

Jefferies Group LLC  
Form 10-Q  
April 09, 2013  
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 February 28, 2013

OR

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

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

Commission file number 1-14947

**JEFFERIES GROUP LLC**

(Exact name of registrant as specified in its charter)

Edgar Filing: Jefferies Group LLC - Form 10-Q

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

**Former name, former address and former fiscal year, if changed since last report: Jefferies Group, Inc.**

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

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

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

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

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

**Table of Contents**

**JEFFERIES GROUP LLC**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**FEBRUARY 28, 2013**

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	
	<u>Consolidated Statements of Financial Condition (Unaudited) - February 28, 2013 and November 30, 2012</u>	2
	<u>Consolidated Statements of Earnings (Unaudited) - Three Months Ended February 28, 2013 and February 29, 2012</u>	5
	<u>Consolidated Statements of Comprehensive Income (Unaudited) - Three Months Ended February 28, 2013 and February 29, 2012</u>	6
	<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) - Three Months Ended February 28, 2013 and Twelve Months Ended November 30, 2012</u>	7
	<u>Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended February 28, 2013 and February 29, 2012</u>	8
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	10
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	69
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	111
Item 4.	<u>Controls and Procedures</u>	111

**PART II. OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	111
Item 1A.	<u>Risk Factors</u>	111
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	112
Item 6.	<u>Exhibits</u>	112

**Table of Contents****PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

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

(In thousands)

	February 28, 2013	November 30, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,017,958	\$ 2,692,595
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,728,742	4,082,595
Financial instruments owned, at fair value, including securities pledged of \$13,721,094 and \$12,334,745 at February 28, 2013 and November 30, 2012, respectively:		
Corporate equity securities	1,688,607	1,762,775
Corporate debt securities	3,371,464	3,038,146
Government, federal agency and other sovereign obligations	5,010,455	5,153,750
Mortgage- and asset-backed securities	4,939,327	5,468,284
Loans and other receivables	968,360	678,311
Derivatives	206,920	298,086
Investments, at fair value	71,103	127,023
Physical commodities	157,299	144,016
Total financial instruments owned, at fair value	16,413,535	16,670,391
Investments in managed funds	59,976	57,763
Loans to and investments in related parties	783,382	586,420
Securities borrowed	5,315,488	5,094,679
Securities purchased under agreements to resell	3,578,366	3,357,602
Securities received as collateral	25,338	
Receivables:		
Brokers, dealers and clearing organizations	2,444,085	1,424,027
Customers	1,045,251	916,284
Fees, interest and other	225,555	196,811
Premises and equipment	183,289	185,991
Goodwill	366,777	365,670
Other assets	615,484	662,713
Total assets	\$ 37,803,226	\$ 36,293,541

Continued on next page.

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

(In thousands, except share amounts)

	February 28, 2013	November 30, 2012
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Short-term borrowing	\$ 100,000	\$ 150,000
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	1,934,184	1,539,332
Corporate debt securities	1,845,617	1,389,312
Government, federal agency and other sovereign obligations	5,045,241	3,666,112
Mortgage- and asset-backed securities	101,580	241,211
Loans	452,007	207,227
Derivatives	220,697	229,127
Physical commodities	167,550	183,142
Total financial instruments sold, not yet purchased, at fair value	9,766,876	7,455,463
Securities loaned	1,902,687	1,934,355
Securities sold under agreements to repurchase	7,976,492	8,181,250
Obligation to return securities received as collateral	25,338	
Payables:		
Brokers, dealers and clearing organizations	1,787,055	2,819,677
Customers	5,450,781	5,568,017
Accrued expenses and other liabilities	915,534	1,124,368
Long-term debt	5,711,751	4,804,607
Mandatorily redeemable convertible preferred stock	125,000	125,000
Mandatorily redeemable preferred interests of consolidated subsidiaries	358,951	348,051
Total liabilities	34,120,465	32,510,788
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$.0001 par value. Authorized 500,000,000 shares; issued 214,707,928 shares at February 28, 2013 and 204,147,007 shares at November 30, 2012	21	20
Additional paid-in capital	2,231,430	2,219,959
Retained earnings	1,339,430	1,281,855
Treasury stock, at cost, 9,339,897 shares at February 28, 2013 and 835,033 shares at November 30, 2012	(181,145)	(12,682)
Accumulated other comprehensive loss:		
Currency translation adjustments	(48,027)	(38,009)
Additional minimum pension liability	(15,128)	(15,128)
Total accumulated other comprehensive loss	(63,155)	(53,137)
Total common stockholders equity	3,326,581	3,436,015
Noncontrolling interests	356,180	346,738
Total stockholders equity	3,682,761	3,782,753
Total liabilities and stockholders equity	\$ 37,803,226	\$ 36,293,541

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.

	<b>February 28, 2013</b>	<b>November 30, 2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 335,419	\$ 388,279
Financial instruments owned, at fair value		
Corporate equity securities	161,305	105,271
Corporate debt securities	486,283	394,043
Mortgage- and asset-backed securities	16,885	15,589
Loans and other receivables	581,444	383,667
Derivatives	211	
Investments, at fair value	2,186	5,836
Total financial instruments owned, at fair value	1,248,314	904,406
Receivables:		
Brokers, dealers and clearing organizations	474,096	236,594
Fees, interest and other	9,619	10,931
Other assets	96	348
Total assets	\$ 2,067,544	\$ 1,540,558
<b>Liabilities</b>		
Financial instruments sold, not yet purchased, at fair value:		
Corporate equity securities	15,161	
Corporate debt securities	450,936	325,979
Loans	452,007	199,610
Derivatives		505
Total financial instruments sold, not yet purchased, at fair value	918,104	526,094
Payables:		
Brokers, dealers and clearing organizations	365,139	201,237
Accrued expenses and other liabilities	137,661	72,956
Mandatorily redeemable preferred interests of consolidated subsidiaries	358,951	348,051
Total liabilities	\$ 1,779,855	\$ 1,148,338

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)**

	<b>Three Months Ended</b>	
	<b>February 28, 2013</b>	<b>February 29, 2012</b>
<b>Revenues:</b>		
Commissions	\$ 131,083	\$ 117,499
Principal transactions	300,278	280,835
Investment banking	288,278	285,795
Asset management fees and investment income from managed funds	10,883	5,634
Interest	249,277	274,708
Other	27,004	42,340
<b>Total revenues</b>	<b>1,006,803</b>	<b>1,006,811</b>
Interest expense	203,416	226,845
<b>Net revenues</b>	<b>803,387</b>	<b>779,966</b>
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	10,961	21,844
<b>Net revenues, less mandatorily redeemable preferred interests</b>	<b>792,426</b>	<b>758,122</b>
<b>Non-interest expenses:</b>		
Compensation and benefits	474,217	446,462
<b>Non-compensation expenses:</b>		
Floor brokerage and clearing fees	30,998	27,838
Technology and communications	59,878	61,450
Occupancy and equipment rental	24,309	22,565
Business development	24,927	22,247
Professional services	32,635	13,693
Other	14,475	14,998
<b>Total non-compensation expenses</b>	<b>187,222</b>	<b>162,791</b>
<b>Total non-interest expenses</b>	<b>661,439</b>	<b>609,253</b>
<b>Earnings before income taxes</b>	<b>130,987</b>	<b>148,869</b>
Income tax expense	45,491	52,152
<b>Net earnings</b>	<b>85,496</b>	<b>96,717</b>
Net earnings to noncontrolling interests	10,704	19,581
<b>Net earnings to common shareholders</b>	<b>\$ 74,792</b>	<b>\$ 77,136</b>
<b>Earnings per common share:</b>		
Basic	\$ 0.32	\$ 0.33
Diluted	\$ 0.32	\$ 0.33
<b>Dividends declared per common share</b>	<b>\$ 0.075</b>	<b>\$ 0.075</b>



## Edgar Filing: Jefferies Group LLC - Form 10-Q

Weighted average common shares:		
Basic	213,732	218,049
Diluted	217,844	222,162

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>February 28, 2013</b>	<b>February 29, 2012</b>
Net earnings	\$ 85,496	\$ 96,717
Other comprehensive income, net of tax:		
Currency translation adjustments	(10,018)	5,491
Total other comprehensive (loss) income, net of tax (1)	(10,018)	5,491
Comprehensive income	75,478	102,208
Net earnings attributable to noncontrolling interests	10,704	19,581
Comprehensive income to common shareholders	\$ 64,774	\$ 82,627

- (1) Total other comprehensive (loss) income, net of tax, is attributable to common shareholders. No other comprehensive (loss) income 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 STOCKHOLDERS EQUITY (UNAUDITED)**

(In thousands, except per share amounts)

	Three Months Ended February 28, 2013	Twelve Months Ended November 30, 2012
<b>Common stock, par value \$0.0001 per share</b>		
Balance, beginning of period	\$ 20	\$ 20
Issued	1	1
Retired		(1)
Balance, end of period	21	20
<b>Additional paid-in capital</b>		
Balance, beginning of period	2,219,959	2,207,410
Benefit plan share activity (1)	3,138	12,076
Share-based expense, net of forfeitures and clawbacks	22,288	83,769
Proceeds from exercise of stock options	57	104
Acquisitions and contingent consideration	2,535	
Tax (deficiency) benefit for issuance of share-based awards	(17,965)	19,789
Equity component of convertible debt, net of tax		(427)
Dividend equivalents on share-based plans	1,418	6,531
Retirement of treasury stock		(109,293)
Balance, end of period	2,231,430	2,219,959
<b>Retained earnings</b>		
Balance, beginning of period	1,281,855	1,067,858
Net earnings to common shareholders	74,792	282,409
Dividends	(17,217)	(68,412)
Balance, end of period	1,339,430	1,281,855
<b>Treasury stock, at cost</b>		
Balance, beginning of period	(12,682)	(486)
Purchases	(166,541)	(113,562)
Returns / forfeitures	(1,922)	(7,928)
Retirement of treasury stock		109,294
Balance, end of period	(181,145)	(12,682)
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of period	(53,137)	(50,490)
Currency adjustment	(10,018)	1,511
Pension adjustment, net of tax		(4,158)
Balance, end of period	(63,155)	(53,137)

Edgar Filing: Jefferies Group LLC - Form 10-Q

<b>Total common stockholders equity</b>	3,326,581	3,436,015
<b>Noncontrolling interests</b>		
Balance, beginning of period	346,738	312,663
Net earnings attributable to noncontrolling interests	10,704	40,740
Distributions	(1,262)	(13,570)
Consolidation of asset management entity		6,905
Balance, end of period	356,180	346,738
<b>Total stockholders equity</b>	<b>\$ 3,682,761</b>	<b>\$ 3,782,753</b>

- (1) Includes grants related to the Incentive Plan, Deferred Compensation Plan, and Directors Plan.  
See accompanying notes to consolidated financial statements.

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

(In thousands)

	Three Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net earnings	\$ 85,496	\$ 96,717
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation and amortization	17,393	17,693
Bargain purchase gain		(3,368)
Gain on repurchase of long-term debt		(9,898)
Fees related to assigned management agreements	(1,154)	(739)
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	10,961	21,844
Accruals related to various benefit plans and stock issuances, net of forfeitures	23,505	24,987
Decrease (increase) in cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	352,891	(290,223)
(Increase) decrease in receivables:		
Brokers, dealers and clearing organizations	(1,027,671)	(482,230)
Customers	(130,543)	260,225
Fees, interest and other	(29,149)	(43,498)
(Increase) decrease in securities borrowed	(224,557)	135,129
Decrease in financial instruments owned	229,394	2,591,767
(Increase) decrease in loans to and investments in related parties	(197,166)	46,441
Increase in investments in managed funds	(2,213)	(2,275)
Increase in securities purchased under agreements to resell	(224,418)	(1,537,111)
Decrease (increase) in other assets	22,335	(76,800)
(Decrease) increase in payables:		
Brokers, dealers and clearing organizations	(1,031,335)	(1,501,144)
Customers	(111,139)	538,234
(Decrease) increase in securities loaned	(28,138)	120,968
Increase in financial instruments sold, not yet purchased	2,327,667	1,387,536
Decrease in securities sold under agreements to repurchase	(197,493)	(1,047,485)
Decrease in accrued expenses and other liabilities	(258,836)	(199,438)
Net cash (used in) provided by operating activities	(394,170)	47,332
Cash flows from investing activities:		
Net payments on premises and equipment	(10,706)	(11,642)
Cash received from contingent consideration	1,203	741
Net cash used in investing activities	(9,503)	(10,901)

Continued on next page.



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

(In thousands)

	Three Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 5,682	\$ 29,316
Proceeds from short-term borrowings	6,744,000	109,513
Payments on short-term borrowings	(6,794,000)	(67,007)
Proceeds from secured credit facility	900,000	160,000
Payments on secured credit facility	(990,007)	(10,000)
Proceeds from other secured financings	60,000	
Payments on repurchase of long-term debt		(1,435)
Payments on mandatorily redeemable preferred interest of consolidated subsidiaries	(61)	
Payments on repurchase of common stock	(166,541)	(47,930)
Payments on dividends	(15,799)	(15,605)
Proceeds from exercise of stock options, not including tax benefits	57	
Net proceeds from (payments on):		
Issuance of senior notes, net of issuance costs	991,469	
Noncontrolling interest	(1,262)	
Net cash provided by financing activities	733,538	156,852
Effect of exchange rate changes on cash and cash equivalents	(4,502)	2,113
Net increase in cash and cash equivalents	325,363	195,396
Cash and cash equivalents at beginning of period	2,692,595	2,393,797
Cash and cash equivalents at end of period	\$ 3,017,958	\$ 2,589,193
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 178,836	\$ 214,800
Income taxes, net of refunds	(34,054)	(1,785)
	See accompanying notes to consolidated financial statements.	

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Index**

Note	Page
<u>Note 1. Organization and Basis of Presentation</u>	11
<u>Note 2. Summary of Significant Accounting Policies</u>	12
<u>Note 3. Accounting Developments</u>	20
<u>Note 4. Hoare Govett Acquisition</u>	21
<u>Note 5. Cash, Cash Equivalents and Short-Term Investments</u>	22
<u>Note 6. Fair Value Disclosures</u>	23
<u>Note 7. Derivative Financial Instruments</u>	37
<u>Note 8. Collateralized Transactions</u>	41
<u>Note 9. Securitization Activities</u>	42
<u>Note 10. Variable Interest Entities</u>	43
<u>Note 11. Investments</u>	48
<u>Note 12. Goodwill and Other Intangible Assets</u>	51
<u>Note 13. Short-Term Borrowings</u>	53
<u>Note 14. Long-Term Debt</u>	54
<u>Note 15. Mandatorily Redeemable Convertible Preferred Stock</u>	55
<u>Note 16. Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries</u>	56
<u>Note 17. Benefit Plans</u>	57
<u>Note 18. Compensation Plans</u>	57
<u>Note 19. Earnings per Share</u>	61
<u>Note 20. Income Taxes</u>	61
<u>Note 21. Commitments, Contingencies and Guarantees</u>	62
<u>Note 22. Net Capital Requirements</u>	65
<u>Note 23. Segment Reporting</u>	66
<u>Note 24. Related Party Transactions</u>	67



**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1. Organization and Basis of Presentation**

***Organization***

On March 1, 2013, Jefferies Group, Inc. was converted into a limited liability company and renamed Jefferies Group LLC. In addition, subsidiaries of Jefferies Group, Inc. were 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, CoreCommodity Management, LLC (formerly Jefferies Asset Management, LLC), Jefferies Bache Financial Services, Inc. and all other entities in which we have a controlling financial interest or are the primary beneficiary, including Jefferies High Yield Holdings, LLC ( JHYH ), Jefferies Special Opportunities Partners, LLC ( JSOP ) and Jefferies Employees Special Opportunities Partners, LLC ( JESOP ).

We operate in two business segments, Capital Markets and Asset Management. Capital Markets includes our securities, commodities, futures and foreign exchange trading (including the results of our indirectly partially owned subsidiary, Jefferies High Yield Trading, LLC) and investment banking activities, which provides the research, sales, trading and origination effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds, separate accounts and mutual funds.

On February 1, 2012, we acquired the corporate broking business of Hoare Govett from The Royal Bank of Scotland Group plc ( RBS ). The acquired business represented the corporate broking business carried on under the name RBS Hoare Govett in the United Kingdom and comprised corporate broking advice and services. The acquisition of Hoare Govett provided us with the opportunity to continue our growth in corporate broking and significantly expand the capabilities and reach of our established European Investment Banking and Equities businesses. See Note 4, Hoare Govett Acquisition for further details.

On March 1, 2013, Jefferies Group LLC through a series of merger transactions, became a wholly owned subsidiary of Leucadia National Corporation ( Leucadia ). The outstanding shares of Jefferies Group LLC were converted into 0.81 shares 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 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 and were contributed as equity to Jefferies Group LLC as part of the purchase price. Jefferies Group LLC continues to operate as the holding company to its various regulated and unregulated operating subsidiaries. Richard Handler, our Chief Executive Officer and Chairman, was also appointed the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian Friedman, our Chairman of the Executive Committee, was also appointed Leucadia's President and a Director of Leucadia. Following the merger, we continue to operate as a full-service global investment banking firm and retain a credit rating separate from Leucadia and remain an SEC reporting company, filing annual, quarterly and periodic financial reports.

The merger will be accounted for by Leucadia under the acquisition method of accounting. Accordingly, the assets, including identifiable intangible assets, and the liabilities of Jefferies Group LLC will be recorded at their fair values at the date of acquisition (March 1, 2013). The application of the acquisition method of accounting will be pushed down and

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

reflected in the financial statements of Jefferies Group LLC as a wholly-owned subsidiary of Leucadia. The excess of Leucadia's purchase price over the fair value of the net assets acquired will be recorded as goodwill. The purchase price is preliminarily estimated at \$4.7 billion resulting in a preliminary estimate of goodwill of \$1.8 billion and a preliminary estimate of net assets of \$5.1 billion, inclusive of goodwill. The acquisition accounting will be finalized upon completion of the analysis of the assets and liabilities of Jefferies Group LLC as of March 1, 2013 and reported in our quarterly report on Form 10-Q for the period ended May 31, 2013.

***Basis of Presentation***

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

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

***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 Stockholders' 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. 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.

**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.



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Soft dollar expenses amounted to \$8.5 million and \$8.2 million for the three months ended February 28, 2013 and February 29, 2012, respectively. 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-term borrowings, long-term borrowings and our mandatorily redeemable convertible preferred stock on an accrual basis with related interest recorded as Interest expense. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

***Cash Equivalents***

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

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

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve

---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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 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



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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**

The Independent Price Verification ( IPV ) Group, which is part of Finance, in partnership with Market Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Market 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 the Chief Financial Officer, Global Controller, Global Head of Product Control, Chief Risk Officer and the 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 Market Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists the Chief Financial Officer in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Audit Committee.

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





---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

documentation of the valuation rationale applied, which is reviewed for consistency in application from period to period; and the documentation includes benchmarking the assumptions underlying the valuation rationale against relevant analytic data.

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

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

***Investments in Managed Funds***

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

***Loans to and Investments in Related Parties***

Loans to and investments in related parties include investments in private equity and other operating entities made in connection with our capital markets activities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other revenues in the Consolidated Statements of Earnings. See Note 11, Investments, and Note 24, Related Party Transactions, for additional information regarding certain of these investments.

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

Receivable from and payable to customers includes amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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.

***Goodwill and Intangible Assets***

*Goodwill.* At least annually, and more frequently if warranted, we assess whether goodwill has been impaired by comparing the estimated fair value of each reporting unit with its 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 methodologies we utilize in estimating the fair value of reporting units include market capitalization, price-to-book multiples of comparable exchange traded companies and multiples of merger and acquisitions of similar businesses. Periodically estimating the fair value of a reporting unit requires significant 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. Our annual goodwill impairment testing date is June 1. Refer to Note 12, Goodwill and Other Intangible Assets for further details on our assessment of goodwill.

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



**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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 annually, or more frequently, when certain events or circumstances exist indicating an assessment for impairment is necessary. Impairment exists when the carrying amount exceeds its fair value. 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. Subsequent reversal of impairment losses is not permitted. Our annual indefinite-lived intangible asset impairment testing date is June 1.

***Income Taxes***

We file a consolidated U.S. federal income tax return, which includes all of our qualifying subsidiaries. We also are subject to income tax in various states and municipalities and those foreign jurisdictions in which we operate. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Deferred income taxes are provided for temporary differences in reporting certain items, principally share-based compensation, long-term debt and tax amortization of intangible assets. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized.

The tax benefit related to dividends and dividend equivalents paid on nonvested share-based payment awards and outstanding equity options is 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 Stockholders' Equity.

***Legal Reserves***

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

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

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.

**Table of Contents**

**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***

Basic earnings per share ( EPS ) is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued. Net earnings available to common shareholders represent net earnings to common shareholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Common shares outstanding and certain other shares committed to be, but not yet issued, include restricted stock and restricted stock units ( RSUs ) for which no future service is required. 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. We grant restricted stock and RSUs as part of our share-based compensation that contain nonforfeitable rights to dividends and dividend equivalents, respectively, and therefore, prior to the requisite service being rendered for the right to retain the award, restricted stock and RSUs meet the definition of a participating security. As such, we calculate Basic and Diluted earnings per share under the two-class method.

***Securitization Activities***

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

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 liabilities 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**

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

*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 update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU 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 other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012 (three months ended May 31, 2013). We are currently evaluating the impact of the guidance on our consolidated financial statements.

*Balance Sheet Offsetting Disclosures.* In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures regarding balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet, and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (fiscal year ended November 30, 2014), and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance will not affect our financial condition, results of operations or cash flows.

***Adopted Accounting Standards***

*Indefinite-Lived Intangible Asset Impairment.* In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The update does not revise the requirement to test indefinite-lived intangible assets annually for impairment, or more frequently if deemed appropriate. The new guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance on December 1, 2012 did not affect our financial condition, results of operations or cash flows as it did not affect how impairment is calculated.

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

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



**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

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

**Note 4. Hoare Govett Acquisition**

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

We accounted for the acquisition under the acquisition method of accounting. Accordingly, the assets acquired, including identifiable intangible assets, and liabilities assumed were recorded at their respective fair values as of the date of acquisition. The fair values of the net assets acquired, including identifiable intangible assets, specifically the Hoare Govett trademark/trade name, was approximately \$0.3 million, which exceeded the negative purchase price of \$3.1 million (cash consideration paid of £1 less remittance from RBS of £1.9 million), resulting in a bargain purchase gain of approximately \$3.4 million. The bargain purchase gain is included within Other revenues in the Consolidated Statement of Earnings for the year ended November 30, 2012 and is reported within the Capital Markets business segment.

Our results of operations for the three months ended February 29, 2012 include the results of operations of Hoare Govett for the period from February 1, 2012 to February 29, 2012. There were no material revenues contributed by Hoare Govett for this period and net earnings amounted to an immaterial loss, primarily as a result of compensation costs. The effect on our results for the quarter ended February 29, 2012, had the acquisition of Hoare Govett been completed on December 1, 2011 is not considered material. The acquisition closed on February 29, 2012.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 5. Cash, Cash Equivalents and Short-Term Investments**

We generally invest our excess cash in money market funds and in other short-term instruments. Cash equivalents include highly liquid investments not held for resale and with original maturities of three months or less. The following are financial instruments, classified as cash and cash equivalents, that are deemed by us to be generally readily convertible into cash as of February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013	November 30, 2012
Cash and cash equivalents:		
Cash in banks	\$ 857,202	\$ 1,038,664
Money market investments	2,160,756	1,653,931
Total cash and cash equivalents	\$ 3,017,958	\$ 2,692,595
Cash and securities segregated (1)	\$ 3,728,742	\$ 4,082,595

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

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 6. 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 February 28, 2013 and November 30, 2012 by level within the fair value hierarchy (in thousands):

	February 28, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,443,328	\$ 232,045	\$ 13,234	\$	\$ 1,688,607
Corporate debt securities		3,339,644	31,820		3,371,464
Collateralized debt obligations		115,145	29,776		144,921
U.S. government and federal agency securities	776,846	132,794			909,640
Municipal securities		603,957			603,957
Sovereign obligations	2,041,200	1,455,658			3,496,858
Residential mortgage-backed securities		3,620,210	169,426		3,789,636
Commercial mortgage-backed securities		915,820	17,794		933,614
Other asset-backed securities		69,904	1,252		71,156
Loans and other receivables		797,374	170,986		968,360
Derivatives	445,895	1,491,718	220	(1,730,913)	206,920
Investments at fair value		1,036	70,067		71,103
Physical commodities		157,299			157,299
<b>Total financial instruments owned</b>	<b>\$ 4,707,269</b>	<b>\$ 12,932,604</b>	<b>\$ 504,575</b>	<b>\$ (1,730,913)</b>	<b>\$ 16,413,535</b>
Level 3 financial instruments for which the firm does not bear economic exposure (3)					
			(38,771)		
Level 3 financial instruments for which the firm bears economic exposure					
			\$ 465,804		
Cash and cash equivalents	\$ 3,017,958	\$	\$	\$	\$ 3,017,958
Investments in managed funds	\$	\$	\$ 59,976	\$	\$ 59,976
Cash and securities segregated and on deposit for regulatory purposes (4)	\$ 3,728,742	\$	\$	\$	\$ 3,728,742
Securities received as collateral	\$ 25,338	\$	\$	\$	\$ 25,338
<b>Total Level 3 assets for which the firm bears economic exposure</b>			<b>\$ 525,780</b>		
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,697,826	\$ 236,320	\$ 38	\$	\$ 1,934,184
Corporate debt securities		1,845,617			1,845,617

## Edgar Filing: Jefferies Group LLC - Form 10-Q

U.S. government and federal agency securities	2,567,397				2,567,397
Sovereign obligations	1,268,489	1,209,355			2,477,844
Residential mortgage-backed securities		94,532	1,542		96,074
Commercial mortgage-backed securities		1,811			1,811
Other asset-backed securities		3,695			3,695
Loans		444,609	7,398		452,007
Derivatives	435,602	1,640,905	11,405	(1,867,215)	220,697
Physical commodities		167,550			167,550
Total financial instruments sold, not yet purchased	\$ 5,969,314	\$ 5,644,394	\$ 20,383	\$ (1,867,215)	\$ 9,766,876
Obligation to return securities received as collateral	\$ 25,338	\$	\$	\$	\$ 25,338

- (1) There were no transfers between Level 1 and Level 2 for the three months ended February 28, 2013.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Consists of Level 3 assets attributable to third party or employee noncontrolling interests in certain consolidated entities.
- (4) Includes U.S. government securities segregated for regulatory purposes with a fair value of \$357.2 million.

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

	November 30, 2012				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Financial instruments owned:					
Corporate equity securities	\$ 1,608,715	\$ 137,245	\$ 16,815	\$	\$ 1,762,775
Corporate debt securities		3,034,515	3,631		3,038,146
Collateralized debt obligations		87,239	31,255		118,494
U.S. government and federal agency securities	1,720,617	115,310			1,835,927
Municipal securities		619,969			619,969
Sovereign obligations	1,722,044	975,810			2,697,854
Residential mortgage-backed securities		4,008,844	156,069		4,164,913
Commercial mortgage-backed securities		1,060,333	30,202		1,090,535
Other asset-backed securities		93,228	1,114		94,342
Loans and other receivables		497,918	180,393		678,311
Derivatives	615,024	1,547,984	328	(1,865,250)	298,086
Investments at fair value		43,126	83,897		127,023
Physical commodities		144,016			144,016
<b>Total financial instruments owned</b>	<b>\$ 5,666,400</b>	<b>\$ 12,365,537</b>	<b>\$ 503,704</b>	<b>\$ (1,865,250)</b>	<b>\$ 16,670,391</b>
Level 3 financial instruments for which the firm does not bear economic exposure (3)					
			(53,289)		
Level 3 financial instruments for which the firm bears economic exposure					
			\$ 450,415		
Cash and cash equivalents	\$ 2,692,595	\$	\$	\$	\$ 2,692,595
Investments in managed funds	\$	\$	\$ 57,763	\$	\$ 57,763
Cash and securities segregated and on deposit for regulatory purposes (4)	\$ 4,082,595	\$	\$	\$	\$ 4,082,595
<b>Total Level 3 assets for which the firm bears economic exposure</b>			<b>\$ 508,178</b>		
<b>Liabilities:</b>					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,442,347	\$ 96,947	\$ 38	\$	\$ 1,539,332
Corporate debt securities		1,389,312			1,389,312
U.S. government and federal agency securities	1,428,746	250,387			1,679,133
Sovereign obligations	1,395,355	591,624			1,986,979
Residential mortgage-backed securities		239,063			239,063
Commercial mortgage-backed securities		2,148			2,148
Loans		205,516	1,711		207,227
Derivatives	547,605	1,684,884	9,516	(2,012,878)	229,127
Physical commodities		183,142			183,142

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Total financial instruments sold, not yet purchased	\$ 4,814,053	\$ 4,643,023	\$ 11,265	\$ (2,012,878)	\$ 7,455,463
---	--------------	--------------	-----------	----------------	--------------

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

*Corporate Equity Securities*

**Exchange Traded Equity Securities:** Exchange-traded equity securities are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 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 of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

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

*Collateralized Debt Obligations*

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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.



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Municipal Securities*

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

*Sovereign Obligations*

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

*Residential Mortgage-Backed Securities*

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

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

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

*Commercial Mortgage-Backed Securities*

Agency Commercial Mortgage-Backed Securities: 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.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

*Other Asset-Backed Securities*

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

*Loans and Other Receivables*

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

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

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

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

*Derivatives*

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

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

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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

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

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 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany and shares in non-U.S. exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy. Fair value for the shares in non-U.S. exchanges and clearing houses is determined based on recent transactions or third party model valuations and is categorized within Level 2 or Level 3 of the fair value hierarchy. The following tables present information about our investments in entities that have the characteristics of an investment company at February 28, 2013 and November 30, 2012 (in thousands):

		February 28, 2013	
	Fair Value (7)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds <sup>(1)</sup>	\$ 20,003	\$	Monthly, Quarterly
High Yield Hedge Funds <sup>(2)</sup>	327		
Fund of Funds <sup>(3)</sup>	394	106	
Equity Funds <sup>(4)</sup>	71,883	47,460	
Convertible Bond Funds <sup>(5)</sup>	2,916		At Will
Other Investments <sup>(6)</sup>	17		Bi-Monthly
<b>Total <sup>(8)</sup></b>	<b>\$ 95,540</b>	<b>\$ 47,566</b>	

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

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

- (1) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At February 28, 2013 and November 30, 2012, investments representing approximately 98% and 96%, respectively, of the fair value of investments in this category are redeemable with 30 – 65 days prior written notice, and includes investments in private asset management funds managed by us with an aggregate fair value of \$0.5 million in both periods. The remaining investments in this category cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. We are unable to estimate when the underlying assets will be liquidated.
- (2) Includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. The underlying assets of the funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.
- (3) Includes investments in fund of funds that invest in various private equity funds. At February 28, 2013 and November 30, 2012, approximately 94%, of the fair value of investments in this category is managed by us and has no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to two years. As of February 28, 2013 and November 30, 2012, we have requested redemption for investments representing approximately 6% of the fair value of investments in this category; however, we are unable to estimate when these funds will be received.
- (4) At February 28, 2013 and November 30, 2012, investments representing approximately 98% 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. At February 28, 2013 and November 30, 2012, investments representing approximately 2% of the fair value of investments in equity funds are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated. At February 28, 2013 and November 30, 2012, this category includes investments in equity funds managed by us with a fair value of \$58.1 million and \$55.6 million and unfunded commitments of \$45.8 million and \$56.9 million, respectively.
- (5) Investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The investment is redeemable with 5 days prior written notice.
- (6) Other investments at February 28, 2013 and November 30, 2012 included investments in funds that invest in commodity futures and options contracts.
- (7) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.
- (8) Investments at fair value in the Consolidated Statements of Financial Condition at February 28, 2013 and November 30, 2012 include \$35.5 million and \$91.8 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

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

At February 28, 2013 and November 30, 2012, our Financial instruments owned and Financial instruments sold, not yet purchased are measured using different valuation bases as follows:

	February 28, 2013		November 30, 2012	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Exchange closing prices	9%	17%	11%	19%
Recently observed transaction prices	4%	4%	5%	6%
External pricing services	72%	75%	70%	71%
Broker quotes	1%	0%	1%	0%
Valuation techniques	14%	4%	13%	4%
	100%	100%	100%	100%

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

	Three Months Ended February 28, 2013						Balance, February 28, 2013	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2013 (1)
	Balance, November 30, 2012	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3		
<b>Assets:</b>								
Financial instruments owned:								
Corporate equity securities	\$ 16,815	\$ 200	\$ 707	\$ 109	\$ (4,597)	\$ 13,234	\$ 172	
Corporate debt securities	3,631	7,836	11,510	(1,918)	10,761	31,820	7,833	
Collateralized debt obligations	31,255	3,624	9,406	(17,374)	2,865	29,776	(1,125)	
Residential mortgage-backed securities	156,069	11,906	132,773	(130,143)	(6,057)	169,426	4,511	
Commercial mortgage-backed securities	30,202	(995)	2,280	(2,866)	(1,188)	17,794	(2,059)	
Other asset-backed securities	1,114	50	1,627	(1,342)	(19)	1,252	(1)	
Loans and other receivables	180,393	(8,682)	105,650	(29,828)	(61,407)	170,986	(12,374)	

Edgar Filing: Jefferies Group LLC - Form 10-Q

Investments, at fair value	83,897	961	952	(4,923)	(9,721)	(1,099)	70,067	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.



**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 decreased valuations of certain derivative instruments.

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

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 29, 2012 (in thousands):

	Three Months Ended February 29, 2012 <sup>(3)</sup>						Balance, February 29, 2012	Change in unrealized gains/ (losses) relating to instruments still held at February 29, 2012 (1)
	Balance, November 30, 2011	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into/ (out of) Level 3		
<b>Assets:</b>								
Financial instruments owned:								
Corporate equity securities	\$ 13,489	\$ 1,684	\$ 14,184	\$	\$	\$ 912	\$ 30,269	\$ 1,685
Corporate debt securities	48,140	671	271	(22,300)	(1,276)	8,100	33,606	(737)
Collateralized debt obligations	47,988	(796)		(14,063)	(3,328)	42,775	72,576	(1,488)
Municipal securities	6,904	(71)		(740)		(4,917)	1,176	12
Sovereign obligations	140						140	
Residential mortgage-backed securities	149,965	(6,492)	10,497	(44,282)	(6,881)	25,944	128,751	(5,995)
Commercial mortgage-backed securities	52,407	(1,655)		(3,593)	(44)	(11,323)	35,792	(1,419)
Other asset-backed securities	3,284	(104)		(197)	(40)	2,446	5,389	(76)
Loans and other receivables	97,291	1,899	48,309	(21,733)	(25,729)	4,412	104,449	643
Investments, at fair value	78,326	1,378	480	(1,797)	(277)		78,110	1,378
Investments in managed funds	70,740	(6,212)	8,499	(12)			73,015	(6,212)
<b>Liabilities:</b>								
Financial instruments sold, not yet purchased:								
Corporate equity securities	\$	\$	\$	\$ 11,511	\$	\$	\$ 11,511	\$
Corporate debt securities	74						74	
Net derivatives (2)	9,285	1,512	(295)			(2,192)	8,310	2,736
Loans	10,157		(10,157)					

(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 29, 2012.

*Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 29, 2012*

During the three months ended February 29, 2012, transfers of assets of \$109.9 million from Level 2 to Level 3 are attributed to:

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Collateralized debt obligations of \$42.8 million which have little to no transparency in trade activity;

Non-agency residential mortgage-backed securities of \$32.5 million, Other asset-backed securities of \$4.7 million, and Commercial mortgage-backed securities of \$1.5 million for which no recent trade activity was observed;

Loans and other receivables of \$18.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2 as less market interest likely existed for the specific loans during the period; and

Corporate debt securities of \$8.6 million, Corporate equity securities of \$0.9 million, and Municipal securities of \$0.5 million due to lack of observable market transactions.

During the three months ended February 29, 2012, transfers of assets of \$41.5 million from Level 3 to Level 2 are attributed to:

Loans and other receivables of \$13.9 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Commercial mortgage-backed securities of \$12.8 million, Non-agency residential mortgage-backed securities of \$6.6 million, and \$2.3 million of Other asset-backed securities for which market trades were observed in the period for either identical or similar securities; and

Municipal securities of \$5.4 million and Corporate debt securities of \$0.5 million due to increased observability of trades in certain bonds. During the three months ended February 29, 2012 there were no transfers of liabilities from Level 2 to Level 3 and there were \$2.2 million transfers of net derivative liabilities from Level 3 to Level 2 due to available broker quotes for the significant inputs used in valuing the derivative contracts.

Net losses on Level 3 assets were \$9.7 million and net losses on Level 3 liabilities were \$1.5 million for the three months ended February 29, 2012. Net losses on Level 3 assets were primarily due to decreased valuations of certain residential mortgage-backed securities and investments in managed funds. Net losses on Level 3 liabilities were primarily due to decreased 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.

***Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at February 28, 2013 and November 30, 2012***

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)**

February 28, 2013					
Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input /Range	Weighted Average
<b>Corporate equity securities</b>	\$ 13,234				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	6.0 to 13.0	9.9
		Scenario analysis	Estimated recovery percentage	30%	
Warrants		Option model	Volatility	34%	
<b>Corporate debt securities</b>	\$ 31,820				
		Scenario analysis	Estimated recovery percentage	25%	
		Comparable pricing	Comparable bond or loan price	\$65.50 to \$76.50	\$ 72.10
		Market approach	Yield	8% to 16%	9%
<b>Collateralized debt obligations</b>	\$ 20,676				
		Discounted cash flows	Constant prepayment rate	0% to 5%	0.5%
			Constant default rate	0% to 10%	3%
			Loss severity	13% to 100%	41%
			Yield	10% to 73%	34%
<b>Residential mortgage-backed</b>	\$ 169,426				
		Discounted cash flows	Constant prepayment rate	0% to 27%	5%
			Constant default rate	1% to 50%	7%
			Loss severity	25% to 95%	52%
			Yield	0% to 37%	10%
			Cumulative loss rate	7% to 37%	13%
<b>Commercial mortgage-backed</b>	\$ 17,794				
		Discounted cash flows	Yield	20% to 88%	37%
			Cumulative loss rate	2% to 21%	14%
<b>Other asset-backed securities</b>	\$ 1,252				
		Discounted cash flows	Yield	7%	
<b>Loans and other receivables</b>	\$ 164,188				
		Comparable pricing	Comparable bond or loan price	\$96.25 to \$101.25	\$ 100.35
		Discounted cash flows	Yield	19%	
			Cumulative loss rate	0%	
		Market approach	Yield	5% to 25%	11%
			EBITDA (a) multiple	6.5	
		Scenario analysis	Estimated recovery percentage	15% to 61%	53%
<b>Investments at fair value</b>	\$ 17,817				
Private equity securities		Market approach	EBITDA (a) multiple	8.1	
		Comparable pricing	Comparable share price	\$ 400.00	
<b>Financial Instruments Sold, Not Yet Purchased</b>	<b>Fair Value (in thousands)</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Input /Range</b>	<b>Weighted Average</b>
<b>Derivatives</b>	\$ (11,405)				

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Equity options	Option model	Volatility	34%
Loan commitments	Comparable pricing	Comparable bond or loan price	\$ 101.13

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

34

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Financial Instruments Owned	November 30, 2012			
	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Range
<b>Corporate equity securities</b>	\$ 16,815			
Non-exchange traded securities		Market approach	EBITDA (a) multiple	4.0 to 16.3
		Scenario analysis	Estimated recovery percentage	35%
Warrants		Option model	Volatility	39%
<b>Collateralized debt obligations</b>	\$ 26,705			
		Discounted cash flows	Constant prepayment rate	0% to 5%
			Constant default rate	0% to 10%
			Loss severity	13% to 75%
			Yield	10% to 35%
<b>Residential mortgage-backed securities</b>	\$ 156,069			
		Discounted cash flows	Constant prepayment rate	0% to 25%
			Constant default rate	0% to 50%
			Loss severity	0% to 80%
			Yield	1% to 50%
<b>Commercial mortgage-backed securities</b>	\$ 30,202			
		Discounted cash flows	Yield	22% to 57%
			Cumulative loss rate	2% to 20%
<b>Loans and other receivables</b>	\$ 153,365			
		Comparable pricing	Comparable bond or loan price	\$81.88 to \$101.25
		Discounted cash flows	Yield	19%
			Cumulative loss rate	0%
		Market approach	Yield	5% to 54%
			EBITDA (a) multiple	8.3
		Scenario analysis	Estimated recovery percentage	15%
<b>Investments at fair value</b>	\$ 32,751			
Private equity securities		Market approach	EBITDA (a) multiple	6.6
		Comparable pricing	Comparable share price	\$400.00
		Scenario analysis	Estimated recovery percentage	50%
<b>Financial Instruments Sold, Not Yet Purchased</b>	<b>Fair Value (in thousands)</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Input(s)</b>	<b>Range</b>
<b>Derivatives</b>	\$ (9,516)			
Equity options		Option model	Volatility	39%
Loan commitments		Comparable pricing	Comparable bond or loan price	\$ 101.13

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

The fair values of certain Level 3 assets that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above table. At February 28, 2013 and November 30, 2012, the exclusions consisted of \$68.1 million and \$82.7 million, respectively, primarily comprised of investments in private equity and hedge funds, investments in reinsurance contracts, certain collateralized debt obligations and corporate loans.





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

Non-exchange traded securities, corporate debt securities, private equity 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.

Non-exchange traded securities, 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.

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

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

***Fair Value Option Election***

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

## Edgar Filing: Jefferies Group LLC - Form 10-Q

are risk managed by us on a fair value basis. The fair value option has also been elected for secured financings that arise in connection with our securitization activities and other structural 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):

	Three Months Ended	
	February 28, 2013	February 29, 2012
<b>Financial Instruments Owned:</b>		
Loans and other receivables	\$ 3,924	\$ 7,811
<b>Financial Instruments Sold:</b>		
Loans	\$	\$ 226
Loan commitments	(2,746)	(654)

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

	February 28, 2013	November 30, 2012
<b>Financial Instruments Owned:</b>		
Loans and other receivables (2)	\$ (258,406)	\$ (256,271)
Loans greater than 90 days past due (1) (2)		10,433

- (1) The aggregate fair value of loans that were 90 or more days past due was \$- 0 - million and \$34.7 million at February 28, 2013 and November 30, 2012.
- (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 loans or other receivables on nonaccrual status at February 28, 2013 and November 30, 2012.

**Note 7. Derivative Financial Instruments*****Off-Balance Sheet Risk***

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

***Derivative Financial Instruments***

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Financial instruments owned derivatives and Financial instruments sold, not yet purchased derivatives net of cash paid or received under credit support agreements and on a net counterparty basis when a legal right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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

**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 master netting agreements and collateral arrangements with counterparties. These agreements provide us with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default.

The following tables present the fair value and related number of derivative contracts at February 28, 2013 and November 30, 2012 categorized by predominant risk exposure. The fair value of assets/liabilities related to derivative contracts represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged (in thousands, except contract amounts):

	February 28, 2013			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$ 805,821	32,262	\$ 915,449	32,790
Foreign exchange contracts	537,752	89,195	526,944	87,414
Equity contracts	428,877	1,892,132	421,858	2,754,124
Commodity contracts	158,064	1,534,542	204,924	1,528,982
Credit contracts	7,319	23	18,737	52
Total	1,937,833		2,087,912	
Counterparty/cash-collateral netting	(1,730,913)		(1,867,215)	
Total per Consolidated Statement of Financial Condition	\$ 206,920		\$ 220,697	

	November 30, 2012			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$ 927,896	67,410	\$ 1,065,788	90,831
Foreign exchange contracts	387,325	118,958	357,277	116,758
Equity contracts	577,964	1,526,127	528,979	1,396,213
Commodity contracts	265,703	754,987	278,660	728,696
Credit contracts	4,448	13	11,301	40
Total	2,163,336		2,242,005	
Counterparty/cash-collateral netting	(1,865,250)		(2,012,878)	
Total per Consolidated Statement of Financial Condition	\$ 298,086		\$ 229,127	



**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 months ended February 28, 2013 and February 29, 2012 (in thousands):

<i>Gains (Losses)</i>	Three Months Ended	
	February 28, 2013	February 29, 2012
Interest rate contracts	\$ 25,713	\$ (16,235)
Foreign exchange contracts	11,895	1,161
Equity contracts	(5,436)	(30,112)
Commodity contracts	19,585	20,680
Credit contracts	(3,742)	(15,227)
Total	\$ 48,015	\$ (39,733)

**OTC Derivatives.** The following tables set forth the remaining contract maturity of the fair value of OTC derivative assets and liabilities as of February 28, 2013 (in thousands):

	OTC Derivative Assets (1) (2) (4)					Total
	0 12 Months	1 5 Years	Greater Than 5 Years	Cross- Maturity Netting (3)		
Commodity swaps, options and forwards	\$ 61,023	\$ 137	\$	\$ (318)	\$ 60,842	
Credit default swaps		3,844			3,844	
Equity swaps and options	1,622				1,622	
Total return swaps	1,277				1,277	
Foreign currency forwards, swaps and options	82,784	32,781		(8,301)	107,264	
Fixed income forwards			447		447	
Interest rate swaps and options	19,464	47,523	179,557	(77,633)	168,911	
Total	\$ 166,170	\$ 84,285	\$ 180,004	\$ (86,252)	344,207	
Cross product counterparty netting					(1,511)	
Total OTC derivative assets included in Financial instruments owned					\$ 342,696	

- (1) At February 28, 2013, we held exchange traded derivative assets and other credit enhancements with a fair value of \$20.5 million, which are not included in this table.
- (2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received on the Consolidated Statements of Financial Condition. At February 28, 2013, cash collateral received was \$156.3 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.



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

	OTC Derivative Liabilities (1) (2) (4)					Total
	0 12 Months	1 5 Years	Greater Than 5 Years	Cross- Maturity Netting (3)		
Commodity swaps, options and forwards	\$ 107,646	\$ 108	\$	\$ (318)	\$ 107,436	
Credit default swaps	238	7,014			7,252	
Equity swaps and options	3,148				3,148	
Total return swaps	6,248				6,248	
Foreign currency forwards, swaps and options	73,554	31,197		(8,301)	96,450	
Interest rate swaps and options	16,612	130,979	210,771	(77,633)	280,729	
<b>Total</b>	<b>\$ 207,446</b>	<b>\$ 169,298</b>	<b>\$ 210,771</b>	<b>\$ (86,252)</b>	<b>501,263</b>	
Cross product counterparty netting					(1,511)	
<b>Total OTC derivative liabilities included in Financial instruments sold, not yet purchased</b>					<b>\$ 499,752</b>	

- (1) At February 28, 2013, we held exchange traded derivative liabilities and other credit enhancements with a fair value of \$13.5 million, which are not included in this table.
- (2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged on the Consolidated Statements of Financial Condition. At February 28, 2013, cash collateral pledged was \$292.6 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 February 28, 2013, 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	\$ 225,413
BBB- to BBB+	42,967
BB+ or lower	66,073
Unrated	8,243
<b>Total</b>	<b>\$ 342,696</b>

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

**Contingent Features**

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at February 28, 2013 and November 30, 2012 is \$172.6 million and \$164.8 million, respectively, for which we have posted collateral of \$113.6 million and \$129.2 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on February 28, 2013 and November 30, 2012, we would have been required to post an additional \$63.9 million \$38.1 million, respectively, of collateral to our counterparties.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 8. Collateralized Transactions**

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We manage our exposure to credit risk associated with these transactions by entering into master netting agreements. We also 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 certain 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 or derivative transactions or cover short positions. At February 28, 2013 and November 30, 2012, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$21.8 billion and \$21.1 billion, respectively. The fair value of securities received as collateral at February 28, 2013 and November 30, 2012 that pertains to our securities financing activities at February 28, 2013 and November 30, 2012 are as follows (in thousands):

	February 28, 2013	November 30, 2012
<b>Carrying amount:</b>		
Securities purchased under agreements to resell	\$ 3,578,366	\$ 3,357,602
Securities borrowed	5,315,488	5,094,679
Securities received as collateral	25,338	
<b>Total assets on Consolidated Statement of Financial Condition</b>	<b>8,919,192</b>	<b>8,452,281</b>
Netting of securities purchased under agreements to resell (1)	9,027,147	9,982,752
	<b>17,946,339</b>	<b>18,435,033</b>
Fair value of collateral received in excess of contract amount (2)	3,854,353	2,683,767
<b>Fair value of securities received as collateral</b>	<b>\$ 21,800,692</b>	<b>\$ 21,118,800</b>

- (1) Represents the netting of securities purchased under agreements to resell with securities sold under agreements to repurchase balances for the same counterparty under legally enforceable netting agreements.
- (2) Includes collateral received from customers for margin balances unrelated to arrangements for securities purchased under agreements to resell or securities borrowed with a fair value of \$1,381.0 million and \$1,252.6 million at February 28, 2013 and November 30, 2012, respectively, of which \$812.6 million and \$727.7 million had been rehypothecated and collateral received on securities for securities transactions of \$2,302.7 million and \$1,378.8 million at February 28, 2013 and November 30, 2012, respectively.

At February 28, 2013 and November 30, 2012, a substantial portion of the securities received by us had been sold or repledged.

In instances where we are permitted to sell or repledge the securities received as collateral, we report the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At February 28, 2013 and November 30,

## Edgar Filing: Jefferies Group LLC - Form 10-Q

2012, \$25.3 million and \$-0- million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 9. Securitization Activities**

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

We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues in the Consolidated Statement of Earnings prior to the identification and isolation for securitization. Revenues subsequent to such identification and isolation, including revenues recognized from the sales of the beneficial interests to investors, are reflected as net underwriting revenues. If we have not relinquished control over the transferred assets, the assets continue to be recognized in Financial instruments owned and a corresponding secured borrowing is recognized in Other liabilities.

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):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Transferred assets	\$ 2,735.2	\$ 2,036.8
Proceeds on new securitizations	2,751.3	2,046.9
Net revenues	12.9	8.0
Cash flows received on retained interests	\$ 32.3	\$ 15.8

Assets received as proceeds in the form of mortgage-backed-securities or collateralized loan obligations issued by the SPEs have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Summary of Significant Accounting Policies and Note 6, Fair Value Disclosures. We have no explicit or implicit arrangements to provide additional financial support to these SPEs and have no liabilities related to these SPEs at February 28, 2013 and November 30, 2012. 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-making activities meet specific thresholds and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities table presented in Note 10, Variable Interest Entities.

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

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

Securitization Type	As of February 28, 2013	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$ 5,368.8	\$ 300.6 (1)
U.S. government agency commercial mortgage-backed securities	2,324.0	91.3 (1)
Collateralized loan obligations	728.5 (2)	19.7 (2)

- (1) A portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of March 22, 2013, we continue to hold approximately \$240.7 million and \$16.2 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.
- (2) Total assets include assets transferred by unrelated transferors. Retained interests at March 22, 2013 was \$19.7 million.

Securitization Type	As of November 30, 2012	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$ 3,791.5	\$ 335.2 (1)
U.S. government agency commercial mortgage-backed securities	2,193.4	28.9 (1)

- (1) A significant portion of these securities have been subsequently sold in secondary-market transactions to third parties. As of March 22, 2013, we continue to hold approximately \$107.2 million and \$16.2 million of these Residential mortgage-backed securities and Commercial mortgage-backed securities, respectively, in inventory.

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

**Note 10. Variable Interest Entities**

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

## Edgar Filing: Jefferies Group LLC - Form 10-Q

We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and 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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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:

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,

Ownership of debt, equity and partnership interests in Jefferies High Yield Holdings, LLC and related entities,

Management and performance fees in the Jefferies Umbrella Fund, and

Loans to and investments in investment fund vehicles.



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

The following table presents information about the assets and liabilities of our consolidated VIEs, which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of February 28, 2013 and November 30, 2012. The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation. We have aggregated our consolidated VIEs based upon principal business activity.

(in millions)	February 28, 2013			November 30, 2012		
	High Yield	Mortgage- and Asset-backed Vehicles	Other	High Yield	Mortgage- and Asset-backed Vehicles	Other
Cash	\$ 335.2	\$	\$ 0.2	\$ 388.1	\$	\$ 0.2
Financial instruments owned	1,238.0	9.9	0.5	894.2	10.0	0.5
Securities borrowed	488.9			372.1		
Securities purchased under agreement to resell (3)		120.0			60.0	
Receivable from brokers and dealers	474.1			264.5		
Other	9.7			11.4		
	\$ 2,545.9	\$ 129.9	\$ 0.7	\$ 1,930.3	\$ 70.0	\$ 0.7
Financial instruments sold, not yet purchased	\$ 918.1	\$	\$	\$ 526.1	\$	\$
Securities loaned	122.6			112.0		
Payable to brokers and dealers	367.8			201.2		
Mandatorily redeemable interests (1)	1,116.6			1,076.0		
Secured financing (2)		129.9			70.0	
Other	21.6		0.2	15.0		0.2
	\$ 2,546.7	\$ 129.9	\$ 0.2	\$ 1,930.3	\$ 70.0	\$ 0.2

- (1) After consolidation, which eliminates our interests and the interests of our consolidated subsidiaries, JSOP and JESOP, the carrying amount of the mandatorily redeemable financial interests pertaining to the above VIEs included within Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately \$359.0 million and \$348.1 million at February 28, 2013 and November 30, 2012, respectively. These amounts represent the portion of the mandatorily redeemable preferred interests held by our joint venture partner.
- (2) Secured financing is included within Accrued expenses and other liabilities. Approximately \$7.6 million and \$7.7 million of the secured financing represents an amount held by us in inventory and are eliminated in consolidation at February 28, 2013 and November 30, 2012, respectively.
- (3) Securities purchased under agreement to resell represent an amount due from a related consolidated entity in a collateralized transaction, which is eliminated in consolidation.

*High Yield.* We conduct our high yield secondary market trading activities through Jefferies High Yield Trading, LLC ( JHYT ), Jefferies High Yield Finance, LLC ( JHYF ), and Jefferies Leveraged Credit Products, LLC ( JLCP ). JHYT is a registered broker-dealer engaged in the secondary sales and trading of high yield and special situation securities, including bank debt, post-reorganization equity, public and private equity, equity derivatives and other financial instruments. JHYT makes markets in high yield and distressed securities and provides research coverage on these types of securities. JHYF is engaged in the trading of total return swaps. JLCP is engaged in the trading of bank debt, credit

## Edgar Filing: Jefferies Group LLC - Form 10-Q

default swaps and trade claims. JHYT, JHYF and JLCP are wholly owned subsidiaries of JHYH.

We own voting and non-voting interests in JHYH and have entered into management, clearing, and other services agreements with JHYH. We and Leucadia each have the right to nominate two of a total of four directors to JHYH's board of directors. Two funds managed by us, JSOP and JESOP, are also investors in JHYH. We have determined that JHYH, JSOP and JESOP meet the definition of a variable interest entity. We are the primary beneficiary of JHYH, JSOP and JESOP and accordingly consolidate JHYH (and the assets, liabilities and results of operations of its wholly owned subsidiaries JHYT, JHYF and JLCP), JSOP and JESOP.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

At February 28, 2013 and November 30, 2012, the carrying amount of our variable interests was \$409.2 million and \$389.4 million, respectively, which consist of our debt, equity and partnership interests in JHYH, JSOP and JESOP, which are eliminated in consolidation. In addition, the secondary market trading activity conducted through JHYT, JHYF and JLCP is a significant component of our overall brokerage platform, and while not contractually obligated, could require us to provide additional financial support and/or expose us to further losses of JHYH, JSOP and JESOP. The assets of these VIEs are available for the benefit of the mandatorily redeemable interest holders and equity holders. The creditors of these VIEs do not have recourse to our general credit.

There have been no changes in our conclusion to consolidate JHYH, JSOP and JESOP since formation. See Note 16, Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries for further discussion of JSOP, JESOP and the mandatorily redeemable interests in JHYH.

*Mortgage-and asset-backed vehicles.* We are the primary beneficiary of a mortgage-backed securitization vehicle to which we transferred a project loan and retained servicing rights over the loan as well as retained a portion of the securities issued by the securitization vehicle. Our variable interests in this vehicle consist of the securities and a contractual servicing fee. The asset of this VIE consists of a project loan, which is available for the benefit of the vehicles' beneficial interest holders. The creditors of this VIE do not have recourse to our general credit.

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

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

**Nonconsolidated VIEs**

We also hold variable interests in VIEs in which we are not the primary beneficiary and do not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. We have not provided financial or other support to these VIEs during the three months ended February 28, 2013 and year ended November 30, 2012. We have no explicit or implicit arrangements to provide additional financial support to these VIEs and have no liabilities related to these VIEs at February 28, 2013 and November 30, 2012.

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

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

(in millions)	February 28, 2013		
	Financial Statement Carrying Amount	Variable Interests Maximum exposure to loss	VIE Assets
Collateralized loan obligations	\$ 24.5 <sup>(2)</sup>	\$ 24.5 <sup>(4)</sup>	\$ 1,231.0
Agency mortgage- and asset-backed securitizations (1)	1,300.4 <sup>(2)</sup>	1,300.4 <sup>(4)</sup>	9,160.4
Non-agency mortgage- and asset-backed securitizations (1)	938.1 <sup>(2)</sup>	938.1 <sup>(4)</sup>	60,800.9
Asset management vehicle	2.9 <sup>(3)</sup>	2.9 <sup>(4)</sup>	477.7
Private equity vehicles	53.8 <sup>(3)</sup>	96.8	79.1
Total	\$ 2,319.7	\$ 2,362.7	\$ 71,749.1

- (1) VIE assets represent the unpaid principal balance of the assets in these vehicles at February 28, 2013 and represent the underlying assets that provide the cash flows supporting our variable interests.
- (2) Consists of debt securities accounted for at fair value, which are included within Financial instruments owned.
- (3) Consists of equity interests and loans, which are included within Investments in managed funds and Loans to and investments in related parties.
- (4) 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.

(in millions)	November 30, 2012		
	Financial Statement Carrying Amount	Variable Interests Maximum exposure to loss	VIE Assets
Collateralized loan obligations	\$ 5.3 <sup>(2)</sup>	\$ 5.3 <sup>(4)</sup>	\$ 499.7
Agency mortgage- and asset-backed securitizations (1)	1,579.1 <sup>(2)</sup>	1,579.1 <sup>(4)</sup>	6,396.6
Non-agency mortgage- and asset-backed securitizations (1)	814.1 <sup>(2)</sup>	814.1 <sup>(4)</sup>	54,436.2
Asset management vehicle	3.0 <sup>(3)</sup>	3.0 <sup>(4)</sup>	505.3
Private equity vehicles	55.0 <sup>(3)</sup>	107.7	82.1
Total	\$ 2,456.5	\$ 2,509.2	\$ 61,919.9

- (1) VIE assets represent the unpaid principal balance of the assets in these vehicles at November 30, 2012 and represent the underlying assets that provide the cash flows supporting our variable interests.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

- (2) Consists of debt securities accounted for at fair value, which are included within Financial instruments owned.
- (3) Consists of equity interests and loans, which are included within Investments in managed funds and Loans to and investments in related parties.
- (4) 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 acted as transferor and underwriter in several collateralized loan obligation ( CLO ) transactions during the period and retained securities representing variable interests in the CLOs. Assets collateralizing the CLOs included bank loans, participation interests and sub-investment grade and senior secured U.S. loans. In addition, we own variable interests in CLOs previously managed by us. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Our exposure to loss from these entities is limited to our investments in the debt securities held. Regarding the CLOs previously managed by us, our variable interests consist of debt securities (with a fair value of \$4.8 million and \$5.3 million at February 28, 2013 and November 30, 2012, respectively) and a right to a portion of the CLOs management and incentive fees. Management and incentives fees are accrued as the amounts become realizable.

*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 of \$1,300.4 million, non-agency mortgage- and asset-backed securities of \$938.1 million and collateralized loan obligations of \$24.5 million at February 28, 2013 presented in the above table, we owned additional securities issued

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

by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with our secondary market making activities and our securitization activities. Total securities issued by securitization SPEs at February 28, 2013 consist of the following (in millions):

	Nonagency	Agency	Total
Variable interests in collateralized loan obligations	\$ 24.5	\$	\$ 24.5
Variable interests in agency mortgage- and asset-backed securitizations		1,300.4	1,300.4
Variable interests in nonagency mortgage- and asset-backed securitizations	938.1		938.1
Additional securities in connection with trading and market making activities:			
Residential mortgage-backed securities	64.5	1,981.1	2,045.6
Commercial mortgage-backed securities	73.6	525.6	599.2
Collateralized debt obligations	20.3		20.3
Other asset-backed securities	11.2		11.2
<b>Total mortgage- and asset-backed securities on the Consolidated Statement of Financial Condition</b>	<b>\$ 1,132.2</b>	<b>\$ 3,807.1</b>	<b>\$ 4,939.3</b>

*Asset Management Vehicle.* We manage the Jefferies Umbrella Fund, an umbrella structure company that enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. The assets of the Jefferies Umbrella Fund primarily consist of convertible bonds. Accounting changes to consolidation standards under generally accepted accounting principles have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and we are not the primary beneficiary as of February 28, 2013 and November 30, 2012 under the risk and reward model. Our variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees.

*Private Equity Vehicles.* On July 26, 2010, we committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the SBI USA Fund). As of February 28, 2013 and November 30, 2012, we funded approximately \$36.8 million and \$27.1 million, respectively, of our commitment. The carrying amount of our equity investment was \$24.0 million and \$20.8 million at February 28, 2013 and November 30, 2012, respectively. Our exposure to loss is limited to our equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

We have variable interests in Jefferies Employees Partners IV, LLC ( JEP IV ) consisting of an equity investment and a loan commitment up to an aggregate principal amount of \$33.0 million. The carrying amount of our equity investment was \$1.6 million and \$1.5 million at February 28, 2013 and November 30, 2012, respectively. As of February 28, 2013 and November 30, 2012, we funded approximately \$28.2 million and \$32.7 million, respectively, of the aggregate principal balance, which is included in Loans to and investments in related parties. Our exposure to loss is limited to our equity investment and the aggregate amount of our loan commitment. JEP IV has assets consisting primarily of private equity and equity related investments.

**Note 11. Investments**

We have investments in Jefferies Finance, LLC ( Jefferies Finance ), Jefferies LoanCore LLC ( Jefferies LoanCore ) and Knight Capital Group, Inc. ( Knight Capital ). Our investment in Knight Capital 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 Statement of Financial Condition with changes in fair value recognized in Principal transaction revenues on the Consolidated Statement of Earnings. Our investments in

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***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 February 28, 2013, we and MassMutual each have equity commitments to Jefferies Finance of \$500.0 million for total committed equity capital to Jefferies Finance of \$1.0 billion. As of February 28, 2013, we have funded \$107.5 million of our aggregate \$500.0 million commitment, leaving \$392.5 million unfunded. On March 19, 2013, the total committed equity capital of Jefferies Finance was increased from \$1.0 billion to \$1.2 billion, with Jefferies and MassMutual each committing an additional \$100.0 million. At March 31, 2013, approximately \$306.0 million of our \$600.0 million commitment was unfunded.

On March 1, 2011, we and MassMutual entered into a \$1.0 billion Secured Revolving Credit Facility, 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 facility is scheduled to mature on March 1, 2014 with automatic one year extensions subject to a 60 day termination notice by either party. At February 28, 2013, we have funded \$221.7 million of our \$500.0 million commitment. During the three months ended February 28, 2013, \$4.1 million of interest income and unfunded commitment fees of \$0.3 million are included in the Consolidated Statement of Earnings related to the Secured Revolving Credit Facility. On March 19, 2013, the total committed Secured Revolving Credit Facility was reduced from \$1.0 billion to \$700.0 million committed. At March 31, 2013 there were no amounts funded under this commitment.

The following is a summary of selected financial information for Jefferies Finance as of February 28, 2013 and November 30, 2012 (in millions):

	February 28, 2013	November 30, 2012
Total assets	\$ 1,933.0	\$ 1,643.5
Total liabilities	1,354.3	1,102.1
Total equity	578.7	541.4
Our total equity balance	289.4	270.7

The net earnings of Jefferies Finance were \$36.6 million and \$30.1 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned fees of \$31.0 million and \$23.7 million during the three months ended February 28, 2013 and February 29, 2012, respectively, recognized within Investment banking on the Consolidated Statements of Earnings. In addition, in relation to these transactions, we paid fees to Jefferies Finance of \$0.8 million and \$3.8 million during the three months ended February 28, 2013 and February 29, 2012, respectively, recognized within Business development expenses on the Consolidated Statements of Earnings.





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

Under a service agreement, we charged Jefferies Finance \$15.7 million and \$10.9 million for certain administrative services for the three months ended February 28, 2013 and February 29, 2012, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$17.2 million and \$32.1 million at February 28, 2013 and November 30, 2012, 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 is currently capitalized solely with equity and has aggregate equity commitments of \$600.0 million. As of February 28, 2013 and November 30, 2012, we have funded \$193.4 million and \$110.0 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

The following is a summary of selected financial information for Jefferies LoanCore as of February 28, 2013 and November 30, 2012 (in millions):

	February 28, 2013	November 30, 2012
Total assets	\$ 712.1	\$ 353.6
Total liabilities	264.0	81.8
Total equity	448.1	271.8
Our total equity balance	217.3	131.8

The net earnings of Jefferies LoanCore were \$7.3 million and \$13.6 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

Under a service agreement, we charged Jefferies LoanCore \$0.6 million and \$0.2 million for administrative services for the three months ended February 28, 2013 and February 29, 2012, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$62,000 and \$37,000, at February 28, 2013 and November 30, 2012, respectively.

Jefferies LoanCore enters into derivative transactions with us to hedge its loan portfolio. As of February 28, 2013, the aggregate net fair value of derivative transactions outstanding with Jefferies LoanCore was \$3.3 million and is included within Financial instruments owned on the Consolidated Statement of Financial Condition. During the three months ended February 28, 2013, we recognized gains of \$0.2 million on derivative transactions with Jefferies LoanCore which are included in Principal transactions revenue on the Consolidated Statements of Earnings.

***Knight Capital***

On August 6, 2012, we entered into a Securities Purchase Agreement with Knight Capital, a publicly-traded global financial services firm, ( the Agreement ). Under the Agreement, we purchased preferred stock in exchange for cash consideration of \$125.0 million. The preferred stock consisted of 24,876 shares of Series A-1 Cumulative Perpetual Convertible Preferred Stock ( Series A-1 Shares ) and 100,124 shares of Series A-2 Non-voting Cumulative



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

Perpetual Convertible Preferred Stock ( Series A-2 Shares ) (collectively the Series A Securities ). Each Series A-1 Share is convertible into shares of common stock at the conversion rate of 666.667 shares of common stock. Each Series A-2 Share is convertible into one Series A-1 Share.

On August 29, 2012, we exercised our conversion options and converted our holding of Series A Securities to common stock of Knight Capital. As of February 28, 2013, we own approximately 23% of the outstanding common stock of Knight Capital which reflects the impact of a mandatory conversion of all issued and outstanding Series A Securities into common stock of Knight Capital.

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

The following is a summary of selected financial information for Knight Capital as of December 31, 2012, the most recently available public financial information for the company (in millions):

	December 31, 2012
Total assets	\$ 9,778.4
Total liabilities	8,295.9
Total equity and convertible preferred stock	1,482.5

For the three months and year ended December 31, 2012, Knight Capital reported net income of \$6.5 million and a net loss of \$347.1 million, respectively.

We have separately entered into securities lending transactions with Knight Capital in the normal course of our capital markets activities. At February 28, 2013, the balances of securities borrowed and securities loaned were \$5.9 million and \$26.9 million, respectively.

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

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

	Three Months Ended February 28, 2013
Balance, at beginning of period	\$ 365,670
Add: Contingent consideration	2,394
Add: Translation adjustments	(1,287)
Balance, at end of period	\$ 366,777

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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 the acquisition of LongAcre Partners in 2007.

At least annually, and more frequently if warranted, we assess goodwill for impairment. We completed our annual test of goodwill as of June 1, 2012 and concluded goodwill was not impaired. Periodically estimating the fair value

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

of a reporting unit requires significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Further, adverse market or economic events in the future could result in impairment charges in future periods.

All goodwill is assigned to our Capital Markets segment and is deductible for tax purposes.

*Intangible Assets*

The following tables present the gross carrying amount, accumulated amortization, net carrying amount and weighted average amortization period of identifiable intangible assets as of February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013				Weighted average remaining lives (years)
	Gross cost	Accumulated amortization	Net carrying amount		
Exchange and clearing organization membership interests and registrations	\$ 6,996	\$	\$ 6,996		N/A
Customer relationships	10,542	(4,397)	6,145		7.7
Trade name	1,680	(1,395)	285		4.0
Other	100	(17)	83		12.5
	\$ 19,318	\$ (5,809)	\$ 13,509		

  

	November 30, 2012				Weighted average remaining lives (years)
	Gross cost	Impairment losses	Accumulated amortization	Net carrying amount	
Exchange and clearing organization membership interests and registrations	\$ 11,219	\$ (2,873)	\$	\$ 8,346	N/A
Customer relationships	10,542		(4,107)	6,435	7.9
Trade name	1,680		(1,287)	393	3.5
Other	100		(15)	85	12.8
	\$ 23,541	\$ (2,873)	\$ (5,409)	\$ 15,259	

During the three months ended February 28, 2013, we sold our membership interest in the Kansas City Board of Trade reducing the gross cost of Exchange and clearing organization membership interests and registrations to \$7.0 million.

Intangible assets with an indefinite useful life are not amortized but assessed annually for impairment, or more frequently when certain events or circumstances exist. During the second fiscal quarter of 2012, as a result of a significant decline in the fair value of our exchange and clearing organization membership interests and registrations we recognized an impairment loss of \$2.9 million. Fair values were based on prices of public sales which had declined over the past year.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Regarding intangible assets with a finite life, aggregate amortization expense for the three months ended February 28, 2013 and February 29, 2012 was \$0.4 million and \$0.6 million, 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)**

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

Fiscal year	Estimated future amortization expense
2013	\$ 933
2014	926
2015	768
2016	768
2017	707

*Mortgage Servicing Rights*

Mortgage servicing rights for military housing mortgage loans are accounted for as an intangible asset and included within Other assets in the Consolidated Statements of Financial Condition. The mortgage servicing rights are amortized over the period of the estimated net servicing income, which is reported in Other revenues in the Consolidated Statements of Earnings. We provide no credit support in connection with the servicing of these loans and are not required to make servicing advances on the loans in the underlying portfolios. We determined that the servicing rights represent one class of servicing rights based on the availability of market inputs to measure the fair value of the asset and our treatment of the asset as one aggregate pool for risk management purposes. We earned fees related to these servicing rights of \$114,000 and \$1.1 million during the three months ended February 28, 2013 and February 29, 2012, respectively.

The following presents the activity in the balance of these servicing rights for the three months ended February 28, 2013 and year ended November 30, 2012 (in thousands):

	Three Months Ended February 28, 2013	Year Ended November 30, 2012
Balance, beginning of period	\$ 805	\$ 8,202
Add: Acquisition		162
Less: Sales, net		(6,959)
Less: Pay down		(211)
Less: Amortization	(10)	(389)
Balance, end of period	\$ 795	\$ 805

On November 30, 2012, we sold substantially all of our mortgage servicing rights for approximately \$30.9 million and granted the investor an option to purchase the remaining servicing rights for military housing projects held for \$2.0 million, the estimated fair value.

**Note 13. Short-Term Borrowings**

Bank loans represent short-term borrowings that are payable on demand and generally bear interest at a spread over the federal funds rate. Unsecured bank loans are typically overnight loans used to finance financial instruments owned or clearing related balances. Bank loans at February 28, 2013 and November 30, 2012 totaled \$100.0 million and \$150.0 million, respectively, of which \$100.0 million is secured financing



## Edgar Filing: Jefferies Group LLC - Form 10-Q

at February 28, 2013 and November 30, 2012. Average daily bank loans for the three months ended February 28, 2013 and year ended November 30, 2012 were \$110.0 million and \$66.4 million, respectively. The weighted-average interest rates for short-term borrowings outstanding at February 28, 2013 was 1.10%. Unused borrowing facilities for short-term financing at February 28, 2013 were \$375.0 million in aggregate, of which \$275.0 million would be secured.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 14. Long-Term Debt**

Our long-term debt is accounted for on an amortized cost basis. The following summarizes our long-term debt carrying values (including unamortized discounts and premiums) at February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013	November 30, 2012
<b>Unsecured Long-Term Debt</b>		
5.875% Senior Notes, due June 8, 2014 (effective interest rate of 6.00%)	\$ 249,633	\$ 249,564
3.875% Senior Notes, due November 9, 2015 (effective interest rate of 3.92%)	499,431	499,382
5.5% Senior Notes, due March 15, 2016 (effective interest rate of 5.57%)	349,301	349,248
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 5.90%)	772,588	771,450
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 8.31%)	706,782	706,990
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 7.00%)	744,079	743,945
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 6.22%)	3,756	3,708
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 6.55%)	346,825	346,792
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 5.16%)	598,340	
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.59%)	395,166	
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 7.74%)	292,912	290,617
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.37%)	492,938	492,904
	\$ 5,451,751	\$ 4,454,600
<b>Secured Long-Term Debt</b>		
Credit facility, due August 26, 2014	260,000	350,007
	\$ 5,711,751	\$ 4,804,607

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.

On July 13, 2012, under our Euro Medium Term Note Program ( EMTN Program ) we issued senior unsecured notes with a principal amount of 4.0 million which bear interest at 2.25% per annum and mature on July 13, 2022. Proceeds net of original issue discount amounted to 2.8 million.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

On April 19, 2012, we issued an additional \$200.0 million aggregate principal amount of our 6.875% Senior Notes due April 15, 2021. Proceeds before underwriting discount and expenses amounted to \$197.7 million. The total aggregate principal amount issued under this series of notes is \$750.0 million.

Our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November and December 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases and sales of our Senior Notes due 2018 and Convertible Senior Debentures due 2029 were treated as debt extinguishments and reissuances of debt, respectively. We recognized a gain of \$9.9 million on debt extinguishment which is reported in Other revenues for the three months ended February 29, 2012. Discounts arose as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011. The unamortized balance at November 30, 2012 amounted to \$32.2 million, and is being amortized over the remaining life of the debt using the effective yield method.

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

In October 2009, we issued 3.875% convertible senior debentures due 2029 (the debentures) with an aggregate principal amount of \$345.0 million. Each \$1,000 debenture is currently convertible into 26.8794 shares of common stock (equivalent to a conversion price of approximately \$37.20 per share of common stock). In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceeds \$1,200 per \$1,000 debenture. The debentures are convertible at the holders' option any time beginning on August 1, 2029 and convertible at any time if: 1) the common stock price is greater than 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 the 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. As part of the merger agreement with Leucadia, the debentures are now convertible into common shares of Leucadia. Each \$1,000 debenture is convertible into 21.7723 shares of Leucadia common stock (equivalent to a conversion price of approximately \$45.93). Other than the conversion into Leucadia common shares, the terms of the debenture remain the same.

**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 Dollars, Euros and Sterling, in aggregate totaling \$950.0 million, of which \$250.0 million can be borrowed unsecured. Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. The Credit Facility is guaranteed by Jefferies Group LLC and contains financial covenants, including, but not limited to, 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. The Credit Facility terminates on August 26, 2014. 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. At February 28, 2013 and November 30, 2012, U.S. dollar denominated borrowings outstanding under the Credit Facility amounted to \$260.0 million and \$350.0 million, respectively, and are secured by assets included in the borrowing base amount, as defined in the Credit Facility agreement. There were no non-U.S. dollar borrowings at February 28, 2013. We were in compliance with debt covenants under the Credit Facility at February 28, 2013.

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

In February 2006, MassMutual purchased 125,000 shares of our 3.25% Series A Cumulative Convertible Preferred Stock at a price of \$1,000 per share, or \$125.0 million in the aggregate, with an annual cumulative cash dividend of 3.25%. Dividends are recorded as a component of Interest expense as the Series A Cumulative Convertible Preferred Stock is treated as debt for accounting purposes. The dividend is not deductible for tax purposes because the Series A Cumulative Convertible Preferred Stock are considered equity for tax purposes.

On March 1, 2013, as a result of the merger with Leucadia, the Series A Preferred Stock ceased to exist and was exchanged into preferred shares of Leucadia.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 16. Noncontrolling Interests and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries***Noncontrolling Interests*

Noncontrolling interests represent equity interests in consolidated subsidiaries that are not attributable, either directly or indirectly, to us (i.e., minority interests). Noncontrolling interests include the minority interests' proportionate share of the equity of JSOP, JESOP and other consolidated entities. The following table presents noncontrolling interests at February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013	November 30, 2012
JSOP	\$ 311,510	\$ 303,178
JESOP	36,209	35,239
Other (1)	8,461	8,321
Noncontrolling interests	\$ 356,180	\$ 346,738

(1) Other includes consolidated asset management entities and investment vehicles set up for the benefit of our employees or clients. Ownership interests in subsidiaries held by parties other than our common shareholders are presented as noncontrolling interests within Stockholders' equity, separately from our own equity on the Consolidated Statements of Financial Condition. Revenues, expenses, net earnings or loss, and other comprehensive income or loss are reported in the consolidated financial statements at the consolidated amounts, which includes amounts attributable to both owners of the parent and noncontrolling interests. Net earnings or loss and other comprehensive income or loss is then attributed to the parent and noncontrolling interests. Net earnings to noncontrolling interests is deducted from Net earnings in the Consolidated Statements of Earnings to determine Net earnings to common shareholders. There has been no other comprehensive income or loss attributed to noncontrolling interests for the three months ended February 28, 2013 and February 29, 2012 because all other comprehensive income or loss is attributed to us. On March 1, 2013, ownership interests of JSOP and JESOP were redeemed and the entities dissolved. Cash redemption payments approximating the carrying value of the interests as of February 28, 2013 are expected to be made in April 2013.

*Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries*

Certain interests in consolidated subsidiaries meet the definition of mandatorily redeemable financial instruments and 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. These mandatorily redeemable financial instruments represent interests held in Jefferies High Yield Holdings, LLC ( JHYH ), which are entitled to a pro rata share of the profits and losses of JHYH and are scheduled to terminate in April 2013, with an option to extend up to three additional one-year periods. Financial instruments issued by a subsidiary that are classified as equity in the subsidiary's financial statements are treated as noncontrolling interests in the consolidated financial statements. Therefore, these mandatorily redeemable financial instruments are reported within liabilities as Mandatorily redeemable preferred interests of consolidated subsidiaries on our Consolidated Statements of Financial Condition. In addition, changes to these mandatorily redeemable financial instruments of JHYH are reported in Net revenues and are reflected as Interest on mandatorily redeemable preferred interests of consolidated subsidiaries on our Consolidated Statements of Earnings. The carrying amount of the Mandatorily redeemable preferred interests of consolidated subsidiaries was approximately \$359.0 million and \$348.1 million at February 28, 2013 and November 30, 2012, respectively.

As of April 1, 2013, the mandatorily redeemable preferred interests of consolidated subsidiaries of \$359.0 million have been redeemed and contributed by Leucadia as equity in Jefferies Group LLC. Further, we have dissolved our high yield joint venture and merged its business

activities with those of our U.S. broker-dealer, Jefferies.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 17. Benefit Plans***U.S. Pension Plan*

We sponsor 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. As a minimum, amortization of unrecognized net gain or loss included in Accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. 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. As part of purchase accounting, a liability of \$21.8 million was recognized on July 1, 2011 as a pension obligation within Accrued expenses and other liabilities. The German Pension Plan has no plan assets and is therefore unfunded. We have purchased insurance contracts with multi-national insurers held in the name of Jefferies Bache Limited to provide for the plan's future obligations. The investments in these insurance contracts are included in Financial Instruments owned Investments at fair value in the Consolidated Statements of Financial Condition and has a fair value of \$18.3 million and \$18.6 million at February 28, 2013 and November 30, 2012, respectively. We expect to pay the pension obligation from the cash flows available to us under the insurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

The following table summarizes the components of net periodic pension cost (in thousands):

	U.S. Pension Plan Three Months Ended		German Pension Plan Three Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
<b>Components of net periodic pension cost</b>				
Service cost	\$ 56	\$ 44	\$ 16	\$ 9
Interest cost on projected benefit obligation	529	584	217	267
Expected return on plan assets	(665)	(616)		
Net amortization	300	317		
Net periodic pension cost	\$ 220	\$ 329	\$ 233	\$ 276

We did not contribute to our U.S. Pension Plan and German Pension Plan during the three months ended February 28, 2013, however, we expect to contribute \$3.0 million to the U.S. Pension Plan during the remainder of the fiscal year.

**Note 18. Compensation Plans**

## Edgar Filing: Jefferies Group LLC - Form 10-Q

We sponsor the following share-based compensation plans: incentive compensation plan, directors' plan, employee stock purchase plan and the deferred compensation plan. The fair value of share-based awards is estimated on the date of grant based on the market price of our 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.



Table of Contents

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Total compensation cost related to share-based compensation plans was \$22.6 million and \$24.5 million for the three months ended February 28, 2013 and February 29, 2012, respectively. The net tax (deficiency) benefit related to share-based compensation plans recognized in additional paid-in capital was (\$18.0) million and \$19.7 million during the three months ended February 28, 2013 and February 29, 2012, respectively. Cash flows resulting from tax deductions in excess of the grant date fair value of share-based awards are included in cash flows from financing activities; accordingly, we reflected the excess tax benefit of \$5.7 million and \$29.3 million related to share-based compensation in cash flows from financing activities for the three months ended February 28, 2013 and February 29, 2012, respectively. Due to our tax year end coinciding with our fiscal year end November 30, the timing of certain deductions related to share-based compensation are impacted such that tax benefits resulting from the vesting of awards are realized in the following fiscal year. Consequently, approximately \$19.6 million of the net tax deficiency recognized in additional paid-in capital during the three months ended February 28, 2013 relates to share-based compensation awards that vested during January through November 2012 and approximately \$21.3 million of the net tax benefit recognized in additional paid-in capital during the three months ended February 29, 2012 relates to share-based compensation awards that vested during January through November 2011. Additionally, we expect to recognize a net tax benefit of \$11.9 million related to share-based compensation awards that vested during January and February 2013 in additional paid-in capital during the three month period ending February 28, 2014.

As of February 28, 2013, we had \$205.6 million of total unrecognized compensation cost related to nonvested share-based awards, which is expected to be recognized over a remaining weighted average vesting period of approximately 3.0 years.

In addition, we sponsor nonshare-based compensation plans. Nonshare-based compensation plans sponsored by us include an employee stock ownership plan, a profit sharing plan and other forms of restricted cash awards. The following are descriptions of the compensation plans sponsored by us and the activity of such plans for the three months ended February 28, 2013 and February 29, 2012:

**Incentive Compensation Plan.** We have an Incentive Compensation Plan ( Incentive Plan ) which allows awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, RSUs, dividend equivalents or other share-based awards. In connection with the merger with Leucadia, the Incentive Plans allow for awards to be issued as pertaining to shares of Leucadia, the parent company as of March 1, 2013. Activity presented below for share-based awards pertain to shares of Jefferies Group, Inc. and were converted on March 1, 2013 into awards for shares of Leucadia at the Exchange Ratio.

*Restricted Stock and Restricted Stock Units*

The Incentive Plan allows for grants of restricted stock awards, whereby employees are granted restricted shares of common stock subject to forfeiture. The Incentive Plan also allows for grants of restricted stock units. RSUs give a participant the right to receive fully vested 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 our common stock.

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 upon a four year service requirement 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. We amortize these awards granted to senior executives over the service period as we have determined it is probable that the performance condition will be achieved.

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

The total compensation cost associated with restricted stock and RSUs amounted to \$22.3 million and \$24.3 million for the three months ended February 28, 2013 and February 29, 2012, respectively. Total compensation cost includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks.

The following table details the activity of restricted stock (in thousands, except per share amounts):

	Three Months Ended February 28, 2013	Weighted Average Grant Date Fair Value
<b>Restricted stock</b>		
Balance, beginning of period	8,058	\$ 17.59
Grants	1,591	\$ 18.25
Forfeited	(138)	\$ 17.20
Fulfillment of service requirement	(999)	\$ 17.69
Balance, end of period (1)	8,512	\$ 17.71

(1) Represents restricted stock with a future service requirement.

The following table details the activity of restricted stock units (in thousands, except per share amounts):

	Three Months Ended February 28, 2013		Weighted Average Grant Date Fair Value	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
<b>Restricted stock units</b>				
Balance, beginning of period	9,216	16,656	\$ 18.67	\$ 12.79
Grants		83 (1)	\$	\$ 15.78
Distribution of underlying shares		(7,711)	\$	\$ 18.01
Fulfillment of service requirement	(2,837)	2,837	\$ 25.54	\$ 25.54
Balance, end of period	6,379	11,865	\$ 15.60	\$ 12.46

(1) Includes approximately 83,000 dividend equivalents declared on RSUs during the three months ended February 28, 2013. The weighted average grant date fair value of these dividend equivalents was approximately \$15.78.

The aggregate fair value of restricted stock and RSUs granted with a service requirement that vested during the three months ended February 28, 2013 and February 29, 2012 was \$72.6 million and \$11.5 million, respectively. In addition, we granted restricted stock and restricted stock units

## Edgar Filing: Jefferies Group LLC - Form 10-Q

with no future service requirements (excluding dividend equivalents) with an aggregate fair value of \$7.7 million during the three months ended February 29, 2012. We did not grant restricted stock and restricted stock units with no future service requirements (excluding dividend equivalents) during the three months ended February 28, 2013.

**Directors Plan.** We have a Directors Stock Compensation Plan ( Directors Plan ) which provides for an annual grant to each nonemployee director of \$100,000 of restricted stock or deferred shares (which are similar to restricted stock units). These grants are made automatically on the date directors are elected or reelected at our annual shareholders meeting. These grants legally vest three years after the date of grant and are expensed in the year of grant.

Additionally, the Directors Plan permits each nonemployee director to elect to be paid annual retainer fees, meeting fees and fees for service as chairman of a Board committee in the form of cash, deferred cash or deferred shares. If

---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

deferred cash is elected, interest is credited to such deferred cash at the prime interest rate in effect at the date of each annual meeting of stockholders. If deferred shares are elected, dividend equivalents equal to dividends declared and paid on our common stock are credited to a director's account and reinvested as additional deferred shares. The cost related to this plan, included within Other expenses on the Consolidated Statements of Earnings, was \$174,000 and \$174,000 for the three months ended February 28, 2013 and February 29, 2012, respectively.

As a result of the merger, this plan was adopted by the Board of Leucadia and the Directors of Jefferies Group LLC are entitled to receive shares of Leucadia.

**Employee Stock Purchase Plan.** We also have 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 shares of common stock of Jefferies Group, Inc. at a discount. 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). Upon the merger with Leucadia as of March 1, 2013, the ESPP was amended so that the shares underlying the ESPP are common stock of Leucadia.

**Deferred Compensation Plan.** We also have a Deferred Compensation Plan, which was established in 2001. Eligible employees are able to defer compensation on a pre-tax basis by investing in common stock at a discount ( DCP shares ), or by allocating among any combination of the investment funds available under the Deferred Compensation Plan. As of the merger with Leucadia on March 1, 2013, the Deferred Compensation Plan was amended and compensation deferred into DCP shares are shares of Leucadia. We often invest directly, as a principal, in such investment alternatives related 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 the specified other alternative investments 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. This compensation cost was approximately \$72,000 and \$40,000 for the three months ended February 28, 2013 and February 29, 2012, respectively. As of February 28, 2013, there were approximately 1,301,000 shares issuable under the DCP Plan.

**Employee Stock Ownership Plan.** We have an Employee Stock Ownership Plan ( ESOP ) which was established in 1988. We made no contributions to the ESOP and no compensation costs related to the ESOP were incurred during the three months ended February 28, 2013 and February 29, 2012.

**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 \$2.6 million and \$3.0 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

**Restricted Cash Awards.** We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements ranging from one to ten years, with an approximate average term of two years. We amortize these awards to compensation expense over the relevant service period. The compensation cost associated with these awards amounted to \$44.7 million and \$36.6 million for the three months ended February 28, 2013 and February 29, 2012, respectively. At February 28, 2013 and November 30, 2012, the remaining unamortized amount of these awards was \$271.8 million and \$198.9 million, respectively and is included within Other assets on the Consolidated Statements of Financial Condition.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**Note 19. Earnings per Share**

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 and February 29, 2012 (in thousands, except per share amounts):

	Three Months Ended	
	February 28, 2013	February 29, 2012
<b>Earnings for basic earnings per common share:</b>		
Net earnings	\$ 85,496	\$ 96,717
Net earnings to noncontrolling interests	10,704	19,581
Net earnings to common shareholders	74,792	77,136
Less: Allocation of earnings to participating securities (1)	5,501	4,643
Net earnings available to common shareholders	\$ 69,291	\$ 72,493
<b>Earnings for diluted earnings per common share:</b>		
Net earnings	\$ 85,496	\$ 96,717
Net earnings to noncontrolling interests	10,704	19,581
Net earnings to common shareholders	74,792	77,136
Add: Mandatorily redeemable convertible preferred stock dividends	1,016	1,016
Less: Allocation of earnings to participating securities (1)	5,500	4,639
Net earnings available to common shareholders	\$ 70,308	\$ 73,513
<b>Shares:</b>		
Average common shares used in basic computation	213,732	218,049
Stock options	2	3
Mandatorily redeemable convertible preferred stock	4,110	4,110
Convertible debt		
Average common shares used in diluted computation	217,844	222,162
<b>Earnings per common share:</b>		
Basic	\$ 0.32	\$ 0.33
Diluted	\$ 0.32	\$ 0.33

- (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 and 14,198,000 for the three months ended February 28, 2013 and February 29, 2012, respectively. Dividends declared on participating securities during the three months ended February 28, 2013 and February 29, 2012 amounted to approximately \$1,315,000 and \$959,000, respectively. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been

## Edgar Filing: Jefferies Group LLC - Form 10-Q

distributed.

Our ability to pay dividends on our common stock is subject to the restrictions set forth in the dividend preference terms of our Series A convertible preferred stock, certain financial covenants associated with the \$950.0 million Credit Facility as described in Note 14, Long-Term Debt and the governing provisions of the Delaware General Corporation Law.

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

	1 <sup>st</sup> Quarter
2013	\$ 0.075
2012	\$ 0.075

On March 1, 2013, all common shares and securities convertible or distributable into common shares were exchanged for shares of Leucadia.

### **Note 20. Income Taxes**

As of February 28, 2013 and November 30, 2012, we had approximately \$129.0 million and \$110.5 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 \$84.4 million and \$72.4 million (net of federal benefits of taxes) at February 28, 2013 and November 30, 2012, respectively.

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

We recognize interest accrued related to unrecognized tax benefits in Interest expense. Penalties, if any, are recognized in Other expenses in the Consolidated Statements of Earnings. As of February 28, 2013 and November 30, 2012, we had interest accrued of approximately \$17.1 million and \$15.3 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued at February 28, 2013 and February 29, 2012.

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. It is reasonably possible that, within the next twelve months, various tax examinations will be concluded and statutes of limitation will expire. However, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the effective tax rate over the next 12 months.

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	2011
California	2004
Connecticut	2006
Massachusetts	2006
New Jersey	2007
New York State	2001
New York City	2003

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

The following table summarizes our commitments associated with our capital market and asset management business activities at February 28, 2013 (in millions):

	2013	Expected Maturity Date			2019 and Later	Maximum Payout
		2014	2015 and 2016	2017 and 2018		
Equity commitments	\$ 0.4	\$ 4.1	\$ 0.7	\$	\$ 538.3	\$ 543.5
Loan commitments	214.9	283.8	115.2	80.8		694.7
Mortgage-related commitments	848.1	406.9	595.2			1,850.2
Forward starting reverse repos and repos	956.7					956.7
	\$ 2,020.1	\$ 694.8	\$ 711.1	\$ 80.8	\$ 538.3	\$ 4,045.1





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

The table below presents our credit exposure from our loan commitments, including funded amounts, summarized by period of expiration as of February 28, 2013. Credit exposure is based on the external credit ratings of the underlyings or referenced assets of our loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	0 to 12 Months	1 to 5 Years	Greater Than 5 Years	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Non-investment grade	\$	\$ 116.8	\$	\$ 116.8	\$ 48.2	\$ 68.6
Unrated	251.0	730.2		981.2	355.1	626.1
<b>Total</b>	<b>\$ 251.0</b>	<b>\$ 847.0</b>	<b>\$</b>	<b>\$ 1,098.0</b>	<b>\$ 403.3</b>	<b>\$ 694.7</b>

- (1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.
- (2) The corporate lending exposure carried at fair value includes \$403.3 million of funded loans included in Financial instruments owned Loans and a \$8.0 million net liability related to lending commitments recorded in Financial instruments sold Derivatives and Financial instruments owned- Derivatives in the Consolidated Statement of Financial Condition as of February 28, 2013.
- (3) Amounts represent the notional amount of lending commitments less the amount of funded commitments reflected in the Consolidated Statements of Financial Condition.

*Equity Commitments.* We have commitments to invest \$500.0 million and \$291.0 million in Jefferies Finance and Jefferies LoanCore as of February 28, 2013, and have funded \$107.5 million and \$193.4 million, respectively. See Note 11, Investments for additional information regarding these investments.

As of February 28, 2013, we have committed to invest \$5.9 million in Jefferies Capital Partners LLC, the manager of Jefferies Capital Partners IV L.P., Jefferies Capital Partners V L.P. and a related parallel fund, the SBI USA Fund (Jefferies Capital Partners V L.P. and the SBI USA Fund are collectively Fund V ). As of February 28, 2013, we have funded approximately \$1.0 million of our commitment to Jefferies Capital Partners LLC., leaving \$4.9 million unfunded.

We have committed to invest in aggregate up to \$85.0 million in Fund V, private equity funds managed by a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee, comprised of up to \$75.0 million in the SBI USA Fund and \$10.0 million in Jefferies Capital Partners V L.P.. As of February 28, 2013, we have funded approximately \$36.8 million and \$4.9 million of our commitments to the SBI USA Fund and Jefferies Capital Partners V L.P., respectively, leaving approximately \$43.3 million unfunded in aggregate.

We have committed to invest up to \$45.9 million in Jefferies Capital Partners IV L.P. and \$3.1 million in JCP IV LLC, the General Partner of Jefferies Capital Partners IV L.P. As of February 28, 2013, we have funded approximately \$43.6 million and \$2.2 million of our commitments to Jefferies Capital Partners IV L.P. and JCP IV LLC, respectively, leaving approximately \$3.2 million unfunded in aggregate.

As of February 28, 2013, we had other equity commitments to invest up to \$29.8 million in various other investments of which \$2.0 million remained unfunded.

*Loan Commitments.* From time to time we make commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity

## Edgar Filing: Jefferies Group LLC - Form 10-Q

dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. As of February 28, 2013, we had \$411.6 million of outstanding loan commitments to clients.

On March 1, 2011, we and MassMutual entered into a \$1.0 billion secured revolving credit facility with Jefferies Finance, to be funded equally, to support loan underwritings by Jefferies Finance. The facility is scheduled to mature on March 1, 2014 with automatic one year extensions subject to a 60 day termination notice by either party. As of February 28, 2013, we have funded \$221.7 million of the aggregate principal balance and \$278.3 million of our commitment remained unfunded.

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

We entered into a credit agreement with JEP IV, a related party, whereby we are committed to extend loans up to the maximum aggregate principal amount of \$33.0 million. As of February 28, 2013, we funded approximately \$28.2 million of the aggregate principal balance, which is included in Loans to and investments in related parties in our Consolidated Statements of Financial Condition and \$4.8 million of our commitment remained unfunded.

The unfunded loan commitments to Jefferies Finance and JEP IV of \$283.1 million in aggregate are unrated and included in the total unrated lending commitments of \$626.1 million presented in the table above.

*Mortgage-Related Commitments.* We enter into forward contracts to purchase mortgage participation certificates and mortgage-backed securities. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related commitments recorded in the Consolidated Statement of Financial Condition was \$49.2 million at February 28, 2013.

*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.

*Leases.* As lessee, we lease certain premises and equipment under noncancelable agreements expiring at various dates through 2029 which are operating leases. During the first quarter of 2013 we renewed the lease of our global headquarters and executive offices at 520 Madison Avenue, New York, New York 10022; extending the lease term by additional fifteen years. At February 28, 2013, future minimum aggregate lease payments for all noncancelable operating leases, including the renewed lease of our global headquarters and executive offices, for fiscal years ended November 30, 2013 through 2017 and the aggregate amount thereafter, are as follows (in thousands):

Fiscal period	Gross	Sub-Leases	Net
9 months ended November 30, 2013	\$ 47,216	\$ 4,552	\$ 42,664
2014	50,635	4,822	45,813
2015	46,881	2,312	44,569
2016	44,397	2,210	42,187
2017	43,419	121	43,298
Thereafter	377,565		377,565
<b>Total</b>	<b>\$ 610,113</b>	<b>\$ 14,017</b>	<b>\$ 596,096</b>

**Guarantees**

*Derivative Contracts.* Our dealer activities cause us to 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.



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

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at February 28, 2013 (in millions):

Guarantee Type	2013	Expected Maturity Date			2019 and Later	Notional/ Maximum Payout
		2014	2015 and 2016	2017 and 2018		
Derivative contracts - non-credit related	\$ 11,620.4	\$ 353.7	\$ 9.9	\$	\$	\$ 11,984.0
Written derivative contracts - credit related				789.5		789.5
<b>Total derivative contracts</b>	<b>\$ 11,620.4</b>	<b>\$ 353.7</b>	<b>\$ 9.9</b>	<b>\$ 789.5</b>	<b>\$</b>	<b>\$ 12,773.5</b>

At February 28, 2013 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating					Below Investment Grade	Unrated	Notional/ Maximum Payout
	AAA/ Aaa	AA/Aa	A	BBB/Baa				
<b>Credit related derivative contracts:</b>								
Single name credit default swaps	\$	\$	\$ 10.0	\$ 243.0	\$ 30.0	\$	\$	\$ 283.0
Index credit default swaps	506.5							506.5

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or one-sided component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At February 28, 2013, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$142.9 million.

*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 22. Net Capital Requirements**

## Edgar Filing: Jefferies Group LLC - Form 10-Q

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ( FINRA ), Jefferies, Jefferies Execution and Jefferies High Yield Trading 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, Jefferies Execution and Jefferies High Yield Trading have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1. Jefferies Bache, LLC is also registered as a Futures Commission Merchants 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.

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

As of February 28, 2013, Jefferies, Jefferies Execution, Jefferies High Yield Trading 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	\$ 737,727	\$ 688,384
Jefferies Execution	3,464	3,214
Jefferies High Yield Trading	522,498	522,248

	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 243,861	\$ 85,410

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 Services Authority in the United Kingdom ( U.K. ).

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

**Note 23. Segment Reporting**

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

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

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

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

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

Our net revenues and expenses by segment are summarized below for the three months ended February 28, 2013 and February 29, 2012 (in millions):

	Three Months Ended	
	February 28, 2013	February 29, 2012
<b>Capital Markets:</b>		
Net revenues	\$ 792.5	\$ 774.4
Expenses	\$ 653.9	\$ 603.2
<b>Asset Management:</b>		
Net revenues	\$ 10.9	\$ 5.6
Expenses	\$ 7.5	\$ 6.1
<b>Total:</b>		
Net revenues	\$ 803.4	\$ 780.0
Expenses	\$ 661.4	\$ 609.3

The following table summarizes our total assets by segment as of February 28, 2013 and November 30, 2012 (in millions):

	February 28, 2013	November 30, 2012
<b>Segment Assets:</b>		
Capital Markets	\$ 37,787.6	\$ 36,277.7
Asset Management	15.6	15.8
<b>Total assets</b>	<b>\$ 37,803.2</b>	<b>\$ 36,293.5</b>

**Net Revenues by Geographic Region**

Net revenues for the Capital Market segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For Asset Management, net revenues are allocated according to the location of the investment advisor. Net revenues by geographic region for the three months ended February 28, 2013 and February 29, 2012 were as follows (in thousands):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Americas (1)	\$ 653,608	\$ 662,639
Europe (2)	127,970	105,397
Asia	21,809	11,930
<b>Net revenues</b>	<b>\$ 803,387</b>	<b>\$ 779,966</b>



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

**Note 24. Related Party Transactions**

*Jefferies Capital Partners and JEP IV Related Funds.* We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager to the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee ( Private Equity Related Funds ). At February 28, 2013 and November 30, 2012, loans to and/or equity investments in Private Equity Related Funds were \$102.7 million and \$104.2 million, respectively. Interest income earned on loans to

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

Private Equity Related Funds was \$0.5 million and \$0.8 million for the three months ended February 28, 2013 and February 29, 2012, respectively. Other revenues and investment income related to net gains and losses on our investment in Private Equity Related Funds was a \$0.9 million gain and a \$4.8 million loss for the three months ended February 28, 2013 and February 29, 2012, respectively. For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 21, Commitments, Contingencies and Guarantees.

*Berkadia Commercial Mortgage, LLC.* At February 28, 2013, we have commitments to purchase \$171.4 million in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

*Officers, Directors and Employees.* At February 28, 2013 and November 30, 2012, we had \$41.3 million and \$46.5 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.* During the three months ended February 28, 2013 and February 29, 2012, we received commissions and commission equivalents for conducting brokerage services on behalf of Leucadia and its affiliates of \$5,000 and \$8.3 million, respectively, recorded in Commission income on the Consolidated Statements of Earnings. During the three months ended February 28, 2013 and February 29, 2012, we distributed to Leucadia approximately \$61,000 and \$-0- million, respectively, related to earnings associated with their investment in our high yield joint venture.

For information on transactions with our equity method investees, see Note 11, 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, 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, 2012 and filed with the SEC on January 29, 2013;

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.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Consolidated Results of Operations**

The following table provides an overview of our consolidated results of operations (in thousands, except per share amounts):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Net revenues, less mandatorily redeemable preferred interests	\$ 792,426	\$ 758,122
Non-interest expenses	661,439	609,253
Earnings before income taxes	130,987	148,869
Income tax expense	45,491	52,152
Net earnings	85,496	96,717
Net earnings to noncontrolling interests	10,704	19,581
Net earnings to common shareholders	74,792	77,136
Earnings per diluted common share	\$ 0.32	\$ 0.33
Effective tax rate	34.7%	35.0%

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

**Executive Summary**

Net revenues, less mandatorily redeemable preferred interests, for the three months ended February 28, 2013 increased \$34.3 million, or 5%, to a record \$792.4 million, as compared to \$758.1 million for the three months ended February 29, 2012. The results for the first quarter of 2013 include strong investment banking revenues, particularly in debt and equity capital markets, and a gain of \$26.5 million on our share ownership in Knight Capital, Inc. ( Knight Capital ). Net revenues for the three months ended February 29, 2012 include within Other revenues a bargain purchase gain of \$3.4 million on the acquisition of the corporate broking business of Hoare Govett from The Royal Bank of Scotland plc and a gain on debt extinguishment of \$9.9 million.

Non-interest expenses of \$661.4 million for the three months ended February 28, 2013, reflect a 9% increase over the 2012 comparable period. This net increase is primarily attributable to higher compensation expense consistent with higher net revenues and an increase in professional service costs primarily associated with our March 1, 2013 merger with Leucadia. Compensation costs as a percentage of Net revenues for the three months ended February 28, 2013 were 59.0%, as compared to 57.2% for the three months ended February 29, 2012.

For the three months ended February 29, 2012, Compensation and benefits expense includes \$5.8 million relating to the acquisition of the Global Commodities Group on July 1, 2011 and Hoare Govett on February 1, 2012, comprised of the amortization of retention and stock replacement awards granted to Jefferies Bache employees as replacement awards for previous Prudential stock awards that were forfeited at acquisition and amortization of retention awards granted to Hoare Govett employees and bonus costs for employees as a result of the completion of the acquisition of Hoare Govett. When excluding these costs, together with the gain on debt extinguishment of \$9.9 million relating to trading activities in our own debt, amortization of discounts recognized on our long-term debt purchased and reissued in December 2011 and January 2012 and recognized in Interest expense of \$1.2 million and the bargain purchase gain of \$3.4 million on our Hoare Govett acquisition, our ratio of Compensation and benefits expense to Net revenues for the three months ended February 29, 2012 was 57.4%. For the three months ended February 28,



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

2013, our ratio of Compensation and benefits expense to Net revenues, excluding equivalent compensation costs associated with replacement awards to Jefferies Bache and Hoare Govett employees of \$2.4 million and amortization of discounts recognized on our long-term debt purchased and re-issued in December 2011 and January 2012 of \$1.3 million was 58.6%.

At February 28, 2013, we had 3,841 employees globally, just below our headcount of 3,851 at February 29, 2012.

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, 2012.

**Revenues by Source**

The Capital Markets reportable segment includes our securities trading activities, and our investment banking and capital raising activities. The Capital Markets reportable segment provides the sales, trading and origination and execution effort for various equity, fixed income, commodities, foreign exchange and advisory 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 three months ended February 28, 2013 and February 29, 2012 (amounts in thousands):

	Three Months Ended			
	February 28, 2013	% of Net Revenues	February 29, 2012	% of Net Revenues
Equities	\$ 167,354	21%	\$ 136,215	17%
Fixed income	336,872	41	339,147	43
<b>Total sales and trading</b>	<b>504,226</b>	<b>62</b>	<b>475,362</b>	<b>60</b>
Other			13,175	2
Equity	61,380	8	46,187	6
Debt	140,672	18	89,695	11
Capital markets	202,052	26	135,882	17
Advisory	86,226	11	149,913	19
<b>Total investment banking</b>	<b>288,278</b>	<b>37</b>	<b>285,795</b>	<b>36</b>
Asset management fees and investment income from managed funds:				
Asset management fees	11,083	1	11,888	2

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Investment loss from managed funds	(200)		(6,254)	
<b>Total</b>	<b>10,883</b>	<b>1</b>	<b>5,634</b>	<b>2</b>
Net revenues	803,387	100%	779,966	100%
Interest on mandatorily redeemable preferred interests of consolidated subsidiaries	10,961		21,844	
Net revenues, less mandatorily redeemable preferred interests	\$ 792,426		\$ 758,122	

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

Overall market activity improved during the three months ended February 28, 2013 and we achieved record Net revenues of \$803.4 million, an increase of \$23.4 million, or 3%, as compared to \$780.0 million for the three months ended February 29, 2012. Sales and Trading, Investment Banking and Asset Management all reflected an increase in revenues over the prior year quarter. Within Equity revenues, our first quarter 2013 results include Principal transaction revenues of \$26.5 million from an unrealized increase in the value of our investment in Knight Capital. Net revenues for the three months ended February 29, 2012 include a bargain purchase gain of \$3.4 million recognized in connection with our acquisition of Hoare Govett in February 2012 and a gain on extinguishment of debt of \$9.9 million related to transactions in our own debt by our broker-dealer's market-making desk in December 2011 reported within Other revenues.

Interest on mandatorily redeemable preferred interests of consolidated subsidiaries represents the allocation of earnings and losses from our consolidated high yield business to third party noncontrolling interest holders invested in that business through mandatorily redeemable preferred securities. Subsequent to the first quarter of 2013, we have redeemed the third party interests in our high yield business and now own 100% of this business. Future results thus will be wholly allocated to Jefferies.

*Equities Revenue*

Equities revenue is comprised of equity commissions, principal transactions and net interest revenue relating to cash equities, electronic trading, equity derivatives, convertible securities, prime brokerage, securities finance and alternative investment strategies. Equities revenue 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 as any changes in the value of our investment in Knight Capital.

Total equities revenue was \$167.4 million for the three months ended February 28, 2013, as compared to \$136.2 million for the comparable prior year. Equities revenue includes within Principal transaction revenues an unrealized gain of \$26.5 million recognized on our investment in Knight Capital. Exclusive of this gain, equity revenues increased \$4.7 million, or 3%, compared with the three months ended February 29, 2012. Equities revenue is heavily dependent on the overall level of trading activity of our clients.

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. The average New York Stock Exchange volume was down 12% for the three months ended February 28, 2013 as compared to the prior year quarter, while NASDAQ exchange volumes increased marginally. Although market volumes declined, our equity trading desks experienced an increase in client trading volumes for the first quarter of 2013 as compared to the three months ended February 29, 2012. Results for the three months ended February 28, 2013 also reflect improved net revenue from our equity derivatives business when compared to the prior year.

For the three months ended February 28, 2013, equity trading revenues from block trading opportunities and performance from certain strategic investments declined in aggregate as compared to the comparable prior year period. Net earnings from our Jefferies Finance and LoanCore joint ventures were comparable in aggregate as compared to the three months ended February 29, 2012.

*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.

Fixed income revenue was \$336.9 million for the three months ended February 28, 2013, a \$2.2 million or 1% decrease compared to revenue of \$339.1 million for the three months ended February 29, 2012. Fixed income results for the first quarter of 2012 were the second highest in our history with the first quarter of 2013 being the third highest.



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Credit spreads narrowed throughout the first quarter of 2013. In January, global macroeconomic conditions appeared to be improving with the U.S. economy expanding and continued quantitative easing by the U.S. Federal Reserve. U.S. rates sales commission revenues were robust for the three months ended February 28, 2013 with strong treasury issuance and strong demand and yields at historic lows. Revenues from our leveraged finance and emerging markets sales and trading business for the three months ended February 28, 2013 were higher in the first quarter of 2013 versus the 2012 comparable quarter as investor confidence returned in 2013 and investors were attracted to the relatively higher yield on these products. Revenues for the three months ended February 29, 2012 also include significant gains generated by certain high yield positions. The increase in revenue in our emerging markets business also reflects the benefits of our efforts to strengthen our position in this business. Revenues from our international mortgage desk increased significantly as demand for European mortgage bonds continued, as compared to the same period last year where primary issuance was weak and trading volumes light. Jefferies Bache commodities futures and foreign exchange revenues for the three months ended February 28, 2013 increased significantly compared to the three months ended February 29, 2012, where in the prior year quarter client flow was reduced following the MF Global bankruptcy. During the three months ended February 28, 2013, foreign exchange revenues improved from successful navigation of volatile currency markets. Revenues also benefited from new client activity associated with our expansion of our global metals desk and the establishment of our London Mercantile Exchange floor desk in the latter part of 2012.

Increased revenues in these business for the first quarter of 2013 as compared to the first quarter of 2012 were offset by a decline in international credit revenues after an exceptionally strong performance in the prior year's quarter as credit spreads tightened following the turmoil in the European markets towards the end of 2011. Additionally, international rates sales and trading revenues were negatively impacted by investor concerns over the European markets resulting in decreased trading volumes and 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), approximately 65% and 66% of such income for the three months ended February 28, 2013 and February 29, 2012, respectively, are allocated to the minority investors and are presented within interest on mandatorily redeemable preferred interests and net earnings to noncontrolling interests in our Consolidated Statements of Earnings. Subsequent to the first quarter of 2013, we have redeemed the minority investors in Jefferies High Yield Holdings, LLC and, beginning during the second quarter of 2013, results from this business are wholly allocated to Jefferies.

*Other Revenue*

Other revenue for the three months ended February 29, 2012 of \$13.2 million is comprised of gains on debt extinguishment of \$9.9 million in connection with the accounting treatment for certain purchases of our long-term debt by our secondary market making corporates desk and a bargain purchase gain of \$3.4 million arising in the accounting for the acquisition of Hoare Govett on February 1, 2012. For additional information, see Note 4, Hoare Govett Acquisition and Note 14, Long-term Debt, respectively, in our consolidated financial statements.

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

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

	Three Months Ended		% Change
	February 28, 2013	February 29, 2012	
Equity	\$ 61,380	\$ 46,187	33%
Debt	140,672	89,695	57%
Capital markets	202,052	135,882	49%
Advisory	86,226	149,913	42%
<b>Total</b>	<b>\$ 288,278</b>	<b>\$ 285,795</b>	<b>1%</b>

Investment banking revenue was \$288.3 million for the three months ended February 28, 2013 as compared to revenue of \$285.8 million for the three months ended February 29, 2012 with higher debt and equity capital market revenues offset by lower advisory revenues over the quarters. Capital markets revenue increased \$66.2 million, or 49%, to a record \$202.1 million compared to the three months February 29, 2012. Debt capital markets revenue increased \$51.0 million to \$140.7 million from \$89.7 million for the three months ended February 29, 2012 driven by a higher 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 raising a total of \$42 billion, as compared to 98 transactions raising a total of \$35 billion in the three months ended February 29, 2012. Equity capital markets revenue totaled \$61.4 million for the three months ended February 28, 2013 as compared to \$46.2 million for the three months ended February 29, 2012. During the three months ended February 28, 2013, we completed 30 public equity financings raising \$10.0 billion in capital (25 of which we acted as sole or joint bookrunner). This compares to 22 public equity financings raising \$3.9 billion in capital (20 of which we acted as sole or joint bookrunner) during the three months ended February 29, 2012.

Reflective of a subdued mergers and acquisition deal environment despite improving fundamentals, for the three months ended February 28, 2013, advisory revenue decreased to \$86.2 million as compared with \$149.9 million for the three months ended February 29, 2012. 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 \$21.0 billion, as compared to 22 merger and acquisition transactions and one restructuring transaction with an aggregate transaction value of \$24 billion during the three months ended February 29, 2012.

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

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

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

The following summarizes the results of our Asset Management business for the three months ended February 28, 2013 and February 29, 2012 (in thousands):

	Three Months Ended	
	February 28, 2013	February 29, 2012
<b>Asset management fees:</b>		
Fixed income	\$ 1,154	\$ 739
Equities	2,295	1,224
Convertibles	1,376	5,923
Commodities	6,258	4,002
	11,083	11,888
Investment loss from managed funds (1)	(200)	(6,254)
Total	\$ 10,883	\$ 5,634

(1) Of the total investment loss from managed funds, no amounts are attributed to noncontrolling interest holders for the three months ended February 28, 2013 and February 29, 2012.

Asset management fees decreased by \$0.8 million to \$11.1 million for the three months ended February 28, 2013 as compared to the three months ended February 29, 2012. The decrease resulted from lower management fees in our global convertible bond funds and managed accounts and lower unrealized performance fees in our global convertible bond asset management business. Partially offsetting these decreases were higher management fees in our commodity funds and managed accounts resulting from higher average assets under management compared to the three months ended February 29, 2012. In our equity funds, lower management fees for the three months ended February 28, 2013 in our strategic investment programs was offset by increased unrealized performance fees in our strategic investment managed account. 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.

For the three months ended February 28, 2013, net unrealized markdowns in private equity funds managed by a related party resulted in an investment loss of \$0.2 million. This compares with a loss of \$6.3 million recognized on these funds for the three months ended February 29, 2012.

*Assets under Management*

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

	February 28, 2013	November 30, 2012
<b>Assets under management (1):</b>		
Equities	\$ 7	\$ 75
Convertibles	1,019	1,092
Commodities	1,014	1,002
Total	\$ 2,040	\$ 2,169

## Edgar Filing: Jefferies Group LLC - Form 10-Q

- (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***Managed Accounts*

We manage certain portfolios as mandated by client arrangements whereby management fees are assessed on an agreed upon basis such as notional account value or another measure specified in the investment management agreement. Managed accounts based on these measures by predominant asset strategy were as follows (in millions):

(notional account value)	February 28, 2013	February 29, 2012
<b>Managed accounts:</b>		
Commodities	\$ 3,674	\$ 2,029
	\$ 3,674	\$ 2,029

*Invested Capital in Managed Funds*

The following table presents our invested capital in managed funds at February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013	November 30, 2012
Unconsolidated funds (1)	\$ 59,976	\$ 57,763
Consolidated funds (2)	28,595	30,561
<b>Total</b>	<b>\$ 88,571</b>	<b>\$ 88,324</b>

- (1) Our invested capital in unconsolidated funds is reported within Investments in managed funds on the Consolidated Statements of Financial Condition. The increase in our invested capital in unconsolidated funds results primarily from an increase in our investment in Jefferies SBI USA Fund L.P. by \$6.7 million, partially offset by a \$4.7 million distribution from Jefferies Capital Partners IV L.P.
- (2) Invested capital in managed funds includes funds that are actively managed by us including hedge funds. Due to the level or nature of our investment in such funds, certain funds are consolidated and the assets and liabilities of these funds are reflected in our consolidated financial statements primarily within Financial instruments owned. We do not recognize asset management fees for funds and accounts that we have consolidated. The decrease in invested capital as of February 28, 2013 from November 30, 2012 is primarily due to a decrease in our investment in the Structured Alpha program by \$5.0 million.

**Non-interest Expenses**

Non-interest expenses for the three months ended February 28, 2013 and February 29, 2012 were as follows (in thousands):

	Three Months Ended	
	February 28, 2013	February 29, 2012
Compensation and benefits	\$ 474,217	\$ 446,462
Non-compensation expenses:		

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Floor brokerage and clearing fees	30,998	27,838
Technology and communications	59,878	61,450
Occupancy and equipment rental	24,309	22,565
Business development	24,927	22,247
Professional services	32,635	13,693
Other	14,475	14,998
<b>Total non-compensation expenses</b>	<b>\$ 187,222</b>	<b>\$ 162,791</b>
Total non-interest expenses	\$ 661,439	\$ 609,253

### *Compensation and Benefits*

Compensation and benefits expense consists of salaries, benefits, cash bonuses, commissions, annual share-based compensation awards and the amortization of certain nonannual share-based and cash compensation to employees. Cash- and 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

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

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 \$71.4 million and \$57.6 million for the three months ended February 28, 2013 and February 29, 2012, respectively.

Compensation and benefits as a percentage of Net revenues was 59.0% compared to 57.2% for the three months ended February 29, 2012. Compensation and benefits expense increased \$27.8 million, or 6%, to \$474.2 million for the three months ended February 28, 2013, compared to \$446.5 million for the three months ended February 29, 2012. The increase was primarily a result of higher net revenues. Employee headcount of 3,841 employees globally at February 28, 2013 decreased from 3,851 employees at February 29, 2012.

For the three months ended February 29, 2012, Compensation and benefits expense includes \$5.8 million relating to the acquisition of the Global Commodities Group on July 1, 2011 and Hoare Govett on February 1, 2012, comprised of the amortization of retention and stock replacement awards granted to Jefferies Bache employees as replacement awards for previous Prudential stock awards that were forfeited at acquisition and amortization of retention awards granted to Hoare Govett employees and bonus costs for employees as a result of the completion of the acquisition of Hoare Govett. When excluding these costs, together with the gain on debt extinguishment of \$9.9 million relating to trading activities in our own debt, amortization of discounts recognized on our long-term debt purchased and reissued in December 2011 and January 2012 and recognized in Interest expense of \$1.2 million and the bargain purchase gain of \$3.4 million on our Hoare Govett acquisition, our ratio of Compensation and benefits expense to Net revenues for the three months ended February 29, 2012 was 57.4%. For the three months ended February 28, 2013, our ratio of Compensation and benefits expense to Net revenues, excluding equivalent compensation costs associated with replacement awards to Jefferies Bache and Hoare Govett employees of \$2.4 million and amortization of discounts recognized on our long-term debt purchased and re-issued in December 2011 and January 2012 of \$1.3 million was 58.6%.

*Non-Compensation Expenses*

Non-compensation expenses were \$187.2 million for the three months ended February 28, 2013, which compared to \$162.8 million for the three months ended February 29, 2012, represented an increase of \$24.4 million, or 15%, over the prior comparable period; although \$10.6 million of this increase is attributed to legal and consulting fees related to our merger with Leucadia. Non-compensation expenses as a percentage of Net revenues were 23% for the three months ended February 28, 2013 as compared to 21% for the three months ended February 29, 2012 principally on the strength of higher revenues in the first quarter of 2013.

Floor brokerage and clearing expense increased 11% to \$31.0 million for the three months ended February 28, 2013 commensurate with higher equity, fixed income and futures trading volumes. Technology and communications expense decreased 3%, or \$1.6 million, to \$59.9 million compared to an expense of \$61.5 million for the three months ended February 29, 2012 due to lower integration costs associated with the Global Commodities Group. Occupancy and equipment expense was \$24.3 million, an increase of \$1.7 million or 8% compared to 2012, primarily due to additional space at our global head office in New York. Professional services expense of \$32.6 million for the three months ended February 28, 2013 reflects an increase of \$18.9 million over expenses of \$13.7 million for the comparable quarter last year, which is primarily attributable to legal and consulting fees related to the merger with Leucadia and provisions for legal contingencies. The increase in business development of \$2.7 million, or 12%, to \$24.9 million, as compared to \$22.2 million for the three months ended February 29, 2012, is primarily driven by our continued efforts to build market share. Other expenses for the three months ended February 28, 2013 were comparable with Other expenses for the three months ended February 29, 2012.

*Income Taxes*

For the three months ended February 28, 2013, the provision for income taxes was an expense of \$45.5 million, equating to an effective tax rate of 34.7%, compared with tax expense of \$52.2 million for the three months ended February 29, 2012, equating to an effective tax rate of 35.0%.

---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*Earnings per Common Share*

Diluted net earnings per common share was \$0.32 for the three months ended February 28, 2013 on 217,844,000 shares, compared to diluted net earnings per common share of \$0.33 for the three months February 29, 2012 on 222,162,000 shares. See Note 19, Earnings per Share in our consolidated financial statements for further information regarding the calculation of earnings per common share.

**Accounting Developments**

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

*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 update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU 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 other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012 (three months ended May 31, 2013). We are currently evaluating the impact of the pending adoption of ASU 2013-02 on our consolidated financial statements.

*Balance Sheet Offsetting Disclosures.* In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The update requires new disclosures regarding balance sheet offsetting and related arrangements. For derivatives and financial assets and liabilities, the amendments require disclosure of gross asset and liability amounts, amounts offset on the balance sheet and amounts subject to the offsetting requirements but not offset on the balance sheet. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods (fiscal year ended November 30, 2014) and is to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance will not affect our financial condition, results of operations or cash flows.

**Adopted Accounting Standards**

*Indefinite-Lived Intangible Asset Impairment.* In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. The guidance permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The update does not revise the requirement to test indefinite-lived intangible assets annually for impairment or more frequently if deemed appropriate. The new guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance on December 1, 2012 did not affect our financial condition, results of operations or cash flows as it did not affect how impairment is calculated.

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



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

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

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

**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.

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

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased, as of February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013		November 30, 2012	
	Financial Instruments		Financial Instruments	
	Financial Instruments Owned	Sold, Not Yet Purchased	Financial Instruments Owned	Sold, Not Yet Purchased
Corporate equity securities	\$ 1,688,607	\$ 1,934,184	\$ 1,762,775	\$ 1,539,332
Corporate debt securities	3,371,464	1,845,617	3,038,146	1,389,312
Government, federal agency and other sovereign obligations	5,010,455	5,045,241	5,153,750	3,666,112
Mortgage- and asset-backed securities	4,939,327	101,580	5,468,284	241,211
Loans and other receivables	968,360	452,007	678,311	207,227
Derivatives	206,920	220,697	298,086	229,127
Investments	71,103		127,023	
Physical commodities	157,299	167,550	144,016	183,142
	\$ 16,413,535	\$ 9,766,876	\$ 16,670,391	\$ 7,455,463

At February 28, 2013 and November 30, 2012, derivative liabilities included within Financial instruments sold, not yet purchased were comprised primarily of exchange traded equity options, over-the-counter ( OTC ) foreign currency forwards and options, OTC commodity forwards and options and interest rate and commodity swaps.

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

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

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

**Level 3 Assets and Liabilities** The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class at February 28, 2013 and November 30, 2012 (in thousands):

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased	
	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012
Loans and other receivables	\$ 170,986	\$ 180,393	\$ 7,398	\$ 1,711
Residential mortgage-backed securities	169,426	156,069	1,542	
Investments at fair value	70,067	83,897		
Corporate debt securities	31,820	3,631		
Collateralized debt obligations	29,776	31,255		
Commercial mortgage-backed securities	17,794	30,202		
Corporate equity securities	13,234	16,815	38	38
Other asset-backed securities	1,252	1,114		
Derivatives	220	328	11,405	9,516
<b>Total Level 3 financial instruments</b>	<b>504,575</b>	<b>503,704</b>	<b>20,383</b>	<b>11,265</b>
Level 3 financial instruments for which the firm bears no economic exposure (1)	(38,771)	(53,289)		
Level 3 financial instruments for which the firm bears economic exposure	465,804	450,415		
Investments in managed funds	59,976	57,763		
Level 3 assets for which the firm bears economic exposure	\$ 525,780	\$ 508,178		
<b>Total Level 3 assets</b>	<b>\$ 564,551</b>	<b>\$ 561,467</b>		
Total Level 3 financial instruments as a percentage of total financial instruments	3%	3%	0.2%	0.3%

(1) Consists of Level 3 assets which are financed by nonrecourse secured financing or attributable to third party or employee noncontrolling interests in certain consolidated entities.

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 liabilities of approximately \$2.3 million at February 28, 2013 and November 30, 2012.

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

Three Months Ended

## Edgar Filing: Jefferies Group LLC - Form 10-Q

	February 28, 2013	February 29, 2012
<b>Assets:</b>		
Transfers from Level 3 to Level 2	\$ 112.7	\$ 41.5
Transfers from Level 2 to Level 3	100.5	109.9
Net gains (losses)	14.5	(9.7)
<b>Liabilities:</b>		
Transfers from Level 3 to Level 2	\$ 0.7	\$ 2.2
Transfers from Level 2 to Level 3		
Net losses	(2.7)	(1.5)

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

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

*Goodwill*

At least annually, and more frequently if warranted, we assess whether goodwill has been impaired by comparing the estimated fair value of each reporting unit with its carrying value. The fair value of reporting units are based on valuations 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 estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods. Refer to Note 12, Goodwill and Other Intangible Assets, in our consolidated financial statements for further detail on our assessment of goodwill.

*Compensation and Benefits*

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

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

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

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

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

	February 28, 2013	November 30, 2012	% Change
Total assets	\$ 37,803.2	\$ 36,293.5	4%
Cash and cash equivalents	3,018.0	2,692.6	12%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,728.7	4,082.6	9%
Financial instruments owned	16,413.5	16,670.4	2%
Financial instruments sold, not yet purchased	9,766.9	7,455.5	31%
Total Level 3 assets	564.6	561.5	1%
Level 3 financial instruments for which we have economic exposure	465.8	450.4	3%
Securities borrowed	\$ 5,315.5	\$ 5,094.7	4%
Securities purchased under agreements to resell	3,578.4	3,357.6	7%
Total securities borrowed and securities purchased under agreements to resell	\$ 8,893.9	\$ 8,452.3	5%
Securities loaned	\$ 1,902.7	\$ 1,934.4	2%
Securities sold under agreements to repurchase	7,976.5	8,181.3	3%
Total securities loaned and securities sold under agreements to repurchase	\$ 9,879.2	\$ 10,115.7	2%



---

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

Total assets at February 28, 2013 were relatively consistent from November 30, 2012 as management determined these balances as of these dates to be appropriate levels of risk and leverage while maintaining sufficient liquidity for the firm and balancing our clients' trading needs. Cash and cash equivalents increased to \$3.0 billion at February 28, 2013 from \$2.7 billion at November 30, 2012 primarily due to proceeds from the issuance of \$1.0 billion senior unsecured long-term debt in January 2013, partially offset by the payment of 2012 year end bonuses during the first quarter of 2013. During the three months ended February 28, 2013, average total assets were approximately 20% higher than total assets at February 28, 2013.

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

Our total Financial instruments owned inventory at February 28, 2013 was \$16.4 billion, as compared to November 30, 2012 Financial instruments owned inventory of \$16.7 billion. Financial instruments owned at February 28, 2013 reflects increases in long inventory positions of sovereign obligations, corporate debt securities and loans receivable offset by a decrease in the holdings of U.S. government and agency securities and mortgage- and asset-backed securities as compared to balances at November 30, 2012. Financial instruments sold, not yet purchased inventory increased to \$9.8 billion from \$7.5 billion at November 30, 2012, primarily due to increases in short positions across all the assets classes except for mortgage- and asset-backed securities. Inventory held of sovereign obligations fluctuated from an overall net long position of \$710.9 million at November 30, 2012 to an overall net long position of \$1,018.1 million at February 28, 2013, primarily driven by an increase in net long exposure to sovereign positions of the United Kingdom, Italy and Germany.

Our overall net inventory positions decreased by \$2.6 billion to \$6.6 billion as of February 28, 2013 from \$9.2 billion as of November 30, 2012 with mortgage- and asset-backed securities accounting for a significant portion of the net inventory decrease as well as the positioning of U.S. government and agency securities in a net short position as of February 28, 2013 as compared to a net long position at November 30, 2012. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. As a Primary Dealer in the U.S. and with our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. For further detail on our outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain as of February 28, 2013, 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 77% 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. Further, our Financial instruments owned consists of high yield bonds, bank loans, investments and non-agency mortgage-backed securities that 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.



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

At February 28, 2013 and November 30, 2012, our Level 3 financial instruments owned for which we have economic exposure was 3% of our total financial instruments owned.

Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 5% from November 30, 2012 to February 28, 2013 primarily to facilitate our fixed income business. The outstanding balance of our securities loaned and securities sold under agreement to repurchase decreased by 2% from November 30, 2012 to February 28, 2013 primarily as matched book activity declined. Our utilization of repurchase agreements to finance liquid inventory is predominantly executed with central clearing corporations rather than bi-lateral repurchase agreements, which reduces the credit risk associated with these arrangements and results in decreased net outstanding balances and which partially offsets the increase in matchbook secured financing activity. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the three months ended February 28, 2013, were 25% and 40% higher, respectively, than the February 28, 2013 balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the year ended November 30, 2012, were 25% and 33% higher, respectively, than the November 30, 2012 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):

	Three Months Ended February 28, 2013	Twelve Months Ended November 30, 2012
<b>Securities Purchased Under Agreements to Resell</b>		
Period end	\$ 3,578	\$ 3,358
Month end average	5,132	4,890
Maximum month end	6,288	6,638
<b>Securities Sold Under Agreements to Repurchase</b>		
Period end	\$ 7,976	\$ 8,181
Month end average	11,895	11,380
Maximum month end	15,168	15,035

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 stockholders' equity and tangible stockholders' equity with the resulting leverage ratios as of February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013	November 30, 2012
Total assets	\$ 37,803,226	\$ 36,293,541
Deduct: Securities borrowed	(5,315,488)	(5,094,679)
Securities purchased under agreements to resell	(3,578,366)	(3,357,602)
Add: Financial instruments sold, not yet purchased	9,766,876	7,455,463
Less derivative liabilities	(220,697)	(229,127)
Subtotal	9,546,179	7,226,336
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(3,728,742)	(4,082,595)
Goodwill and intangible assets	(380,286)	(380,929)
Adjusted assets	\$ 34,346,523	\$ 30,604,072
Total stockholders' equity	\$ 3,682,761	\$ 3,782,753
Deduct: Goodwill and intangible assets	(380,286)	(380,929)
Tangible stockholders' equity	\$ 3,302,475	\$ 3,401,824
Leverage ratio (1)	10.3	9.6
Adjusted leverage ratio (2)	10.4	9.0

(1) Leverage ratio equals total assets divided by total stockholders' equity.

(2) Adjusted leverage ratio equals adjusted assets divided by tangible stockholders' 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. The increase in our leverage ratio from November 30, 2012 to February 28, 2013 is commensurate with the increase in the amount receivable from brokers, dealers and clearing organizations resulting from an increase in regular way unsettled trades and loan settlements due to increased trading volumes. The increase in our adjusted leverage ratio results primarily from the net increase in receivable from brokers, dealers and clearing organizations.

*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.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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.

---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

*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 \$9.6 billion as of February 28, 2013 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 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 a 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.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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.

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

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

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

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At February 28, 2013, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

*Sources of Liquidity*

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

	February 28, 2013	Average balance Quarter ended February 28, 2013 (1)	November 30, 2012
<b>Cash and cash equivalents:</b>			
Cash in banks	\$ 857,202	\$ 628,545	\$ 1,038,664
Money market investments	2,160,756	1,273,488	1,653,931
<b>Total cash and cash equivalents</b>	<b>3,017,958</b>	<b>1,902,033</b>	<b>2,692,595</b>
<b>Other sources of liquidity:</b>			
Securities purchased under agreements to resell (2)	817,961	713,373	900,000
U.K. liquidity pool (2)	314,121	334,807	407,378
Other (3)	575,694	584,684	423,735
<b>Total other sources</b>	<b>1,707,776</b>	<b>1,632,864</b>	<b>1,731,113</b>
<b>Total cash and cash equivalents and other liquidity sources</b>	<b>\$ 4,725,734</b>	<b>\$ 3,534,897</b>	<b>\$ 4,423,708</b>

(1) Average balances are calculated based on weekly balances.

(2) The liquidity pool, segregated by our U.K. broker-dealer, as required by FSA regulation, consists of high quality debt securities issued by a government or central bank of a state within the European Economic Area ( EEA ), Canada, Australia, Japan, Switzerland or the USA; reserves in the form of sight deposits with a central bank of an EEA state, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.

(3) Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that could be reasonably expected to be obtained from our financial instruments owned that are currently not pledged after considering reasonable financing haircuts and additional funds available under the committed senior secured revolving credit facility available for working capital needs of

Jefferies Bache.

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

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. We have the ability to readily obtain repurchase financing for 77% of our inventory at haircuts of 10% or less, which reflects the marketability of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at February 28, 2013 and November 30, 2012 (in thousands):

	February 28, 2013		November 30, 2012	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$ 1,675,373	\$ 592,580	\$ 1,745,960	\$ 426,401
Corporate debt securities	2,587,623	52,976	2,292,823	61,303
U.S. Government, agency and municipal securities	1,179,709		2,114,768	57,681
Other sovereign obligations	3,465,710	803,928	2,681,457	269,475
Agency mortgage- and asset-backed securities (1)	3,500,706		4,052,289	
Physical commodities	157,299		144,016	
	\$ 12,566,420	\$ 1,449,484	\$ 13,031,313	\$ 814,860

- (1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These securities include pass-through securities, securities backed by adjustable rate mortgages ( ARMs ), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.
- (2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments for the three months ended February 28, 2013 and November 30, 2012 were approximately \$18.1 billion and \$16.9 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 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, mandatorily redeemable convertible preferred stock, mandatorily redeemable preferred interests, securities loaned, securities sold under agreements to repurchase, customer free credit balances, bank loans and other payables.

Secured Financing

We rely principally on readily available secured funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate term secured funding, primarily through securities financing transactions. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively repos ), respectively. Approximately 85% 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



## Edgar Filing: Jefferies Group LLC - Form 10-Q

not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

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

A significant portion of our financing of European Sovereign inventory is executed using central clearinghouse financing arrangements rather than via bi-lateral arrangements repo agreements. For those asset classes not eligible for central clearinghouse financing, we seek to execute our bi-lateral financings on an extended term basis. The remaining 15% of our outstanding repo balances is currently contracted bi-laterally, of which a significant portion is on a term basis. The following table provides detail on the composition of our outstanding repurchase agreements at February 28, 2013 (in millions):

Contract Type	Total Contract Amount	Repo Profile by Instrument Type			
		Clearing Organization Eligible	% of Total	Non-Eligible	% of Total
Treasury	\$ 8,101	\$ 8,101	100%	\$	0%
Sovereign	3,071	2,801	91%	270	9%
Agency Debt	669	669	100%		0%
Agency MBS	5,660	4,575	81%	1,085	19%
Non-Agency MBS/ABS	789		0%	789	100%
Corporate Debt	739	240	32%	499	68%
Municipal	188		0%	188	100%
	\$ 19,217	\$ 16,386	85%	\$ 2,831	15%

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. At February 28, 2013, the outstanding amount of the notes issued under the program was \$120.0 million in aggregate, with \$60.0 million maturing in November 2014 and \$60.0 million maturing in February 2015, bearing interest at a spread over one month LIBOR. As the financing program is considered other secured financing, the balance of the financing is classified within Accrued expenses and other liabilities on the Consolidated Statement of Financial Condition. For additional discussion on the arrangement, refer to Note 10, Variable Interest Entities, in our consolidated financial statements.

Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our \$521.3 million of uncommitted secured and unsecured bank lines, comprised of \$475.0 million of bank lines and \$46.3 million of letters of credit. Of the \$475.0 million uncommitted bank lines, \$375.0 million is secured. As of February 28, 2013, short-term borrowings under the uncommitted bank lines totaled \$100.0 million, all of which is secured. Secured amounts are collateralized by a combination of customer and firm securities. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily bank loans for the three months ended February 28, 2013 and year ended November 30, 2012 were \$110.0 million and \$66.4 million, respectively.

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

We had total long-term capital of \$9.6 billion and \$8.7 billion resulting in a long-term debt to equity capital ratio of 1.34:1 and 1.30:1 at February 28, 2013 and November 30, 2012, respectively. Our total capital base as of February 28, 2013 and November 30, 2012 was as follows (in thousands):

	February 28, 2013	November 30, 2012
Long-Term Debt (1)	\$ 5,451,751	\$ 4,454,600
Mandatorily Redeemable Convertible Preferred Stock	125,000	125,000
Mandatorily Redeemable Preferred Interest of Consolidated Subsidiaries	358,951	348,051
Total Stockholders' Equity	3,682,761	3,782,753
<b>Total Capital</b>	<b>\$ 9,618,463</b>	<b>\$ 8,710,404</b>

(1) Long-term debt for purposes of evaluating long-term capital at February 28, 2013 and November 30, 2012 excludes \$260.0 million and \$350.0 million, respectively, of our outstanding borrowings under our long-term revolving Credit Facility.

On March 1, 2013, we merged with Leucadia and, as a result, our outstanding mandatorily redeemable convertible preferred stock was exchanged for a newly created comparable series of convertible preferred stock issued by Leucadia. This exchange of convertible preferred stock is considered a part of Leucadia's purchase consideration of Jefferies Group LLC and therefore results in additional stockholder's equity of Jefferies Group LLC subsequent to the merger.

At February 28, 2013, Stockholders' equity includes noncontrolling interests in our high yield joint venture of \$347.7 million, which was redeemed on March 1, 2013. Cash redemption payments are expected to be made in April 2013. This redemption has not had a significant impact on our liquidity as we have sufficient cash on hand. Also, as of April 1, 2013, the mandatorily redeemable preferred interests of consolidated subsidiaries of \$359.0 million have been redeemed and contributed by Leucadia as stockholder's equity of Jefferies Group LLC.

**Long-Term Debt**

On January 15, 2013, we issued \$1.0 billion in new senior unsecured long-term debt, comprising \$600.0 million principal amount 5.125% Senior Notes, due 2023 and \$400.0 million principal amount 6.5% Senior Notes, due 2043, for which we received proceeds of \$987.3 million, in aggregate.

On July 13, 2012, under our Euro Medium Term Note Program we issued senior unsecured notes with a principal amount of 4.0 million, which bear interest at 2.25% per annum and mature on July 13, 2022. Proceeds, net of original issue discount, amounted to 2.8 million. In addition, on April 19, 2012, we issued an additional \$200.0 million aggregate principal amount of our 6.875% Senior Notes due April 15, 2021. Proceeds before underwriting discount and expenses amounted to \$197.7 million. The total aggregate principal amount issued under this series of notes including the add-on is \$750.0 million as of April 8, 2013.

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, in aggregate totaling \$950.0 million, of which \$250.0 million can be borrowed unsecured. Borrowers under the Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited. At February 28, 2013 and November 30, 2012, we had borrowings outstanding under the Credit Facility amounting to \$260.0 million and \$350.0 million, respectively.

The Credit Facility terminates on August 26, 2014. 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

## Edgar Filing: Jefferies Group LLC - Form 10-Q

LLC to maintain specified level of tangible net worth and liquidity amounts, and requires certain of our subsidiaries to maintain specified levels of regulated capital. On a monthly basis we provide a certificate to the Administrative Agent of the Credit Facility as to the maintenance of various financial covenant ratios at all times during the preceding month. At February 28, 2013 and November 30, 2012, the minimum tangible net worth requirement was \$2,237.4 million and \$2,200.0 million, respectively and the minimum liquidity requirement was \$445.2 million and \$400.8 million, respectively for which we were in compliance. Throughout the period, no instances of noncompliance with the Credit Facility

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

occurred and we expect to remain in compliance both in the near term and long term 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.

Our U.S. broker-dealer, from time to time, makes a market in our long-term debt securities (i.e., purchases and sells our long-term debt securities). During November and December 2011, there was extreme volatility in the price of our debt and a significant amount of secondary trading volume through our market-making desk. Given the volume of activity and significant price volatility, purchases and sales of our debt were treated as debt extinguishment and debt reissuance, respectively. We recognized a \$9.9 million gain on debt extinguishment which is reported in Other revenues for the three months ended February 29, 2012. The balance of Long-term debt was reduced by \$37.1 million as a result of the repurchase and subsequent reissuance of our debt below par during November and December 2011, which is being amortized over the remaining life of the debt using the effective yield method.

As of February 28, 2013, our long-term debt has an average maturity exceeding 9 years, excluding the Credit Facility. We have no other scheduled debt maturities until the \$250.0 million 5.875% Senior Notes mature in 2014.

Our long-term debt ratings as of April 1, 2013 are as follows:

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

These long-term debt ratings reflect a revision by Standard and Poor's Financial Services LLC (Standard and Poor's) of our outlook from Negative to Stable and a reaffirmation of our credit rating of BBB since the issuance of our Annual Report on Form 10-K for the year ended November 30, 2012, filed on January 29, 2013, and in connection with the merger with Leucadia. Also in connection with the merger, the long-term debt ratings reflect a downgrade by Fitch Ratings in our long-term rating to BBB- from BBB in order to equalize this rating with that of Leucadia and a revision in our outlook from Negative to Stable on March 7, 2013. The above mentioned rating actions have not had any material adverse impact on our cost of funds or our ability to fund our operations.

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

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. At February 28, 2013, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade by a single rating agency was \$103.2 million and \$151.6 million could be called in the event of a downgrade of our long-term credit rating below investment grade by a second rating agency. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries**

Mandatorily redeemable preferred interests of \$359.0 million and \$348.1 million at February 28, 2013 and November 30, 2012, respectively, represent interests held in JHYH, which are entitled to a pro rata share of the profits and losses of JHYH. As of April 1, 2013, the mandatorily redeemable preferred interests of consolidated subsidiaries of \$359.0 million have been redeemed and contributed by Leucadia as stockholder's equity of Jefferies Group LLC; and we have dissolved the high yield joint venture and merged its business activities with those of our U.S. broker-dealer.

***Contractual Obligations and Commitments***

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts as of February 28, 2013. The table presents principal cash flows with expected maturity dates (in millions):

	2013	Expected Maturity Date			2019 and Later	Total
		2014	2015 and 2016	2017 and 2018		
<b>Debt obligations:</b>						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	\$	\$ 249.6	\$ 848.7	\$ 772.6	\$ 3,580.8	\$ 5,451.7
Senior secured revolving credit facility		260.0				260.0
Interest payment obligations on senior notes	247.1	322.4	595.4	511.9	1,642.5	3,319.3
Mandatorily redeemable convertible preferred stock	125.0					125.0
Mandatorily redeemable preferred interests of consolidated subsidiaries (1)	359.0					359.0
	731.1	832.0	1,444.1	1,284.5	5,223.3	9,515.0
<b>Commitments and guarantees:</b>						
Equity commitments	0.4	4.1	0.7		538.3	543.5
Loan commitments	214.9	283.8	115.2	80.8		694.7
Mortgage-related commitments	848.1	406.9	595.2			1,850.2
Forward starting reverse repos and repos	956.7					956.7
<b>Derivative contracts:</b>						
Derivative contracts - non credit related	11,620.4	353.7	9.9			11,984.0
Derivative contracts - credit related				789.5		789.5
	13,640.5	1,048.5	721.0	870.3	538.3	16,818.6
	\$ 14,371.6	\$ 1,880.5	\$ 2,165.1	\$ 2,154.8	\$ 5,761.6	\$ 26,333.6

- (1) These mandatorily redeemable financial instruments represent interests held in JHYH. Subsequent to February 28, 2013, these interests have been redeemed and are no longer outstanding. Refer also to discussion in Note 16, Noncontrolling Interest and Mandatorily Redeemable Preferred Interests of Consolidated Subsidiaries, in our consolidated financial statements.



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

As lessee, we lease certain premises and equipment under noncancelable agreements expiring at various dates through 2029 which are operating leases. During the first quarter of 2013 we renewed the lease of our global headquarters and executive offices at 520 Madison Avenue, New York, New York 10022; extending the lease term by additional fifteen years. The table following presents our future minimum lease payments for all noncancelable operating leases, including the renewed lease of our global headquarters and executive offices, at February 28, 2013 for the fiscal years through 2029 (in thousands):

Fiscal period	Gross	Subleases	Net
9 months ended November 30, 2013	\$ 47,216	\$ 4,552	\$ 42,664
2014	50,635	4,822	45,813
2015	46,881	2,312	44,569
2016	44,397	2,210	42,187
2017	43,419	121	43,298
Thereafter	377,565		377,565
	\$ 610,113	\$ 14,017	\$ 596,096

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

In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the Consolidated Statements of Financial Condition as Financial Instruments owned derivative contracts or Financial Instruments sold, not yet purchased derivative contracts as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 6, Fair Value Disclosures, and Note 7, Derivative Financial Instruments, in our consolidated financial statements.

We are routinely involved with variable interest entities ( VIEs ) in connection with our mortgage-backed securities securitization activities. VIEs are entities in which equity investors lack the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. Where we are the primary beneficiary of a VIE, such as is the case with Jefferies High Yield Holdings, LLC, we consolidate the VIE. We do not generally consolidate the various VIEs related to our mortgage-backed securities securitization activities because we are not the primary beneficiary.

At February 28, 2013, we did not have any commitments to purchase assets from our securitization vehicles. At February 28, 2013, we held \$391.9 million of mortgage-backed securities issued by VIEs for which we were initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Financial Instruments owned on our Consolidated Statement of Financial Condition in the same manner as our other financial instruments. For additional information regarding our involvement with VIEs, see Note 9, Securitization Activities and Note 10, Variable Interest Entities, in our consolidated financial statements.

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

*Equity Capital*



## Edgar Filing: Jefferies Group LLC - Form 10-Q

Common stockholders' equity decreased to \$3,326.6 million at February 28, 2013 from \$3,436.0 million at November 30, 2012. The decrease in our common stockholders' equity during the three months ended February 28, 2013 is principally attributed to repurchases of approximately 8.4 million shares of our common stock during the period for \$166.5 million, tax deficiencies for issuance of share-based awards and dividends paid. The decrease in our common stockholders' equity is partially offset by net earnings to common shareholders and share-based compensation.

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

The following table sets forth book value, adjusted book value, tangible book value and adjusted tangible book value per share (in thousands, except per share amounts):

	February 28, 2013	November 30, 2012
Common stockholders' equity	\$ 3,326,581	\$ 3,436,015
Less: Goodwill and intangible assets	(380,286)	(380,929)
<b>Tangible common stockholders' equity</b>	<b>\$ 2,946,295</b>	<b>\$ 3,055,086</b>
Shares outstanding	205,368	203,312
Unearned restricted stock (5)	(8,512)	(8,058)
Earned restricted stock units (6)	11,865	16,656
Other issuable shares (7)	1,378	2,706
Adjusted shares outstanding	210,099	214,616
<b>Common book value per share (1)</b>	<b>\$ 16.20</b>	<b>\$ 16.90</b>
Adjusted common book value per share (2)	\$ 15.83	\$ 16.01
<b>Tangible common book value per share (3)</b>	<b>\$ 14.35</b>	<b>\$ 15.03</b>
Adjusted tangible common book value per share (4)	\$ 14.02	\$ 14.24

- (1) Common book value per share equals common stockholders' equity divided by common shares outstanding.
- (2) Adjusted common book value per share equals common stockholders' equity divided by adjusted shares outstanding.
- (3) Tangible common book value per share equals tangible common stockholders' equity divided by common shares outstanding.
- (4) Adjusted tangible common book value per share equals tangible common stockholders' equity divided by adjusted shares outstanding.
- (5) Unearned restricted stock represent shares that contain future service requirements and have either previously been issued and are included in shares outstanding or have previously been granted and are expected to be issued in the near- term and included in other issuable shares.
- (6) Earned restricted stock units, which give the recipient the right to receive common shares at the end of a specified deferral period, are granted in connection with our share-based employee incentive plans and includes awards for which the future service requirements have been met.
- (7) Other issuable shares primarily includes shares issuable to settle previously granted restricted stock awards and shares issuable under the deferred compensation plan.

Tangible common stockholders' equity, adjusted common book value per share, tangible common book value per share, and adjusted tangible common book value per share are non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of financial performance that includes adjustments to the most directly comparable measure calculated and presented in accordance with U.S. GAAP, or for which there is no specific U.S. GAAP guidance. Goodwill and other intangible assets are subtracted from common stockholders' equity in determining tangible common stockholders' equity as we believe that goodwill and other intangible assets do not constitute operating assets, which can be deployed in a liquid manner. We calculate adjusted common book value per share as common stockholders' equity divided by adjusted shares outstanding. We believe the adjustments to shares outstanding for unearned restricted stock, earned restricted stock units and other issuable shares reflect potential economic claims on our net assets enabling shareholders to better assess their standing with respect to our financial condition. Valuations of financial companies are often measured as a multiple of tangible common stockholders' equity, inclusive of any dilutive effects, making these ratios, and changes in these ratios, a meaningful measurement for investors.



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

At February 28, 2013, we have \$125.0 million of 3.25% Series A cumulative convertible preferred stock outstanding, which is convertible into 4,110,128 shares of our common stock at an effective conversion price of approximately \$30.41 per share and \$345.0 million of convertible senior debentures outstanding, which is convertible into 9,273,393 shares of our common stock at an effective conversion price of approximately \$37.20 per share. On March 1, 2013, as a result of the merger with Leucadia, the 3.25% Series A cumulative convertible preferred stock ceased to exist having been converted into Leucadia preferred stock. The exchange of our convertible preferred stock into convertible preferred stock of Leucadia is included as part of the purchase price consideration remitted by Leucadia and, accordingly, increases our stockholders' equity subsequent to February 28, 2013 upon consummation of the merger. In addition, as part of the Merger Agreement with Leucadia, as of March 1, 2013, the convertible senior debentures are convertible into common shares of Leucadia. Each \$1,000 debenture is convertible into 21.7723 shares of Leucadia common stock (equivalent to a conversion price of approximately \$45.93). Apart from the conversion into Leucadia common shares, the terms of the convertible senior debentures remain the same.

The following table sets forth the declaration dates, record dates, payment dates and per common share amounts for the dividends declared during the three months ended February 28, 2013 and year ended November 30, 2012:

Declaration Date	Record Date	Payment Date	Dividend per common share
<b>Three months ended February 28, 2013:</b>			
December 6, 2012	December 21, 2012	December 31, 2012	\$ 0.075
<b>Year ended November 30, 2012:</b>			
December 19, 2011	January 17, 2012	February 15, 2012	\$ 0.075
March 19, 2012	April 16, 2012	May 15, 2012	\$ 0.075
June 18, 2012	July 16, 2012	August 15, 2012	\$ 0.075
September 19, 2012	October 15, 2012	November 15, 2012	\$ 0.075

No dividends have been declared subsequent to the dividend declared on December 6, 2012.

*Change in Equity Capital as a Result of the Merger with Leucadia*

On March 1, 2013, all of the outstanding common shares of Jefferies Group LLC were exchanged for shares of Leucadia National Corporation and Jefferies Group LLC became wholly-owned by Leucadia with Leucadia as the sole equity owner of Jefferies Group LLC. The aggregate purchase price is estimated to be approximately \$4.7 billion on a preliminary basis. As a result of the merger, our equity capital is therefore estimated to be approximately \$4.7 billion upon consummation. Additionally, in a series of transactions associated with our merger with Leucadia, our mandatorily redeemable convertible preferred stock of \$125.0 million and mandatorily redeemable preferred interest of consolidated subsidiaries of \$359.0 million at February 28, 2013 have been exchanged or redeemed subsequent to February 28, 2013. Further, we do not anticipate the payment of dividends in the future.

*Net Capital*

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ( FINRA ), Jefferies, Jefferies Execution and Jefferies High Yield Trading 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, Jefferies Execution and Jefferies High Yield Trading 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.

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

As of February 28, 2013, Jefferies, Jefferies Execution, Jefferies High Yield Trading 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	\$ 737,727	\$ 688,384
Jefferies Execution	3,464	3,214
Jefferies High Yield Trading	522,498	522,248
	Adjusted Net Capital	Excess Net Capital
Jefferies Bache, LLC	\$ 243,861	\$ 85,410

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

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

**Risk Management**

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

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

For discussion of liquidity and capital risk management refer to, Liquidity, Financial Condition and Capital Resources within Item 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 the Audit Committee of the Board 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



---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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.

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.



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

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.

The VaR numbers below are shown separately for interest rate, equity, currency and commodity products, as well as for our overall trading positions, excluding corporate investments in asset management positions, using the past 365 days of historical date. 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 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 following table illustrates the VaR for each component of market risk (in millions).

## Daily VaR (1)

## Value-at-Risk In Trading Portfolios

Risk Categories	VaR as of		Daily VaR for the Three Months Ended					
	February 28, 2013	November 30, 2012	February 28, 2013			November 30, 2012		
			Average	High	Low	Average	High	Low
Interest Rates	\$ 4.35	\$ 5.37	\$ 5.19	\$ 7.89	\$ 3.69	\$ 6.35	\$ 9.98	\$ 4.40
Equity Prices	4.66	8.02	5.66	8.63	4.47	7.60	10.50	5.82
Currency Rates	1.93	0.37	0.85	2.03	0.11	0.58	1.03	0.19
Commodity Prices	1.42	0.77	1.05	1.68	0.60	1.44	2.40	0.77
Diversification Effect (2)	(5.16)	(3.12)	(3.48)	N/A	N/A	(2.59)	N/A	N/A
Firmwide	\$ 7.20	\$ 11.41	\$ 9.27	\$ 15.56	\$ 6.59	\$ 13.38	\$ 17.52	\$ 9.12

(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.

Our average daily VaR decreased to \$9.27 million for the three months ended February 28, 2013 from \$13.38 million for the three months ended November 30, 2012. The decrease is primarily due to lower equity price risk driven by corporate actions regarding certain of our equity holdings, a decrease in interest rates risk resulting from reduced volatility in interest rate asset classes and an increase in the diversification benefit. Excluding our investment in Knight Capital, the average VaR for the three months ended February 28, 2013 and November 30, 2012 was \$5.99 million and \$7.95 million, respectively.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

**Daily VaR Trend (in millions)**

The primary method used to test the efficacy of the VaR model is to compare actual daily net revenue 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. (Prior to the second quarter of 2012, trading related revenue had excluded revenue from securitization activities for purposes of this analysis.) 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 February 28, 2013, results of the evaluation at the aggregate level demonstrated no days when the net trading loss exceeded the 95% one day VaR.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

Daily Net Trading Revenue

The chart below presents the distribution of our daily net trading revenue for substantially all of our trading activities for the three months ended February 28, 2013 (in millions).

There was one day with trading losses out of a total of 60 trading days in the three months ended February 28, 2013.

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.

**Table of Contents**

**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

## Edgar Filing: Jefferies Group LLC - Form 10-Q

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

### Credit Exposures

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

Loans and lending arise in connection with our capital markets activities and represents the notional value of loans that have been drawn by the borrower and lending commitments that were outstanding at February 28, 2013.

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

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

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

Current counterparty credit exposures at February 28, 2013 and November 30, 2012 are summarized in the table 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 February 28, 2013,

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

excluding cash and cash equivalents, 51% are investment grade counterparties, compared to 58% at November 30, 2012, and are mainly concentrated in North America. Of the credit exposure in Europe, approximately 83% are investment grade counterparties, with the largest exposures arising from securities and margin financing products. When comparing our credit exposure at February 28, 2013 with credit exposure at November 30, 2012, excluding cash and cash equivalents, current exposure has increased 21% to approximately \$1.3 billion from \$1.1 billion. The increase is primarily due to an increase in loan and lending balances.

**Counterparty Credit Exposure by Credit Rating**

(in millions)	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of	As of	As of	As of	As of	As of		As of	As of			
	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012
AAA Range				0.9			0.9	1,848.6	1,322.7	1,848.6	1,323.6	
AA Range			198.4	183.1	18.3	19.1	216.7	202.2	100.0	149.7	316.7	351.9
A Range			203.4	163.8	87.3	72.6	290.7	236.4	1,032.5	1,134.0	1,323.2	1,370.4
BBB Range	50.0	50.0	89.8	106.7	7.4	13.4	147.2	170.1	36.8	86.2	184.0	256.3
BB or Lower	365.0	255.0	78.3	112.3	15.5	19.3	458.8	386.6			458.8	386.6
Unrated	155.2	57.5			7.2	1.6	162.4	59.1			162.4	59.1
<b>Total</b>	<b>570.2</b>	<b>362.5</b>	<b>569.9</b>	<b>566.8</b>	<b>135.7</b>	<b>126.0</b>	<b>1,275.8</b>	<b>1,055.3</b>	<b>3,017.9</b>	<b>2,692.6</b>	<b>4,293.7</b>	<b>3,747.9</b>

**Counterparty Credit Exposure by Region**

(in millions)	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of	As of	As of	As of	As of	As of		As of	As of			
	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012
Asia/Latin America/Other	12.7	12.5	20.3	23.5	8.8	6.5	41.8	42.5	152.6	125.6	194.4	168.1
Europe			145.1	117.4	61.1	42.9	206.2	160.3	455.4	573.9	661.6	734.2
North America	557.5	350.0	404.5	425.9	65.8	76.6	1,027.8	852.5	2,409.9	1,993.1	3,437.7	2,845.6
<b>Total</b>	<b>570.2</b>	<b>362.5</b>	<b>569.9</b>	<b>566.8</b>	<b>135.7</b>	<b>126.0</b>	<b>1,275.8</b>	<b>1,055.3</b>	<b>3,017.9</b>	<b>2,692.6</b>	<b>4,293.7</b>	<b>3,747.9</b>

**Counterparty Credit Exposure by Industry**

(in millions)	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	As of	As of	As of	As of	As of	As of		As of	As of			
	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012	February 28, 2013	November 30, 2012
Asset Managers			6.6	3.3	0.2		6.6	3.5	1,848.6	1,322.7	1,855.2	1,326.2
Banks, Broker-dealers			367.1	312.8	83.5	66.9	450.6	379.7	1,169.3	1,369.9	1,619.9	1,749.6

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Commodities			32.6	23.0	27.1	33.2	59.7	56.2		59.7	56.2
Other	570.2	362.5	163.6	227.7	25.1	25.7	758.9	615.9		758.9	615.9
<b>Total</b>	<b>570.2</b>	<b>362.5</b>	<b>569.9</b>	<b>566.8</b>	<b>135.7</b>	<b>126.0</b>	<b>1,275.8</b>	<b>1,055.3</b>	<b>3,017.9</b>	<b>2,692.6</b>	<b>4,293.7</b>

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 7, Derivative Financial Instruments, in our consolidated financial statements included within this 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. (Prior to the first quarter of 2013, country risk was defined as the country of jurisdiction or domicile of the obligor's ultimate group parent.) The tables presented below at November 30, 2012, has been conformed to this presentation. The following tables reflect our top exposure at February 28, 2013 and November 30, 2012 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 February 28, 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	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Great Britain	\$ 785.9	\$ (276.0)	\$ (256.8)	\$ 11.4	\$ 19.1	\$ 26.5	\$ 330.4	\$ 310.1	\$ 640.5
Luxembourg	124.4	(3.9)		207.6	3.4		82.9	331.5	414.4
Canada	138.3	(57.0)	1.2	13.4	119.5	2.5	0.8	217.9	218.7
France	483.9	(328.4)	15.8		3.0	9.1	11.8	183.4	195.2
Netherlands	420.5	(265.1)	(13.1)	8.0	9.8	0.2	0.8	160.3	161.1
Spain	489.7	(327.4)	(26.1)		0.2		11.7	136.4	148.1
Hong Kong	22.8	(11.2)	(3.4)		3.9		84.3	12.1	96.4
Italy	922.0	(710.1)	(118.9)		1.5	0.5		95.0	95.0
Australia	72.2	(25.5)	3.5	21.1		0.3	1.5	71.6	73.1
Poland	233.0	(175.7)					(0.4)	57.3	56.9
<b>Total</b>	<b>\$ 3,692.7</b>	<b>\$ (2,180.3)</b>	<b>\$ (397.8)</b>	<b>\$ 261.5</b>	<b>\$ 160.4</b>	<b>\$ 39.1</b>	<b>\$ 523.8</b>	<b>\$ 1,575.6</b>	<b>\$ 2,099.4</b>

**As of November 30, 2012**

	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk		
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Great Britain	\$ 691.3	\$ (460.1)	\$ (81.5)	\$ 8.5	\$ 14.2	\$ 25.7	\$ 405.8	\$ 198.1	\$ 603.9
Luxembourg	163.8	(21.1)	1.1	13.6	1.5		96.2	158.9	255.1
Canada	150.7	(66.6)	(23.4)	9.5	103.1	12.6	0.9	185.9	186.8
Spain	276.6	(85.2)	(26.0)		4.6		0.6	170.0	170.6
Netherlands	255.6	(129.5)	(4.5)	7.5	10.3	0.2	0.3	139.6	139.9
Hong Kong	28.3	(12.0)	5.1		1.8		91.2	23.2	114.4
Germany	413.2	(318.1)	(94.7)	3.0	60.3	6.7	20.1	70.4	90.5
Belgium	177.8	(142.8)	(3.7)		0.9		49.4	32.2	81.6
Jersey	0.2	(0.6)		73.7				73.3	73.3
Sweden	70.7	(15.7)	(0.6)		0.4	0.2	0.1	55.0	55.1
<b>Total</b>	<b>\$ 2,228.2</b>	<b>\$ (1,251.7)</b>	<b>\$ (228.2)</b>	<b>\$ 115.8</b>	<b>\$ 197.1</b>	<b>\$ 45.4</b>	<b>\$ 664.6</b>	<b>\$ 1,106.6</b>	<b>\$ 1,771.2</b>



## Edgar Filing: Jefferies Group LLC - Form 10-Q

As of February 28, 2013, the largest components of our exposure to Spain are a net exposure of \$59.7 million to Spanish sovereign debt and a net exposure of \$70.0 million to structured products issued by Spanish entities. The Spanish sovereign debt securities are part of an actively traded portfolio of Spanish government bonds. The structured products are backed by a variety of collateral types, with substantially of the securities classified within Level 2 of the fair value hierarchy. The largest components of our exposure to Italy consist of a net exposure of \$168.1 million to Italian sovereign debt securities and a net short exposure of \$98.4 million to Italian sovereign debt futures contracts, which are actively traded as a portfolio of Italian government bonds and futures contracts. During the quarter ended February 28, 2013, our exposure to the sovereign debt of Italy was concentrated in securities with maturities of less than one year. For additional information, refer to the table on the following pages representing our average exposure for the quarter to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain by maturity category.

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

As detailed below, our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal, and Spain (before economic derivative hedges) was net long \$244.0 million at February 28, 2013, which is approximately 7% of stockholders' equity.

The table below reflects not only our exposure to the sovereign debt of Greece, Ireland, Italy, Portugal, and Spain at February 28, 2013 but also includes our exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries. This table is presented in a manner consistent with how management views and monitors these exposures as part of our risk management framework. Our issuer exposure to these European countries arises primarily in the context of our market making activities and our role as a major dealer in the debt securities of these countries. Accordingly, our issuer risk arises due to holding

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

securities as long and short inventory, which does not carry counterparty credit exposure. While the economic derivative hedges are presented on a notional basis, we believe this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of the hedges. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities. Additional information relating to the derivative contracts, including the fair value of the derivative positions, is included in the following pages.

<i>(in millions)</i>	As of February 28, 2013				Total
	Sovereigns	Corporations	Financial Institutions	Structured Products	
<b>Financial instruments owned - Debt securities</b>					
Greece	\$ 0.2 (4)	\$ 5.0	\$ 0.1 (4)	\$	\$ 5.3
Ireland	13.7 (4)	7.5	40.6 (4)		61.8
Italy	861.6 (4)	14.7	17.7 (4)	28.0	922.0
Portugal	6.5 (4)	1.8	6.2 (4)		14.5
Spain	350.1 (4)	11.5	58.1 (4)	70.0	489.7
<b>Total fair value of long debt securities (1)</b>	<b>1,232.1</b>	<b>40.5</b>	<b>122.7</b>	<b>98.0</b>	<b>1,493.3</b>
<b>Financial instruments sold - Debt securities</b>					
Greece	(4)	0.1	0.1 (4)		0.2
Ireland	2.5 (4)	8.5	7.7 (4)		18.7
Italy	693.5 (4)	10.5	6.2 (4)		710.2
Portugal	1.7 (4)		1.7 (4)		3.4
Spain	290.4 (4)	3.7	33.3 (4)		327.4
<b>Total fair value of short debt securities (2)</b>	<b>988.1</b>	<b>22.8</b>	<b>49.0</b>		<b>1,059.9</b>
<b>Total net fair value of debt securities</b>	<b>244.0</b>	<b>17.7</b>	<b>73.7</b>	<b>98.0</b>	<b>433.4</b>
<b>Derivative contracts - long notional exposure</b>					
Greece					
Ireland		3.1			3.1
Italy	185.4 (5)	0.1			185.5
Portugal					
Spain					
<b>Total notional amount - long (6)</b>	<b>185.4</b>	<b>3.2</b>			<b>188.6</b>
<b>Derivative contracts - short notional exposure</b>					
Greece					
Ireland		0.8			0.8
Italy	283.8 (5)	1.0	19.6		304.4
Portugal					
Spain			26.1		26.1

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Total notional amount - short (6)	283.8	1.8	45.7	331.3
Total net derivative notional exposure (3)	(98.4)	1.4	(45.7)	(142.7)
Total net exposure to select European countries	\$ 145.6	\$ 19.1	\$ 28.0	\$ 98.0
	\$ 290.7			

- (1) Long securities represent the fair value of debt securities and are presented within Financial instruments owned - corporate debt securities and government, federal agency and other sovereign obligations and mortgage- and asset-backed securities on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (2) Short securities represent the fair value of debt securities sold short and are presented within Financial instruments sold, not yet purchased - corporate debt securities and government, federal agency and other sovereign obligations on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.
- (3) Net derivative contracts reflect the notional amount of the derivative contracts and include credit default swaps, bond futures and listed equity options.
- (4) Classification of securities by country and by issuer type is presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or

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

otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.

- (5) These positions are comprised of bond futures executed on exchanges outside Italy.  
(6) See further information regarding derivatives on the tables following.

<i>(in millions)</i>	As of February 28, 2013					
	Greece	Ireland	Italy	Portugal	Spain	Total
<b>Financial instruments owned:</b>						
Long sovereign debt securities (1)	\$ 0.2	\$ 13.7	\$ 861.6	\$ 6.5	\$ 350.1	\$ 1,232.1
Long non-sovereign debt securities (1)	5.1	48.1	60.4	8.0	139.6	261.2
<b>Total long debt securities</b>	<b>5.3</b>	<b>61.8</b>	<b>922.0</b>	<b>14.5</b>	<b>489.7</b>	<b>1,493.3</b>
<b>Financial instruments sold, not yet purchased:</b>						
Short sovereign debt securities		2.5	693.5	1.7	290.4	988.1
Short non-sovereign debt securities	0.2	16.2	16.7	1.7	37.0	71.8
<b>Total short debt securities</b>	<b>0.2</b>	<b>18.7</b>	<b>710.2</b>	<b>3.4</b>	<b>327.4</b>	<b>1,059.9</b>
Net fair value - debt securities	5.1	43.1	211.8	11.1	162.3	433.4
Net derivatives notional amount		2.3	(118.9)		(26.1)	(142.7)
<b>Total net exposure to select European countries</b>	<b>\$ 5.1</b>	<b>\$ 45.4</b>	<b>\$ 92.9</b>	<b>\$ 11.1</b>	<b>\$ 136.2</b>	<b>\$ 290.7</b>

- (1) Classification of securities by country and by issuer type is presented based on the view of our Risk Management Department. Risk Management takes into account whether a particular security or issuer of a security is guaranteed or otherwise backed by a sovereign government and also takes into account whether a corporate or financial institution that issues a particular security is owned by a sovereign government when determining domicile and whether a particular security should be classified for risk purposes as a sovereign obligation. The classification of debt securities within the table above will differ from the financial statement presentation in the Consolidated Statement of Financial Condition because the classification used for financial statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.

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

For the quarter ended February 28, 2013, 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
<b>Financial instruments owned - Debt securities</b>			
Greece	\$	\$ 0.8	\$ 0.8
Ireland	18.4	4.8	23.2
Italy	1,123.1	629.4	1,752.5
Portugal	0.2	5.6	5.8
Spain	130.6	230.5	361.1
<b>Total average fair value of long debt securities (1)</b>	<b>1,272.3</b>	<b>871.1</b>	<b>2,143.4</b>
<b>Financial instruments sold - Debt securities</b>			
Greece		0.1	0.1
Ireland	8.9	1.2	10.1
Italy	622.9	778.6	1,401.5
Portugal	4.6	2.1	6.7
Spain	19.0	144.0	163.0
<b>Total average fair value of short debt securities</b>	<b>655.4</b>	<b>926.0</b>	<b>1,581.4</b>
<b>Total average net fair value of debt securities</b>	<b>616.9</b>	<b>(54.9)</b>	<b>562.0</b>
<b>Derivative contracts - long notional exposure</b>			
Greece			
Ireland			
Italy		157.3 (2)	157.3 (2)
Portugal			
Spain			
<b>Total average notional amount - long</b>		<b>157.3</b>	<b>157.3</b>
<b>Derivative contracts - short notional exposure</b>			
Greece			
Ireland			
Italy		189.0	189.0
Portugal			

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Spain

Total average notional amount - short		189.0		189.0
Total average net derivative notional exposure (3)		(31.7)		(31.7)
Total average net exposure to select European countries	\$	616.9	\$	(86.6)
			\$	530.3

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

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

The table below provides further information regarding the type of derivative contracts executed as economic hedges of issuer exposure to the countries of Greece, Ireland, Italy, Portugal, and Spain as of February 28, 2013. The information is presented based on the notional amount of the contracts and the credit to either the sovereign or non-sovereign domiciled in the respective European counterparty rather than by the domicile of the derivative counterparty. For credit default swaps, we have immaterial issuer risk to counterparties domiciled in Greece, Ireland, Italy, Portugal and Spain.

(in millions)	As of February 28, 2013					Total
	Greece	Ireland	Italy	Portugal	Spain	
<b>Derivative contracts - long notional exposure</b>						
Credit default swaps	\$	\$	\$	\$	\$	\$
Bond future contracts			185.4			185.4
Listed equity options		3.1	0.1			3.2
<b>Total notional amount - long</b>		<b>3.1</b>	<b>185.5</b>			<b>188.6</b>
<b>Derivative contracts - short notional exposure</b>						
Credit default swaps			19.6		26.1	45.7
Bond future contracts			283.8			283.8
Listed equity options		0.8	1.0			1.8
<b>Total notional amount - short</b>		<b>0.8</b>	<b>304.4</b>		<b>26.1</b>	<b>331.3</b>
<b>Net derivatives notional amount</b>	<b>\$</b>	<b>\$ 2.3</b>	<b>\$ (118.9)</b>	<b>\$</b>	<b>\$ (26.1)</b>	<b>\$ (142.7)</b>

The following table provides the fair value of the above derivative contracts at February 28, 2013 (in millions):

	As of February 28, 2013					Total
	Greece	Ireland	Italy	Portugal	Spain	
<b>Derivative contracts - long fair value</b>						
Credit default swaps	\$	\$	\$	\$	\$	\$
Bond future contracts						
Listed equity options		0.5	0.1			0.6
<b>Total fair value - long</b>		<b>0.5</b>	<b>0.1</b>			<b>0.6</b>
<b>Derivative contracts - short fair value</b>						
Credit default swaps			(0.8)		(0.1)	(0.9)
Bond future contracts						
Listed equity options		0.7				0.7
<b>Total fair value - short</b>		<b>0.7</b>	<b>(0.8)</b>		<b>(0.1)</b>	<b>(0.2)</b>

## Edgar Filing: Jefferies Group LLC - Form 10-Q

Net derivatives fair value	\$	\$ (0.2)	\$ 0.9	\$	\$ 0.1	\$ 0.8
----------------------------	----	----------	--------	----	--------	--------

In addition, our non-U.S. sovereign obligations recorded in financial instruments owned and financial instruments sold, not yet purchased are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion are executed with central clearing organizations. Accordingly, we utilize foreign sovereign obligations as underlying collateral for our repurchase financing arrangements. At February 28, 2013, repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Greece, Ireland, Italy, Portugal and Spain as follows (in millions):



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

	As of February 28, 2013		
	Reverse Repurchase Agreements (1)	Repurchase Agreements (1)	Net
Greece	\$	\$	\$
Ireland	12.0	59.9	(47.9)
Italy	859.2	1,243.5	(384.3)
Portugal	3.1	5.6	(2.5)
Spain	259.4	357.9	(98.5)
Total	\$ 1,133.7	\$ 1,666.9	\$ (533.2)

(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 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.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

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

*Legal and Compliance Risk*

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

*New Business Risk*

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

*Reputational Risk*

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

---

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

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

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

**Item 4. Controls and Procedures.**

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of February 28, 2013. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of February 28, 2013 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in our internal control over financial reporting occurred during the quarter ended February 28, 2013 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 merger transactions whereby Jefferies Group LLC became a wholly owned subsidiary of Leucadia National Corporation ( Leucadia ). The class actions, filed on behalf of our shareholders prior to the merger transactions, 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 merger-related subsidiaries. The actions allege that the directors breached their fiduciary duties in connection with the merger 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. We are unable to predict the outcome of this litigation.

**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, 2012 filed with the SEC on January 29, 2013. 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.

**Table of Contents****JEFFERIES GROUP LLC AND SUBSIDIARIES****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

## Issuer Purchases of Equity Securities

The following table presents information on our purchases of Jefferies Group, Inc. own common stock during the three months ended February 28, 2013:

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
December 1- December 31, 2012	174,830	17.17		11,500,000
January 1- January 31, 2013	3,442,662	19.15	1,500,000	10,000,000
February 1- February 28, 2013	4,795,081	20.36	1,000,000	9,000,000
Total	8,412,573		2,500,000	

- (1) We repurchased an aggregate of 5,912,573 shares other than as part of a publicly announced plan or program. We repurchased these securities in connection with our stock compensation plans which allow participants to use shares to satisfy certain tax liabilities arising from the vesting of restricted stock and the distribution of restricted stock units. The total number of shares purchased does not include unvested shares forfeited back to us pursuant to the terms of our stock compensation plans.
- (2) On September 20, 2011, we announced the authorization by our Board of Directors of the repurchase, from time to time, of up to an aggregate of 20,000,000 shares of our Common Stock, inclusive of prior authorizations.

**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.
3.4	Registrant's Amended and Restated Certificate of Incorporation is incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on May 26, 2004.

## Edgar Filing: Jefferies Group LLC - Form 10-Q

- 3.5 Registrant's Certificate of Designations of 3.25% Series A Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K filed on February 21, 2006.
- 3.6 Registrant's Certificate of Designations of 3.25% Series A-1 Cumulative Convertible Preferred Stock is incorporated by reference to Exhibit 99.2 of Registrant's Form 8-K filed on February 15, 2013.
- 3.7 Registrant's By-Laws as amended and restated on December 3, 2007 are incorporated by reference to Exhibit 3 of Registrant's Form 8-K filed on December 4, 2007.
- 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.
- 10.1 Summary of 2013 executive compensation program for Messrs. Sharp and Stacconi is incorporated by reference to Exhibit 10 of Registrant's Form 8-K filed on March 1, 2013.
- 10.2 Summary of the 2012 executive compensation program for Messrs. Handler and Friedman is incorporated by reference to Registrant's Form 8-K filed on September 21, 2013 and Registrant's Form 8-K filed on March 1, 2013.
- 10.3 Purchase Agreement dated January 15, 2013 between Jefferies Group, Inc. and Jefferies & Company, Inc., as representative of the several underwriters identified in Schedule A thereto, relating to the 2023 Notes is incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K filed on January 18, 2013.
- 10.4 Purchase Agreement dated January 15, 2013 between Jefferies Group, Inc. and Jefferies & Company, Inc., as representative of the several underwriters identified in Schedule A thereto, relating to the 2043 Notes is incorporated by reference to Exhibit 10.2 of Registrant's Form 8-K filed on January 18, 2013.

**Table of Contents**

**JEFFERIES GROUP LLC AND SUBSIDIARIES**

- 12\* Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.
- 32\* Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.
- 101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of February 28, 2013 and November 30, 2012; (ii) the Consolidated Statements of Earnings for the three months ended February 28, 2013 and February 29, 2012; (iii) the Consolidated Statements of Comprehensive Income for the three months ended February 28, 2013 and February 29, 2012; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended February 28, 2013 and twelve months ended November 30, 2012; (v) the Consolidated Statements of Cash Flows for the three months ended February 28, 2013 and February 29, 2012; and (vi) the Notes to Consolidated Financial Statements.

\* Filed herewith.

Exhibits 10.1 and 10.2 are management contracts or compensatory plans or arrangements.

**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: April 9, 2013

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