP LLC AND SUBSIDIARIES

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

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. As of May 31, 2014, we have the ability to readily obtain repurchase financing for 74% 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 May 31, 2014 and November 30, 2013 (in thousands):

	May 31, 2014		November 30, 2013	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	$ 2,055,459	$ 345,514	$ 1,982,877	$ 137,721
Corporate debt securities	2,347,417	15,994	2,250,512	26,983
U.S. Government, agency and municipal securities	2,555,155	250,025	2,513,388	400,821
Other sovereign obligations	2,412,164	1,028,114	2,346,485	991,774
Agency mortgage-backed securities (1)	3,342,120		2,976,133	
Physical commodities	47,166		37,888	
	$ 12,759,481	$ 1,639,647	$ 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 six months ended May 31, 2014 were $17.9 billion and $17.5 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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 81% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

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

In addition to the above financing arrangements, in November 2012, we initiated a program whereby we issue notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory (our repurchase agreement financing program). At May 31, 2014, the outstanding amount of the notes issued under the program was $220.0 million in aggregate, which is presented within Other secured financings on the Consolidated Statement of Financial Condition. Of the $220.0 million aggregate notes, $60.0 million matures in November 2014, a second $60.0 million in February 2015 and $100.0 million matures in March 2015, all bearing interest at a spread over one month LIBOR. For additional discussion on the program, refer to Note 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 May 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. As of May 31, 2014, short-term borrowings as bank loans totaled $12.0 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily bank loans for the three and six months ended May 31, 2014 were $181.3 million and $97.6 million, respectively.

Total Capital

As of May 31, 2014 and November 30, 2013, we have total long-term capital of $11.9 billion and $11.2 billion resulting in a long-term debt to equity capital ratio of 1.16:1 and 1.07:1, respectively. Our total capital base as of May 31, 2014 and November 30, 2013 was as follows (in thousands):

	May 31, 2014	November 30, 2013
Long-Term Debt (1)	$ 6,414,241	$ 5,777,130
Total Equity	5,527,101	5,421,674
Total Capital	$ 11,941,342	$ 11,198,804

(1) Long-term debt for purposes of evaluating long-term capital at May 31, 2014 and November 30, 2013 excludes $65.0 million and $200.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility and excludes $250.2 million and $255.7 million of our 5.875% Senior Notes, respectively, as the notes mature in less than one year from the quarter ends.

JEFFERIES GROUP LLC AND SUBSIDIARIES

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. At May 31, 2014 and November 30, 2013, we had borrowings outstanding under the Credit Facility amounting to $65.0 million and $200.0 million, respectively.

Interest is based on the Federal funds rate or, in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. The Credit Facility is guaranteed by Jefferies Group LLC and contains financial covenants that, among other things, imposes restrictions on future indebtedness of our subsidiaries, requires Jefferies Group LLC to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis we provide a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At May 31, 2014 and November 30, 2013, the minimum tangible net worth requirement was $2,607.5 million and $2,564.0 million, respectively and the minimum liquidity requirement was $572.4 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 June 26, 2014, we amended and restated the Credit Facility to extend the term of the Credit Facility for three years and reduce the committed amount to $750.0 million.

As of May 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 as of May 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 May 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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

downgrade of our long-term credit rating below investment grade was $43.2 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management s best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

Contractual Obligations and Commitments

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

	Expected Maturity Date					
	2014	2015	2016 and 2017	2018 and 2019	2020 and Later	Total
Debt obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	$ 250.2	$ 512.1	$ 368.2	$ 1,694.0	$ 3,840.0	$ 6,664.5
Senior secured revolving credit facilty	65.0					65.0
Interest payment obligations on senior notes	165.8	329.8	589.2	468.7	1,449.4	3,002.9
	$ 481.0	$ 841.9	$ 957.4	$ 2,162.7	$ 5,289.4	$ 9,732.4
Commitments and guarantees:						
Equity commitments	$ 1.6	$ 7.50	$ 0.90	$	$ 475.40	$ 485.4
Loan commitments	10.8	26.3	515.1	175.9		728.1
Mortgage-related commitments	862.0	387.9	496.5			1,746.4
Forward starting repos	206.2					206.2
Derivative Contracts:						
Derivative contracts-non credit related	37,589.9	1,141.8	43.7	1.2	534.5	39,311.1
Derivative contracts - credit related				420.8		420.8
	$ 38,670.5	$ 1,563.5	$ 1,056.2	$ 597.9	$ 1,009.9	$ 42,898.0

(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 total obligation to pay of $91.9 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-backed securities securitization activities. VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic

JEFFERIES GROUP LLC AND SUBSIDIARIES

performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. Where we are the primary beneficiary of a VIE, we consolidate the VIE. We do not generally consolidate the various VIEs related to our mortgage-backed securities securitization activities because we are not the primary beneficiary.

At May 31, 2014, we did not have any commitments to purchase assets from our securitization vehicles. At May 31, 2014, we held $363.1 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial instruments owned on our Consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 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. Further, we do not anticipate making distributions in the future.

As compared to November 30, 2013, the increase to total member s equity as of May 31, 2014 is attributed to net earnings and foreign currency translation adjustments during the six months ended May 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 which may limit distributions from the broker-dealers. Jefferies and Jefferies Execution have elected to calculate minimum capital requirements using the alternative method permitted by Rule 15c3-1 in calculating net capital. Additionally, Jefferies Bache, LLC is registered as a Futures Commission Merchant and is subject to Rule 1.17 of the Commodities Futures Trading Commission (CFTC). Our designated self-regulatory organization is FINRA for our U.S. broker-dealers and the Chicago Mercantile Exchange for Jefferies Bache, LLC.

As of May 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	$	1,090,453	$	1,016,424
Jefferies Execution		5,307		5,057

	Adjusted Net Capital		Excess Net Capital	
Jefferies Bache, LLC	$	196,264	$	80,938

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

Table of Contents

regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products, Inc. and Jefferies Bache Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013.

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Risk Management

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

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

For discussion of liquidity and capital risk management refer to, Liquidity, Financial Condition and Capital Resources within Item 2. Management s Discussion and Analysis in this Quarterly Report on Form 10-Q.

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.

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.

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 $14.94 million for the three months ended May 31, 2014 from $16.27 million for the three months ended February 28, 2014. The decrease was primarily driven by lower equity price risk as a result of the sale of our holding in Harbinger Group Inc. to Leucadia. We saw a decrease in the diversification benefit across asset classes. Market risk from interest rates, 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 May 31, 2014 and February 28, 2014 was $8.63 million and $12.64 million, respectively. Excluding both our investment in Knight and Harbinger Group, Inc. 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 Group Inc. to Leucadia at the closing price on that date.

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).

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Value-at-Risk In Trading Portfolios

Risk Categories	VaR as of May 31, 2014	Daily VaR for the Three Months Ended May 31, 2014			VaR as of February 28, 2014	Daily VaR for the Three Months Ended February 28, 2014		
		Average	High	Low		Average	High	Low
Interest Rates	$ 5.58	$ 6.82	$ 8.62	$ 5.58	$ 5.78	$ 7.09	$ 8.69	$ 5.78
Equity Prices	9.11	9.97	14.68	7.85	11.27	11.64	12.95	9.60
Currency Rates	1.14	0.67	1.95	0.26	0.75	1.14	4.05	0.15
Commodity Prices	0.48	1.11	2.14	0.25	0.83	0.92	1.57	0.35
Diversification Effect (2)	(0.11)	(3.63)	N/A	N/A	(3.03)	(4.52)	N/A	N/A
Firmwide	$ 16.20	$ 14.94	$ 19.68	$ 10.70	$ 15.60	$ 16.27	$ 18.05	$ 13.90

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

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

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

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

The primary method used to test the efficacy of the VaR model is to compare our actual daily net revenue for those positions included in our VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e. no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, 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 May 31, 2014, results of the evaluation at the aggregate level demonstrated one day when the net trading loss exceeded the 95% one day VaR. Excluding trading losses associated with the daily marking to market of our position in Knight, there would have been no days when the net trading loss exceeded the 95% one day VaR.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 May 31, 2014 (in thousands):

	10% Sensitivity
Private investments	$ 24,587
Corporate debt securities in default	4,386
Trade claims	4,673

Daily Net Trading Revenue

There were 11 days with trading losses out of a total of 63 trading days in the three months ended May 31, 2014. Excluding trading losses associated with the daily marking to market of our position in Knight and Harbinger Group, there would have been six days with trading losses. The histogram below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the three months ended May 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.

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.

107

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 May 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.

Current counterparty credit exposures at May 31, 2014 and November 30, 2013 are summarized in the tables below and provided by credit quality, region and industry. Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk 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 May 31, 2014, excluding cash and cash equivalents, 65% are investment grade counterparties, compared to 66% at November 30, 2013, and

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

are mainly concentrated in North America. When comparing our credit exposure at May 31, 2014 with credit exposure at November 30, 2013, excluding cash and cash equivalents, current exposure has increased 19% to approximately $1.2 billion from $1.0 billion. All business areas contributed to the increase over the quarter, with the largest increase from securities and margin finance.

Counterparty Credit Exposure by Credit Rating

	Loans and Lending As of		Securities and Margin Finance As of		OTC Derivatives As of		Total As of		Cash and Cash Equivalents As of		Total with Cash and Cash Equivalents As of	
in millions)	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	February 28, 2014	November 3 2013
AAA Range	$	$	$ 0.3	$ 0.2	$	$	$ 0.3	$ 0.2	$ 3,217.3	$ 2,680.6	$ 3,217.6	$ 2,680.8
AA Range			117.9	104.8	10.5	14.7	128.4	119.5	162.2	144.1	290.6	263.6
A Range			453.9	374.4	65.4	56.7	519.3	431.1	575.9	734.7	1,095.2	1,165.8
BBB Range	69.4	71.0	53.5	39.9	27.6	16.2	150.5	127.1	2.9	1.7	153.4	128.8
BB or Lower	85.9	120.3	189.8	115.4	27.0	9.5	302.7	245.2			302.7	245.2
Unrated	94.6	86.6	2.7		28.9	18.6	126.2	105.2			126.2	105.2
Total	$ 249.9	$ 277.9	$ 818.1	$ 634.7	$ 159.4	$ 115.7	$ 1,227.4	$ 1,028.3	$ 3,958.3	$ 3,561.1	$ 5,185.7	$ 4,589.4

Counterparty Credit Exposure by Region

	Loans and Lending As of		Securities and Margin Finance As of		OTC Derivatives As of		Total As of		Cash and Cash Equivalents As of		Total with Cash and Cash Equivalent As of	
millions)	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	May 31, 2014	November 30, 2013	February 28, 2014	Novembe 2013
a/Latin erica/Other	$ 13.6	$	$ 58.3	$ 30.9	$ 5.2	$ 11.6	$ 77.1	$ 42.5	$ 183.5	$ 183.3	$ 260.6	$ 225
ope			232.0	180.3	56.3	47.6	288.3	227.9	359.7	269.3	648.0	497
th America	236.3	277.9	527.8	423.5	97.9	56.5	862.0	757.9	3,415.1	3,108.5	4,277.1	3,866
al	$ 249.9	$ 277.9	$ 818.1	$ 634.7	$ 159.4	$ 115.7	$ 1,227.4	$ 1,028.3	$ 3,958.3	$ 3,561.1	$ 5,185.7	$ 4,589

Counterparty Credit Exposure by Industry

	Loans and Lending As of		Securities and Margin Finance As of		OTC Derivatives As of		Total As of		Cash and Cash Equivalents As of		Total with Cash and Cash Equivalent As of	
millions)	**May 31, 2014**	**November 30, 2013**	**May 31, 2014**	**November 30, 2013**	**May 31, 2014**	**November 30, 2013**	**May 31, 2014**	**November 30, 2013**	**May 31, 2014**	**November 30, 2013**	**February 28, 2014**	**Novembe 2013**
et nagers	$	$	$ 18.5	$ 7.1	$ 1.0	$ 0.5	$ 19.5	$ 7.6	$ 3,217.3	$ 2,680.7	$ 3,236.8	$ 2,688
ks, ker-dealers			409.1	354.9	93.8	73.8	502.9	428.7	741.0	880.4	1,243.9	1,309
nmodities			41.5	35.6	8.2	9.4	49.7	45.0			49.7	45
er	249.9	277.9	349.0	237.1	56.4	32.0	655.3	547.0			655.3	547
al	$ 249.9	$ 277.9	$ 818.1	$ 634.7	$ 159.4	$ 115.7	$ 1,227.4	$ 1,028.3	$ 3,958.3	$ 3,561.1	$ 5,185.7	$ 4,589

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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 May 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):

As of May 31, 2014

	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Italy	$ 1,222.9	$ (1,143.3)	$ 630.5	$ 0.9	$ 0.1	$	$ 711.1	$ 711.1
Great Britain	398.0	(212.4)	96.4	84.7	27.3	184.1	394.0	578.1
Netherlands	616.6	(249.2)	(0.6)	13.0	1.7		381.5	381.5
Canada	145.8	(61.7)	30.6	148.2	6.6	3.7	269.5	273.2
Belgium	51.4	(24.4)		2.0		166.0	29.0	195.0
France	630.2	(334.5)	(155.3)	11.5	5.0		156.9	156.9
Puerto Rico	137.2			0.2			137.4	137.4
Hong Kong	23.7	(8.1)		3.1		105.2	18.7	123.9
Austria	131.7	(44.7)		1.2		0.6	88.2	88.8
Portugal	165.0	(99.9)			2.9		68.0	68.0
Total	$ 3,522.5	$ (2,178.2)	$ 601.6	$ 264.8	$ 43.6	$ 459.6	$ 2,254.3	$ 2,713.9

As of November 30, 2013

	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Great Britain	$ 418.8	$ (181.5)	$ (27.2)	$ 42.5	$ 20.7	$ 113.1	$ 273.3	$ 386.4
Germany	462.0	(226.1)	(70.5)	93.2	10.9	3.3	269.5	272.8
Netherlands	445.7	(198.8)	(2.3)	5.2	1.5	0.3	251.3	251.6
Italy	1,181.4	(1,017.6)	74.2	1.8	0.1		239.9	239.9
Canada	140.6	(59.0)	18.8	99.5	0.2	2.2	200.1	202.3
Spain	352.3	(159.8)	0.3	3.0	0.2	0.1	196.0	196.1

Puerto Rico	130.1						130.1	130.1
Luxembourg	75.0	(15.1)		0.1		68.0	60.0	128.0
Hong Kong	33.9	(18.3)	(0.9)	0.3		104.3	15.0	119.3
Austria	130.2	(32.8)		5.0		0.1	102.4	102.5
Total	$ 3,370.0	$ (1,909.0)	$ (7.6)	$ 250.6	$ 33.6	$ 291.4	$ 1,737.6	$ 2,029.0

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 of and economic derivative positions in Greece, Ireland, Italy, Portugal, and Spain at May 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

	As of May 31, 2014						
	Fair Value			Notional Amount (3)			
(in millions)	Long Debt Securities (1) (4)	Short Debt Securities (2) (4)	Net Cash Inventory	Long Derivatives	Short Derivatives	Net Derivatives	Total Net Exposure
Greece							
Sovereigns	$ 5.2	$ 6.3	$ (1.1)	$	$	$	$ (1.1)
Corporations	3.0	0.6	2.4				2.4
Financial Institutions	2.1	0.4	1.7	2.1	1.6	0.5	2.2
Total Greece	10.3	7.3	3.0	2.1	1.6	0.5	3.5
Ireland							
Sovereigns	7.4	2.1	5.3				5.3
Corporations	2.5	8.6	(6.1)	2.4	2.4		(6.1)
Financial Institutions	19.5	5.0	14.5				14.5
Total Ireland	29.4	15.7	13.7	2.4	2.4		13.7
Italy							
Sovereigns	1,024.1	1,124.5	(100.4)	965.6 (5)	335.7 (5)	629.8	529.4
Corporations	31.2	13.8	17.4				17.4
Financial Institutions	121.6	5.0	116.6	0.6		0.6	117.2
Structured Products	46.0		46.0				46.0
Total Italy	1,222.9	1,143.3	79.6	966.2	335.7	630.4	710.0
Portugal							
Sovereigns	135.5	86.2	49.3				49.3
Corporations	0.3	0.9	(0.6)				(0.6)
Financial Institutions	18.4	12.8	5.6				5.6
Structured Products	10.8		10.8				10.8
Total Portugal	165.0	99.9	65.1				65.1
Spain							
Sovereigns	134.5	223.6	(89.1)				(89.1)
Corporations	9.9	6.1	3.8				3.8
Financial Institutions	65.3	7.1	58.2				58.2
Structured Products	23.1		23.1				23.1
Total Spain	232.8	236.8	(4.0)				(4.0)

Total	$ 1,660.4	$ 1,503.0	$ 157.4	$ 970.7	$ 339.7	$ 630.9	$ 788.3
Total Sovereign	$ 1,306.7	$ 1,442.7	$ (136.0)	$ 965.6	$ 335.7	$ 629.8	$ 493.8
Total Non-sovereign	$ 353.7	$ 60.3	$ 293.4	$ 5.1	$ 4.0	$ 1.1	$ 294.5

(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) 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.
(3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.
(4) Classification of securities by country and by issuer type is presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated 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.
(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 May 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 Less Than One Year	Remaining Maturity Greater Than or Equal to One Year	Total Average Balance
Financial instruments owned - Debt securities			
Greece	$	$ 6.2	$ 6.2
Ireland	2.6	2.4	5.0
Italy	1,018.9	2,124.7	3,143.6
Portugal	3.7	120.0	123.7
Spain	15.5	312.9	328.4
Total average fair value of long debt securities (1)	1,040.7	2,566.2	3,606.9
Financial instruments sold - Debt securities			
Greece		2.7	2.7
Ireland	2.1	1.3	3.4
Italy	222.5	1,686.3	1,908.8
Portugal	0.1	78.9	79.0
Spain	38.8	361.9	400.7
Total average fair value of short debt securities	263.5	2,131.1	2,394.6
Total average net fair value of debt securities	777.2	435.1	1,212.3
Derivative contracts - long notional exposure Italy		131.4 (2)	131.4
Total average notional amount - long		131.4	131.4
Derivative contracts - short notional exposure Italy		340.7	340.7
Total average notional amount - short		340.7	340.7

Total average net derivative notional exposure (3)		(209.3)	(209.3)
Total average net exposure to select European countries	$ 777.2	$ 225.8	$ 1,003.0

(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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 May 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):

	As of May 31, 2014		
	Reverse Repurchase Agreements (1)	Repurchase Agreements (1)	Net
Greece	$	$	$
Ireland	4.9	74.8	(69.9)
Italy	1,214.4	1,355.2	(140.8)
Portugal	102.9	154.3	(51.4)
Spain	266.1	236.8	29.3
Total	$ 1,588.3	$ 1,821.1	$ (232.8)

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

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

Operational Risk

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

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

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

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.

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 May 31, 2014. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of May 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 May 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 May 31, 2014, the outstanding reserve with respect to remaining payments to be made under the agreements is approximately $5.1 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 May 31, 2014 and November 30, 2013; (ii) the Consolidated Statements of Earnings for the three and six months ended May 31, 2014, and the three months ended May 31, 2013 and February 28, 2013; (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended May 31, 2014, and the three months ended May 31, 2013 and February 28, 2013; (iv) the Consolidated Statements of Changes in Equity for the six months ended May 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 six months ended May 31, 2014, and the three months

ended May 31, 2013 and 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: July 8, 2014	By:	/s/ Peregrine C. Broadbent Peregrine C. Broadbent Chief Financial Officer (duly authorized officer)

117