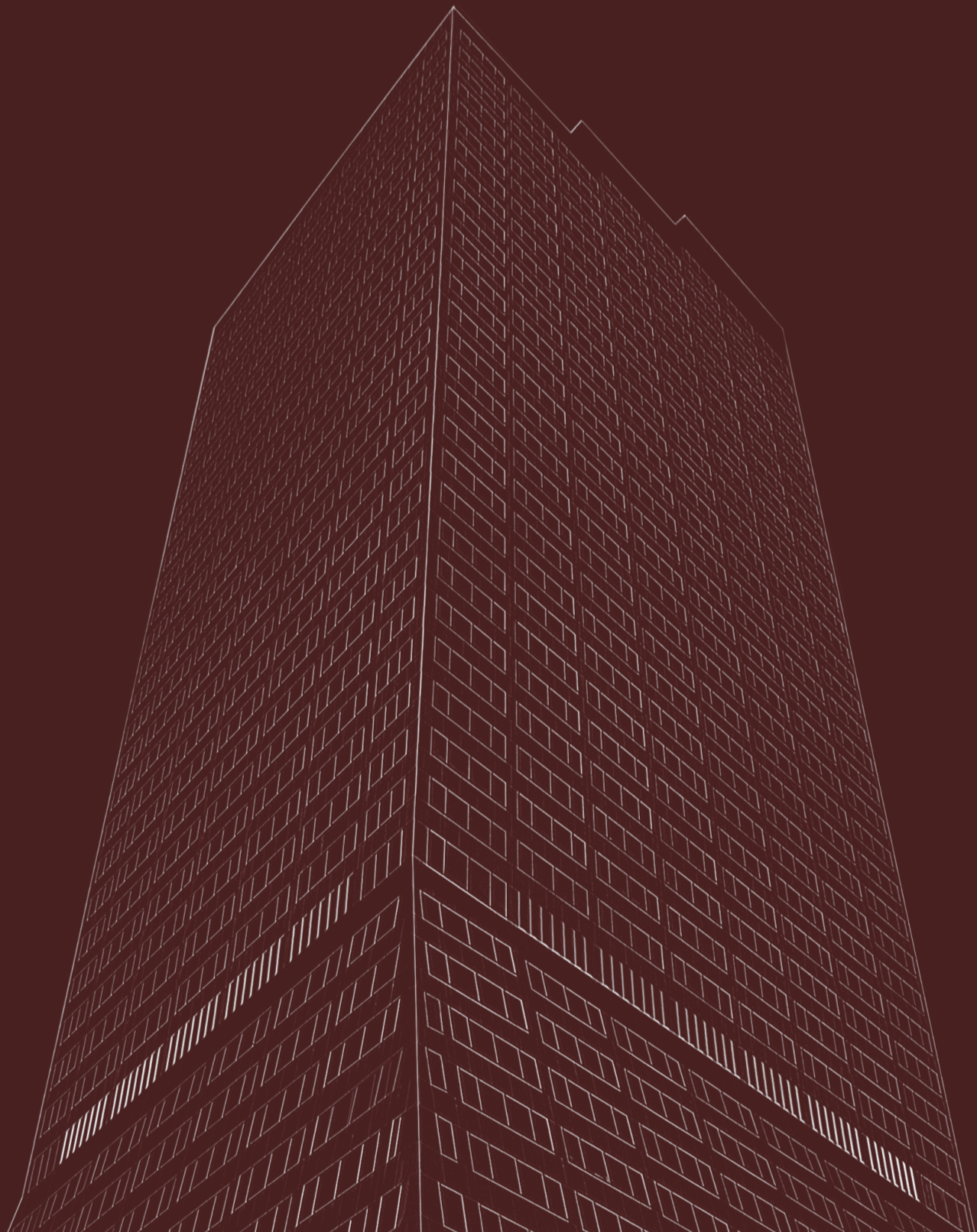




# LEUCADIA NATIONAL CORPORATION

ANNUAL REPORT 2014



## Dear Fellow Shareholders,

We and our entire team have been working diligently to position Leucadia to achieve our number one goal: long-term value creation. We aim to achieve this goal by operating a merchant and investment banking platform that creates, acquires and operates a diversified group of businesses. We want Leucadia to be focused, diversified, driven and transparent. We will only invest where we see value and opportunity that fits our investment profile. We have instilled throughout Leucadia and its businesses a sense of urgency, as well as a constant drive to make things better and more valuable.

We have accomplished much, occasionally been frustrated and learned something new every day. In this letter, we will share with you our experiences to date and our rationale for many of the decisions we have made. By sharing specific ideas and examples we hope to provide insight into our thought process, how we view the world and where we hope to steer Leucadia over time. We also will give an update on each of our businesses.

### OUR FIRST TWO YEARS

Leucadia has realized \$2.5 billion in cash from asset sales since the period surrounding our combination. These were generally good businesses, but were ones where either we had too little influence or ability to add value, were not scalable, or were highly illiquid and too big for a company with \$10.3 billion of shareholders' equity.

We have eliminated long-term endeavors we felt were "quasi venture capital" and would have required meaningful further investment with a likelihood of satisfactory returns lower than we would like. In 2013, we closed Sangart, a biotechnology company that had been nurtured for years by Leucadia. This past year, we stopped investing in Lake Charles Clean Energy after it became apparent that our team's heroic effort could not overcome the challenge of obtaining an acceptable fixed price construction contract. We are continuing to pursue our Oregon LNG terminal project, but the change in energy dynamics, combined with the bureaucratic and political permitting process, are challenging. The burn rate here is modest (single digit millions per year), particularly compared to the two projects we stopped, but we will continue to monitor this closely.

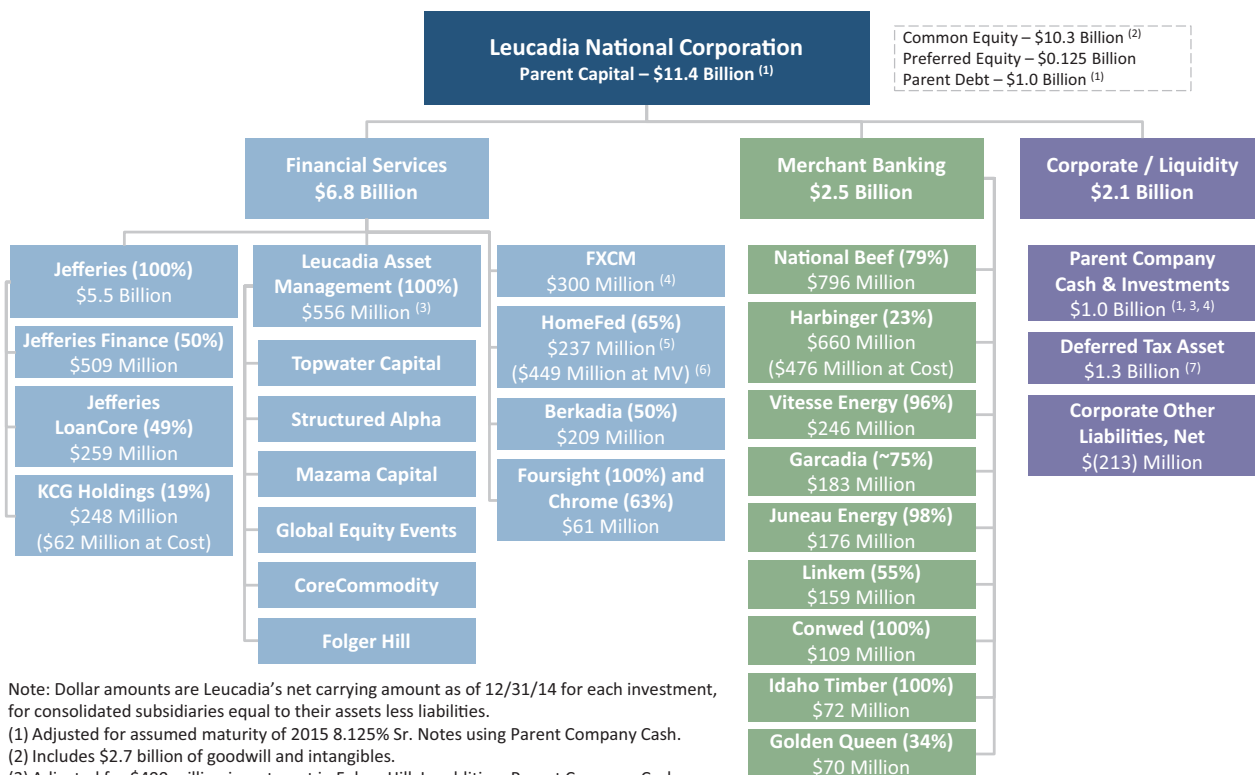
We have also been hard at work looking to deploy fresh capital in smart ways, while operating in an environment where value can be elusive. Since March 1, 2013, we have invested or committed an aggregate of almost \$2.2 billion to new investments that have followed two overriding themes:

- Finding unique value opportunities where our entry terms afford us a favorable risk-reward tradeoff – so far, Harbinger Group (NYSE:HRG), FXCM (NASDAQ:FXCM) and Golden Queen; and
- Building businesses with great managers one asset at a time and thereby creating enterprise value – so far, the various Leucadia Asset Management businesses (LAM), Juneau Energy and Vitesse Energy.

Harbinger, the LAM businesses and FXCM all originated from relationships developed at Jefferies, while Vitesse, Juneau and Golden Queen emanated from relationships of the Leucadia deal team.

We and the rest of the Leucadia deal team are also spending much time with our existing businesses. We saw several opportunities to drive growth in these companies, investing a further \$534 million over the past two years in Garcadia, Linkem, Conwed, Foursight and HomeFed (OTC:HOFD), including transferring Leucadia’s historic one-off real estate assets valued at \$216 million into HomeFed for more shares. We also raised \$4.4 billion of long-term capital over these past two years across our businesses at attractive rates.

We own businesses and investments in financial services and a diverse array of other industries (the latter group comprising what we call our “merchant banking” effort). We also maintain meaningful liquidity and have a significant tax NOL we expect to monetize substantially before the end of this decade. The chart below illustrates how we think about and manage Leucadia today (amounts as of 12/31/14, with some pro forma adjustments noted):



Note: Dollar amounts are Leucadia’s net carrying amount as of 12/31/14 for each investment, for consolidated subsidiaries equal to their assets less liabilities.

(1) Adjusted for assumed maturity of 2015 8.125% Sr. Notes using Parent Company Cash.

(2) Includes \$2.7 billion of goodwill and intangibles.

(3) Adjusted for \$400 million investment in Folger Hill. In addition, Parent Company Cash & Investments includes \$273 million for Mazama Capital, \$101 million for Structured Alpha and \$25 million for Global Equity Events, all of which are available for sale immediately.

(4) Adjusted for the January 2015 senior secured loan to FXCM.

(5) Carrying amount is net of deferred gain on real estate sale.

(6) Market value as of 12/31/14.

(7) Excludes Jefferies Net Deferred Tax Asset of \$400 million.

We believe this chart illustrates the diverse platform we are building that can take advantage of further opportunities as they arise. It also demonstrates the breadth of our effort, where our capital is allocated, and our ample liquidity and dry powder. We believe the foundation is now set for us to optimize the capabilities of our existing businesses, continue to deploy our cash judiciously and grow our book value per share, which we believe is the yardstick by which we should be measured.

We will talk more about all these businesses throughout this letter.

## WHAT WE HAVE LEARNED AND HOW WE VIEW THE WORLD

### **We Want to Be “The One Who Gets the Call”**

Particularly in a world where value is so hard to find, we believe it is a huge advantage to be “the one who gets the call.” Unique value opportunities tend to arise when there is some problem, uncertainty, complexity or urgency impacting a business, and a rapid and creative solution is necessary. In some cases, absent this solution, a good business will be either incredibly impaired or, in some cases, doomed. We are increasingly being recognized as one of the first groups to call in these circumstances. In 2012, we restored Knight Capital’s equity and, more recently, we invested in FXCM to replenish its regulatory capital, allowing the Company to avoid bankruptcy. Even when there isn’t a circumstance that changes the outlook of a company, but rather a new opportunity that is developing, getting “the call” is just as important. This was the reality that led to our becoming the largest shareholder of Harbinger and our investing in the Golden Queen mining project, where the ownership group in each case sought out our partnership. In all these companies, our investment became a catalyst for change and created a significant opportunity to drive long-term value for all stakeholders.

We believe there are a number of factors that increase the likelihood of being the “one who gets the call.” First, you must have the expertise instantly accessible in-house to quickly understand and assess the situation. Second, you must be able to mobilize rapidly, typically in days or hours, and sometimes even in minutes. Third, you must have the reputation with many constituencies that you are trustworthy and will do what you say you will do. Fourth, it helps when you can convey with confidence that you are a long-term investor and able to add meaningful value beyond capital. Finally, you must be able to make a decision quickly and wire the funds!

The best way we know to increase the likelihood that we get “the call” is to have real long-term relationships with as many quality people across as many industries and specialties as is humanly possible. The combination of Leucadia and Jefferies is no doubt a big part of this equation, as management teams and Boards of Directors recognize the uniqueness and power of our combined merchant and investment banking platform.

### **The Jefferies Platform Is Very Valuable As a Source of Unique Opportunities and Added Value**

Some people ask us if it is complicated, cumbersome or distracting to have Jefferies and Leucadia under the same roof. The reality could not be further from the truth. Both platforms provide consistent, real and unique operating leverage and the activities of both companies are massively complementary. Aside from being a very valuable long-term source of what we believe will be growing earnings, Jefferies is a tremendous resource in helping us find unique long-term investment opportunities. In a typical week, Jefferies trades many billions of dollars of securities in many different markets and provides clients with valuable liquidity. We also help clients buy and sell businesses, raise capital around the globe and

restructure companies facing challenges. These are all “regular way” transactions that serve our clients’ goals. Given this trading and transaction flow, countless relationships and diverse industry expertise, a small handful of times each year, we hopefully will get “the call” that presents an opportunity distinctly for Leucadia. Sometimes, the party on the other end of the phone wants to work exclusively with us as principal, and sometimes there is the opportunity to share these potential deals with others. Here are four examples of opportunities sourced by Jefferies:

***Knight Capital.*** Knight Capital was an example prior to the Leucadia-Jefferies combination where Jefferies helped KCG avoid shutdown by injecting its capital (and also bringing in some partners) on attractive terms. Since that initial transaction, Jefferies has served as adviser in connection with KCG’s merger with GETCO, completed several capital raises totaling \$840 million, and recently advised KCG on a major subsidiary sale. In the 18 months since KCG and GETCO merged, KCG has become a leaner, more focused organization, selling non-core assets, exiting tertiary businesses and paying down debt arising from the merger. Having integrated and rationalized the platform, we believe that what is now called KCG (NYSE:KCG) will have the opportunity to capitalize on its scale and expertise in order to deliver solid ongoing returns for shareholders. Jefferies invested \$125 million in KCG shares in August 2012 and a further \$129.5 million through the open market in 2013 and 2014, has realized \$192 million in cash and continues to own 22.5 million shares (about 19% of KCG) with a current value of about \$280 million.

***Harbinger Group.*** Harbinger is an example of a company not under duress, but where the major shareholder was committed to unlocking long-term value and made “the call” to us to be his partner. We will give more details later, but the short of it is that HRG owns substantial interests in two very attractive public companies (59% of Spectrum Brands (NYSE: SPB) and 80% of Fidelity & Guarantee Life (NYSE:FGL)). The sum-of-the-parts valuation of HRG was then around \$13.50 per share, while the stock was trading around \$10.00 per share. Jefferies had been an active and consistent adviser to the Company and its subsidiaries for many years. We bought our initial stake in HRG in September 2013, increased our stake considerably in 2014 and then began to work actively with HRG’s management. We have two representatives on HRG’s Board, including our own Joe Steinberg as Chairman and Andrew Whittaker. We will spend 2015 and beyond continuing to work with management to maximize the value embedded in HRG. Leucadia owns 23% of HRG, with a mark-to-market gain of \$119 million.

***Folger Hill.*** We knew Sol Kumin for many years as a client of Jefferies. We have seen him in action and agreed with those who know him that he is a high energy, smart, talented, honest and driven business executive. Our history and experience with Sol led him to seek us out to partner with him to create Folger Hill, a multi-manager hedge fund platform.

In 2014, we committed \$400 million in investment from Leucadia in Folger Hill and are launching what we believe will soon be an over \$1 billion hedge fund, with great prospects for substantial further growth. Sol has hired a world class operating management team, eleven portfolio management teams focused in an array of sectors, and has opened offices in New York City and Boston. This will be a long-term and methodical build. Consistent with our value mind-set, we are focused on helping Sol and his team build this business with proper risk management of our downside and the potential for disproportionate upside. We prefer to build with people whom we have reason to trust and back, versus to buy and pay for goodwill. We would rather deploy our own capital in strategies we believe in, creating equity value in the management company if and when a strategy succeeds. In addition to our commitment to Folger Hill, we have invested additional capital using the same “build” thesis in a variety of asset management businesses that we hope will scale over time. It is relationships built over time at Jefferies that are allowing us to build Leucadia Asset Management, which we hope will be an important next leg for Leucadia.

**FXCM.** On the morning of January 15, 2015, world markets were stunned to wake up to the Swiss National Bank scrapping its over three-year old peg of 1.20 Swiss francs per euro, despite a bank official having reaffirmed its commitment to the policy just two days before. The franc quickly soared by around 30%, an incredibly large gap move that was unprecedented in currency markets since the U.S. abandoned the Bretton Woods agreement in 1971. Fortunately, Leucadia and Jefferies had no meaningful direct exposure to this event. Around 2 P.M. that afternoon, Alex Yavorsky, one of our terrific investment bankers, received “the call” from the management team at FXCM (whom he had known for years), outlining the fact that its customers experienced significant losses as a result of the Swiss National Bank’s action, generating customer debit balances owed to FXCM of well over \$200 million and creating a severe risk of FXCM being shut down due to its inability to meet the regulatory capital requirements attendant to the unpaid customer receivables. FXCM and its peers were well known and understood by the relevant team at Jefferies and we ourselves had taken a close look at this sector years ago. The two of us, the Jefferies team and our lawyers spent the next 24 hours doing due diligence, crafting a financing solution, documenting it, conducting a full Leucadia Board meeting, and closing the deal and wiring the funds at 3:00 P.M. on January 16. Remarkably, the day prior to the Swiss National Bank’s action, FXCM was an industry leader with a \$1.5 billion capitalization. The Company has a strong management team and, absent this extraordinary event, a solid platform for ongoing growth. We believe that, with time and performance, FXCM will regain its position in the global markets.

Leucadia now holds \$300 million in principal amount of a two-year secured term loan with an initial interest rate of 10% per annum, increasing by 1.5% per annum each quarter for so long as the loan is outstanding. Leucadia is also entitled to a deferred financing fee of \$10 million, with an additional fee of up to \$30 million becoming payable in the event the aggregate principal amount of the term loan outstanding on April 16, 2015 is greater than \$250 million or the \$10 million fee has not been paid on or before that date. We expect to have received back over a quarter of our investment in repayment of principal and fees within three months of closing and that repayment in fact has already started.

FXCM has also agreed to pay Leucadia in cash a percentage of the proceeds received in connection with any sale of assets, any dividend or distribution or the sale or indirect sale of FXCM’s business according to the following schedule:

- first, 100% of the principal amounts and fees due under the term loan;
- second, of the next \$350 million, 50% to Leucadia;
- third, of the next amount equal to two times the balance outstanding on the term loan and fees as of April 16, 2015 (but not less than \$500 million or more than \$680 million), 90% to Leucadia; and
- finally, of all aggregate amounts thereafter, 60% to Leucadia.

### **Diversification Is Good**

We were both long-term shareholders of Jefferies and now, after our all-stock combination, we are “all in” at Leucadia. We believe shareholders are best-served when senior management is “all in” and we are big fans of alignment. In fact, aside from tax payments and charitable donations, neither of us has sold even one share in our respective 25 and 14 years with Jefferies and Leucadia. We have seen incredible volatility in our careers and it’s rare that something isn’t going wrong somewhere. We have seen companies arrive, and we have seen companies disappear. Everything in life is fragile, whether it is health, personal relationships or businesses. Consistent with our being “all in,” our philosophy is to continue to strive to bullet proof our

company over time. The best way we know to do this is to continue to diversify Leucadia. We have done this at Jefferies, moving our platform from one that a long time ago was exclusively agency cash equity trading to what today is a diversified global investment banking firm.

Diversification doesn't mean we won't make meaningful investments that will move the dial, however, it simply means that we will avoid unduly large commitments. Bite sizes below \$500 million fit our current capitalization and should allow us to take meaningful stakes, enjoy heavy influence (or, better yet, control), please our bondholders and build our shareholders' equity. This is why we consolidated our various real estate holdings into a significant single entity, HomeFed. It is a reason why we are so excited about building a diversified asset management platform. It is also why we did not invest more in HRG, even though we thought our entry price was and remains very attractive. When we find something uniquely attractive, but larger than our bite size, we have a long list of wonderful partners we would be happy to work with (and we are always looking to expand that list).

### **Patience Is Essential – Almost Everything Is More Difficult Than It Appears and Takes Longer Than Expected**

We are not happy that Jefferies had a disappointing fourth quarter after three strong quarters in a row. We are not happy that beef processing is just starting to come out of a cyclical low due to the drought and reduced cattle herd. We are not happy that, in our opinion, we did not grow book value per share enough last year. At the same time, we look forward with excitement, knowing the moves that have been made in combining Leucadia and Jefferies, shedding some investments, investing significant capital in new opportunities, and strengthening our many operating businesses, have put the combined company in a solid position. Both Jefferies and National Beef, while facing short-term challenges, are valuable, scalable and unique operating businesses that will create long-term value. Berkadia, Garcadia, Linkem, HomeFed, Conwed, Idaho Timber and Foursight are all doing very well. We are pleased with our almost \$2.2 billion of new investments and commitments. One of our biggest competitive advantages is our permanent capital base, complemented by our focus on the long-term, which is ingrained in the management teams and Boards of both Leucadia and Jefferies. It is a long race and we prefer an endurance contest to a sprint.

### **Stay Liquid for the Inevitable Rainy Day**

During our 30+ year careers, the world has had dislocations of varying degrees every three to five years and this pattern did not start the day we entered the work force. If we work hard and smart, and do nothing arrogant or foolish during the good periods, we should be able to greatly enhance all of our operating businesses and create good entry points to new businesses when times become difficult. To the latter point, we need to make sure we have plenty of liquidity at our operating businesses and at Leucadia throughout the cycles. This will be a drag on short-term ROE, but we should more than make up for this as we deploy more and more capital and hopefully do it at the right time.

### **Be a Value Investor, and Preserve and Grow Tangible Book Value**

While there may be occasional unique exceptions, we also are ingrained with a value mentality, regardless of whether the style is currently in or out of favor. Unfortunately, we do not see shortcuts in being a value investor. Patience and the ability to act quickly when the opportunity arises, as we have discussed, is deep in our chemistry. We believe you also have to be creative when the world is generally fairly valued. We really like Spectrum Brands and Fidelity & Guarantee Life, but the individual stocks did not afford us an attractive entry opportunity. Now, we have meaningful interests in both companies at a major discount to their trading levels by virtue of our investment in HRG. We invested directly into the gold mining assets of Golden Queen, versus

buying the shares of its then parent, as that allowed us into the opportunity at a more attractive valuation and with no tax leakage. We believe we will make money so long as gold is above \$800 an ounce. We are working with the management teams of Vitesse Energy and Juneau Energy to build two energy companies from scratch by buying and investing in assets one at a time, versus making a major acquisition. We were not smart enough to see oil dropping from \$105 to \$45 per barrel in a matter of months, but the right value entry point allows us both to make money even at current price levels, and retain our opportunity to build long-term value. The nature of value investing, particularly in direct investments such as the ones we make, is that results will be episodic and lumpy, but the amounts of gain can be sizeable.

### **Culture Matters Always**

Lastly, but perhaps most importantly, we are strong believers that culture is the special sauce that is the final determinant of building long-term value throughout the Leucadia ecosystem. At all of Leucadia's businesses, we strive for integrity, transparency, a lack of bureaucracy, a sense of urgency and always putting the client or customer first. At Berkadia, it was so important to us to protect the integrity and quality of the Berkadia brand that we recommended our own Justin Wheeler as full-time CEO, versus taking our chances on the outside where we had over 20 candidates clamoring for the job. The Berkadia team respects and trusts Justin, and so do we. We could talk about the cultures of Conwed, Idaho Timber, National Beef, Linkem, Foursight, Garcadia, Folger Hill, Topwater and all the others for pages. Suffice it to say that we demand and have honest leaders throughout these companies who lead by example, know their people, clients, and industries cold, and have a long-term value mentality. We also have tens of thousands of dedicated employees in these businesses whose effort and commitment we greatly value.

### **OUR LEADERSHIP TEAM**

We get asked from time to time about the depth of our senior leadership teams at Leucadia and Jefferies. At Leucadia's holding company, we are supported by our special Chairman, Joe Steinberg, as well as a team of experienced executives who focus on our investee companies, as well as work with us in sourcing and culling new opportunities, and executing new deals. We are confident that the team we have assembled from Leucadia's historic team and the team at Jefferies Capital Partners is both a strong group and well-suited to the enhancement and development of our non-Jefferies portfolio. Our relatively new CFO, Teri Gendron, has ably taken over from Joe Orlando, who served with distinction for twenty years as Leucadia's CFO, and as a friend and counselor. Teri brings fresh perspective and her own set of experiences that we believe will enhance our internal efforts and our reporting. Tom Mara also retired at year-end after a long and successful career with Leucadia, and we thank him for his many contributions.

At Jefferies, we have patiently and methodically strengthened our leadership team, particularly since 2007. Our three core businesses, Equities, Fixed Income and Investment Banking, are led by Pete Forlenza, Fred Orlan and Ben Lorello, respectively, outstanding individuals with deep experience and relationships. Similarly, Peg Broadbent and Mike Sharp, Jefferies' CFO and general counsel, respectively, add unique perspective and a distinct breadth of knowledge consistent with the trajectory we anticipate for Jefferies' business. In each of Leucadia's other subsidiaries and investee companies, we work closely with the leadership teams, are personally familiar with all the key leaders, and focus on leadership development and succession needs.



## LOOKING FORWARD

The two of us think and act as shareholders first, second and third — stock price in 5, 10 and 15 years is what we care about. It does not mean that we do not have a keen sense of urgency and feel the responsibilities entrusted to us on a daily basis. We believe we have made tremendous progress and are uniquely positioned as a permanent capital company that is a diversified investment holding company anchored by a global investment banking firm and a diversified merchant bank. We remain highly liquid and with very little leverage at our parent company (\$1 billion of 10 and 30-year debt underpinned by over \$10 billion of shareholders' equity). We are supported by a strong deal team at Leucadia, excellent managers at our operating businesses and a fully engaged Board of Directors. We have much work ahead of us, but are energized and eager for the challenge.

Although we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice, we remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 21, 2015 in New York, and we also will hold a combined Leucadia and Jefferies Investor Day on October 8, 2015 in New York, at which you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

## OUR BUSINESSES

### **Jefferies**

Despite good results in Investment Banking and Equities, Jefferies overall results, excluding its Bache business, were relatively flat to the prior two years due to weak results in Fixed Income, as well as the absence of unique mark to market gains such as were recorded in 2012 (Knight Capital) and 2013 (KCG and HRG). After three strong quarters in a row, Jefferies fourth quarter was very challenging. While Jefferies fourth quarter reflected Fixed Income trading losses driven by heightened market volatility, the first quarter of 2015 can best be described as slow, with Fixed Income results constrained by clients' reduced risk appetite and with subdued leverage finance capital markets activity. We anticipate Jefferies first quarter net revenues will be modestly better than those of its fourth quarter. While market conditions constantly change, we expect improvement at Jefferies in coming periods.

As a result of the growth and margin challenges we have recently faced in the Bache business we acquired in mid-2011, we are pursuing strategic alternatives for this business, and are in advanced discussions with three parties in this regard. Eliminating Bache's drag on Jefferies' overall results should be meaningfully accretive.

We intend to drive market share, margin expansion and earnings growth at Jefferies by focusing on increasing productivity, broadening our client coverage, deepening our relationships with our clients, and leveraging our global platform and momentum in Europe and Asia. At the same time, we will continue to prudently build a leading, independent global investment banking firm in an environment that we believe favors our business model. Jefferies is in an exceptional position to benefit as its large bank holding company competitors continue to adapt their business models in ways that create growth opportunities for us.

In 2014, Jefferies Finance, Jefferies' corporate lending joint venture with Massachusetts Mutual Life Insurance Company, arranged a record \$23 billion of loans and generated net earnings of \$139 million (50% to Jefferies – please keep in mind that this is essentially a pre-tax number as Jefferies Finance is treated as a partnership for tax reporting purposes and is generally not subject to income taxes directly). In an era

of shrinking bank balance sheets, Jefferies Finance's capital markets-focused business model continues to fill an increasingly important need for our corporate borrower clients. We believe Jefferies Finance has the momentum and market penetration to deliver ongoing growth and solid returns over the long-term. Above all, our management team has retained a vigilant and disciplined approach to risk, consistent with the prudent approach that has served and protected us well over the ten years since we founded this business with MassMutual.

Jefferies LoanCore, Jefferies' commercial real estate lending joint venture with GIC Private Limited (formerly known as the Government of Singapore Investment Corporation), experienced a slow 2014, following two-years of strong results. Markedly slower market conditions, combined with an increasingly competitive CMBS origination environment, led to net earnings of \$38 million (48.5% to Jefferies – this too is essentially a pre-tax number). Despite this challenging year, the refinancing opportunity in commercial real estate lending remains significant, and we have been working actively with management to drive performance in 2015 and beyond.

### **Leucadia Asset Management**

Leucadia Asset Management brings together under one umbrella Jefferies' various historic investment management efforts, as well as Topwater Capital, which we acquired in 2013, Mazama Capital Management, with which we became associated in 2014, and Folger Hill, which we discussed above and will launch its flagship fund in the next month. LAM identifies, seeds and develops focused funds managed by distinct management teams.

In August 2013, we launched a "first loss" fund called Topwater Partners with Bryan Borgia and Travis Taylor. We seeded that fund with \$100 million from Leucadia and have raised additional third party capital. Starting in 2004, Topwater pioneered the first-loss model of investing, which we feel offers a unique risk-reward trade-off for investors and a prudent way for hedge fund managers to run a managed account on attractive terms. Topwater is a multi-strategy, multi-manager investment partnership where each underlying investment manager contributes 10% of their own capital as a first loss layer, shielding Topwater's investors from losses up to 10%. This unique structure provides a strong layer of principal protection, while aiming to produce equity-like returns. Targeting low volatility and positive returns in all market environments, Topwater now has a solid almost ten-year performance track record, including a return to investors in 2014 of 7.72%, with no negative months and with a 0.24 correlation to the S&P 500 since inception. This compares to the HFRI Fund Weighted Composite Index return for 2014 of 3.33%. We are encouraged by the early results and the strong pipeline of investment managers seeking to join the platform. As of the end of December 2014, Topwater has funded more than 22 portfolio managers, with an average allocation of \$56 million. We have confidence that we will continue to grow this business prudently, while maximizing returns for Topwater's investors.

LAM also includes the Structured Alpha Fund, which is a continuation of a trading strategy developed at Jefferies beginning in 2006 by a team led by Vlad Portnoy. Structured Alpha uses statistical models to generate systematic alpha through short-term trading (but generally not "high frequency trading") of global equities and futures, with a view to delivering consistent positive returns that beat absolute return benchmarks with low correlation to the S&P 500. Third party assets under management in Structured Alpha and associated efforts are currently about \$700 million. Mazama, led by Ron Sauer, has an over 20-year track record of long-only growth equity investing. With historically strong returns on an absolute basis and relative to its benchmark indices, Mazama is working to grow its assets under management on the back of our investment in its strategies.

We believe we are early in the development of LAM, which over time will afford us a broad exposure in investment management and hopefully a valuable business developed on an attractive risk-reward basis.

### **Berkadia Commercial Mortgage**

Berkadia, our 50/50 joint venture with Berkshire Hathaway, had another strong year in 2014. Despite a slow first quarter, Berkadia originated \$12.8 billion in new financing for its clients, up nearly 23% over 2013. For 2014, Berkadia was the single largest originator for HUD (\$1.5 billion), the second largest Freddie Mac originator (\$4.4 billion) and the third largest originator for FNMA (\$2.7 billion). Although Berkadia's \$4.1 billion of investment sales in 2014 were flat versus 2013, significant progress was made in the integration of the mortgage banking and investment sales teams. The combination of these capabilities allows us to better serve our clients and we expect it will lead to accelerated growth for the entire enterprise. With a large commercial real estate refinancing wave coming in 2015 and 2016, expectations are high for the future of Berkadia. Our relationship with Berkshire Hathaway remains outstanding and we look forward to continued success together. We also look forward to working with Justin and the Berkadia senior leadership team as they continue to grow Berkadia into the best full service mortgage banking firm in the industry.

### **HomeFed**

In 2014, Leucadia sold substantially all of its direct real estate assets to California-based HomeFed. The transaction was valued at \$216 million and increased our ownership in HomeFed from 31% to 65%. It also enhanced HomeFed's geographic presence by adding land and commercial real estate assets in New York, Florida, Maine, and South Carolina. With the closing of the transaction, Brian joined HomeFed's Board of Directors, where Joe has served as Chairman for many years. As a result of the acquisition, HomeFed's lot inventory increased to approximately 10,200 entitled lots, with more than 6,200 of those lots located in entitlement-constrained California, where HomeFed's management team has substantial experience and an established history of success. HomeFed also owns approximately 5,000 acres of unentitled land in California, currently in the entitlement process. The additional land holdings provide the necessary land supply and diversification for future land and lot sales, as well as increased home deliveries. With integration and transition completed, we are confident in CEO Paul Borden and HomeFed's entire management team's ability to create value.

### **Vehicle Finance – Foursight Capital and Chrome Capital**

In October 2012, we partnered with an experienced management team in the indirect auto finance market to start Foursight Capital. Foursight purchases automobile installment contracts originated by franchised dealerships in conjunction with the sale of new and used automobiles and services these loans throughout their life cycle. While Foursight was initially jump started by deal flow from Garcadia, it has quickly grown to fund loans for car buyers at nearly 300 third party dealerships as well. In 2014, Foursight originated \$141.9 million in auto loans, up from \$55.8 million in 2013. Foursight's loan portfolio has an average credit score of 640 and it has performed as expected in terms of delinquencies and losses. This strong performance enabled Foursight to achieve a major milestone in September when it completed its first securitization of \$112.7 million. We will continue to grow originations at Foursight, while keeping a close eye on the performance of our paper.

To further build our consumer finance auto finance platform and leverage Foursight's servicing capabilities, in March we made an investment in Chrome Capital. Chrome, which began operations in 2012, is the largest lessor of used Harley-Davidson motorcycles in the U.S. Through partnerships with 130 active new and used

dealerships, Chrome provides two to four year leases on used Harleys. These leases provide first-time customers with the opportunity to "test ride" a Harley and loyal Harley enthusiasts the opportunity to try different bikes. Harley's strong brand loyalty and low production volumes enable used Harleys to hold their value well and consistently, two important factors in any leasing business.

In 2014, Chrome originated \$20.4 million of leases which are being serviced by Foursight. Although the initial reception for Chrome's products from dealers and customers alike has been positive, the size of the used motorcycle leasing opportunity needs to be proven out by significant growth in originations in 2015 and beyond.

## **National Beef**

2014 was a difficult year for National Beef, the fourth largest U.S. beef processor. The year began with the closure of the processing facility in Brawley, CA. The decision to close this plant was driven in large part by the inability to source sufficient quantities of high quality cattle. Availability of cattle, and the corresponding effects on the price for cattle, was the dominant theme affecting the results of National Beef in 2014. Cattle producers had culled the herd during the prolonged drought. In 2014, they took the confluence of largely better weather, less expensive feed and anticipated strong long-term demand for cattle as an opportunity to begin the multi-year process of rebuilding the herd, which is presently at an all-time low. This rebuilding led to less cattle available industry-wide for harvesting in 2014 and drove the price of cattle to historic highs. While resilient demand allowed for an increase in the overall price of beef, it was not sufficient to offset the decline in volume and the increase in costs.

For National Beef, this difficult margin environment was exacerbated by a number of other factors including capital improvements in one processing plant that led to short-term operating inefficiencies, the ramp-up of production at the new state-of-the-art tannery and the continued efforts to rebuild volume in the consumer-ready operations. While all of these elements were a drag on results in 2014, we believe they will lead to enhanced sales and margin opportunities in the future. We remain confident in the abilities of our management team led by Tim Klein and hopeful for a somewhat near-term improvement in results.

## **Harbinger Group**

We own 23% of Harbinger for a total cost of \$476 million (46.6 million shares at an average price of \$10.21 per share). Although HRG is a diversified holding company with investments in consumer products, insurance, energy and asset management businesses, the vast majority of its value is represented by its ownership in two growing public companies. HRG owns 59% of Spectrum Brands, a diversified global branded consumer products company, which operates in segments including consumer batteries, hardware and home improvement, global pet supplies, and home and garden. Spectrum focuses on developing and acquiring products and brands that deliver better value (same performance at a lower price) to consumers. This focus has enabled Spectrum to consistently grow its adjusted EBITDA from \$391 million in 2009 to \$724 million in 2014, a 13% CAGR. HRG also owns 80% of Fidelity & Guaranty Life, a market leader in fixed indexed annuities and fixed indexed universal life insurance that focuses on middle-income Americans. Through its products, Fidelity helps approximately 700,000 customers prepare for retirement and unexpected loss. Fidelity's expertise in and focus on the growing fixed indexed annuity market enabled the company to grow annuity sales to \$2.2 billion in 2014, up 94% over the prior year. Despite the strength and growth of these two underlying assets, throughout 2014, HRG's stock traded at a significant discount to the sum of the value of its shares in these publicly traded stocks combined with HRG's other net assets. We believe significant upside potential remains to be realized by narrowing this valuation gap and supporting the continued growth of Spectrum and Fidelity.

## **Garcadia**

Garcadia, our auto dealership joint venture with the Ken Garff Group of Salt Lake City, grew substantially in 2014. Garcadia sold nearly 43,000 new units and 22,000 used units during the year. On a same store basis, this represented a 20% increase in new car sales, which strongly outperformed U.S. new sales growth of only 5.8%. In addition to this organic growth, we also acquired five new dealerships, bringing our total to 26 in four states. Two of the stores acquired were underperforming Nissan dealerships that we added to our Southern California platform and the other three were in the Detroit metro area (two Chrysler Jeep Dodge Ram stores and the largest Cadillac store in the world), representing our first entry into a new market since 2008. We also operate dealerships in Iowa and Texas. Although we will continue to look for acquisition opportunities, at this stage in the cycle we do so with heightened caution, emphasizing dealerships and groups where we believe performance improvement is available over time. Thank you to John Garff, Brett Hopkins and the entire Garcadia team for their on-going partnership.

## **Linkem**

Linkem, our Italian fixed wireless broadband service provider, had a very encouraging 2014. Without growing its geographic footprint and with restrained marketing activities, Linkem increased its subscriber base by 46% to 240,000. This growth enabled Linkem to achieve its first quarter of positive EBITDA, improve its operating metrics and maintain excellent customer satisfaction. Linkem's long awaited commercial LTE launch over its 3.5GHz spectrum occurred in December. 2015 will be a busy year for CEO Davide Rota and his team, with plans to meaningfully expand Linkem's footprint, add capacity and take advantage of the migration to LTE. We are confident they will deliver.

## **Conwed**

Conwed, which manufactures extruded and oriented plastic netting, posted a 22% increase in revenues in 2014, driven by continued organic growth and two acquisitions: 80% of Filtrexx International in March and 100% of Weaver Express in August. Pre-tax profits, however, declined by 10% year-over-year due to rising resin prices and the loss of a single customer which removed plastic netting from their product. Resin prices have since come down, due to declining oil prices, and we expect solid growth in results in 2015, driven by the full-year impact of the two acquisitions, continued organic growth and margin improvement due to lower resin costs. We recently celebrated the 30th anniversary of Leucadia's ownership of Conwed, and thank Chris Hatzenbuhler and the entire team at Conwed for their outstanding drive and effort.

## **Idaho Timber**

The U.S. housing industry continued its slow rebound from the depths of the recession, but thanks to the relentless efforts of Ted Ellis and his team at Idaho Timber, the company experienced a significant increase in profitability. A 19% increase in shipments, measured in board feet, increasingly efficient operations, lower log costs and an uptick in pricing led to a 60% improvement in EBITDA. The restart of an acquired sawmill in Coughatta, LA (which had been idle since 2008) contributed positive operating income in its first full year of operations. Idaho Timber weathered the housing downturn by focusing on streamlining its operations and meeting the needs of its customers, and is poised to continue to grow profits as the market improves.

## **Golden Queen**

In September, we entered into a joint venture with Golden Queen Mining Co. Ltd (TSX:GQM) and members of the Clay family, Golden Queen's largest shareholder, to develop and operate the Soledad Mountain project. The project is a fully permitted, open pit, heap leach gold and silver project located just outside the town of Mojave in Kern County, California. Construction is in full swing and commissioning is planned for late 2015. Gold and silver mining operations are expected to run through 2027 and an ancillary business generating crushed stone for construction aggregate and concrete products could last up to 30 years. We appreciate and value our partnership with the Clay family and the Golden Queen team, and look forward to a long and lucrative relationship.

## **Juneau Energy**

Juneau Energy's largest acquisition in 2014 was its \$60 million acquisition of acreage in the core area of the Eastern Eagle Ford in Brazos and Burleson counties in Texas. We now own over 20,000 acres in the Eastern Eagle Ford alongside key operators, including Anadarko, Halcon and Apache. Apache is the largest operator in the area and it has indicated that its Eastern Eagle Ford and Permian operations are its two ongoing focus areas in the U.S. Juneau has already met all of its modest development obligations on the acquired acreage and expects to defer drilling in 2015 in the Eastern Eagle Ford until a combination of falling drilling costs and higher oil prices make drilling on the acreage highly profitable. Despite falling oil prices, we believe the current value of the acquired acreage in Brazos and Burleson exceeds its acquisition price.

Juneau also owns 23,000 acres in Houston and Leon counties which has stacked resource potential that will eventually be developed through lower cost vertical wells. In Oklahoma, Juneau's small development joint venture with a niche local developer has successfully drilled and completed eight wells, including four horizontal Mississippian oil wells in Alfalfa County which, even at current oil prices, are expected to generate good returns. Juneau's assets have good value even in today's environment and hold the promise of excellent returns over the cycle.

## **Vitesse Energy**

Vitesse Energy acquired approximately \$240 million of non-operated acreage and production in the core of the Bakken Field in 2014. The assets are primarily located in Williams, McKenzie and Mountrail counties of North Dakota. At year-end 2014 Vitesse was producing over 1,800 barrels of oil equivalent (BOE) per day, generating positive free cash flow and had operating costs (including lease operating expense, transportation and production taxes) of less than \$14 per BOE. Falling oil prices have reduced the number of rigs drilling in the Bakken by almost 35% year-over-year, from approximately 200 down to less than 130 rigs running today. Operators are curtailing drilling in the marginal areas of the field, while development continues in the core areas as operators focus on reducing drilling costs and improving overall efficiencies in order to produce good returns. The falling Bakken rig count and Vitesse's core acreage position suggest that Vitesse will participate in the development of new Bakken wells, but at a moderated pace in 2015. Rates of return in these newly drilled wells remain attractive. Again, lower oil prices have dampened our short-term returns, but the quality of Vitesse's assets and low cost position give us confidence in the value creation potential.

## Oregon LNG

Since 2007, Leucadia has been working with the Federal Energy Regulatory Commission (“FERC”) and state and local authorities to permit an LNG facility site in Warrenton, Oregon and an 86 mile long natural gas pipeline to connect to the U.S. natural gas transmission grid. The process has proven to be agonizingly difficult, painfully slow and fraught with delay. While some progress was made in 2014 when we received our Department of Energy export authorization to Non-Free Trade Agreement countries, we had hoped and pushed for much more. The next major step towards achieving a fully permitted facility is for FERC to issue a Draft Environmental Impact Statement along with a Biological Assessment. We expect those to be issued in the first half of this year and will be closely monitoring the process.

\* \* \*

Finally, we thank all of you — our clients and customers, our employees, our shareholders, our Board of Directors, our bondholders and all others associated with Leucadia and all our businesses — for your continued support.

Sincerely,



**Richard B. Handler**  
*Chief Executive Officer*



**Brian P. Friedman**  
*President*

**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-5721

**LEUCADIA NATIONAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

**New York**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**13-2615557**  
(I.R.S. Employer Identification No.)

520 Madison Avenue  
New York, New York 10022  
(212) 460-1900

(Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange  
on Which Registered

**Common Shares, par value \$1 per share**

**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

**None.**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at June 30, 2014 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): \$8,896,866,000.

On February 12, 2015, the registrant had outstanding 366,644,585 Common Shares.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Certain portions of the registrant's Definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

**LOCATION OF EXHIBIT INDEX**

The index of exhibits is contained in Part IV on page 65.



## PART I

### Item 1. Business.

#### Overview

Leucadia National Corporation is a diversified holding company focused on return on investment and long-term value creation to maximize long-term shareholder value. We continuously review acquisitions of businesses, securities and assets that have the potential for significant long-term value creation, invest in a broad variety of businesses, and evaluate the retention and disposition of our existing operations and holdings. Changes in the mix of our businesses and investments should be expected.

Our financial services businesses and investments include Jefferies (investment banking and capital markets), Leucadia Asset Management (asset management), Berkadia (commercial mortgage banking and servicing) and HomeFed (real estate). We also own and have investments in a diverse array of other businesses, including National Beef (beef processing), Harbinger (a publicly traded diversified holding company), Vitesse Energy and Juneau Energy (oil and gas exploration and development), Garcadia (automobile dealerships), Linkem (fixed wireless broadband services in Italy), Conwed Plastics and Idaho Timber (manufacturing companies), and Golden Queen (a gold and silver mining project). The structure of each of our investments is tailored to the unique opportunity each transaction presents. Our investments may be reflected in our consolidated results as operating subsidiaries, equity investments, notes receivable, available for sale securities, or in other ways, depending on the design of the transaction.

At December 31, 2014, we and our consolidated subsidiaries had 13,082 full-time employees. Our global headquarters and executive offices are located at 520 Madison Avenue, New York, NY 10022. Our primary telephone number is (212) 460-1900 and our website address is [Leucadia.com](http://Leucadia.com).

#### Recent Transactions

On January 16, 2015, we entered into a credit agreement with FXCM Inc. for a \$300 million two-year senior secured term loan with rights to require a sale of FXCM and to a variable proportion of the sale proceeds. FXCM is an online provider of foreign exchange trading and related services. The loan has an initial interest rate of 10% per annum, increasing by 1.5% per annum each quarter, not to exceed 20.5% per annum. In addition, we will receive a percentage of the proceeds in connection with an FXCM sale of assets, dividend or distribution, as follows: 100% until amounts due under the loan are repaid; 50% of the next \$350 million; then 90% of an amount equal to two times the balance outstanding on the term loan as of April 16, 2015 (not to be less than \$500 million or more than \$680 million); and 60% of all amounts thereafter.

During March and September 2014, in two separate closings, we sold to HomeFed Corporation (“HomeFed”) substantially all of our real estate properties and operations, our interest in Brooklyn Renaissance Plaza and cash of about \$14.0 million, in exchange for 7.5 million newly issued shares of HomeFed common stock, which are subject to registration rights. These transactions more than doubled the total assets of HomeFed. The additional shares increased our economic ownership interest in HomeFed to 65%; however, we agreed to limit our voting rights such that we are not able to vote more than 45% of HomeFed’s total voting securities voting on any matter. We also entered into a stockholders agreement that limits our ability to increase our interest in HomeFed or dispose of our interest in HomeFed.

In July 2014, we sold Premier Entertainment Biloxi LLC (“Premier”), the owner of the Hard Rock Hotel & Casino Biloxi (“Hard Rock Biloxi”), through which we had conducted our gaming entertainment operations, for cash consideration of \$250.0 million.

On March 1, 2013, Jefferies Group LLC (“Jefferies”) became one of our wholly-owned subsidiaries. Jefferies is a global full-service, integrated securities and investment banking firm. Jefferies shareholders received 0.81 of a share of our common shares for each share of Jefferies common stock they held. Prior to the closing, we owned 58,006,024 common shares of Jefferies, representing approximately 28% of the outstanding common shares of Jefferies. Richard Handler, Chairman and Chief Executive Officer of Jefferies, was appointed the Chief Executive Officer and a Director of Leucadia and Brian P. Friedman, the Chairman of the Executive Committee of Jefferies, was appointed President and a Director of Leucadia.

## Financial Services Businesses

The following provides more information about each of our financial services businesses and investments and our ownership percentages:

- Jefferies, 100% (investment banking & capital markets);
- Leucadia Asset Management, various (asset management);
- HomeFed, 65% (45% voting) (real estate); and
- Berkadia, 50% (commercial mortgage banking and servicing).

### Jefferies

#### *Business Description*

Jefferies is a global full service, integrated securities and investment banking firm. Jefferies principal operating subsidiary, Jefferies LLC, was founded in the U.S. in 1962 and its first international operating subsidiary, Jefferies International Limited (“Jefferies Europe”), was established in the U.K. in 1986. On March 1, 2013, Jefferies Group, Inc. converted into a limited liability company (renamed Jefferies Group LLC) and became an indirect wholly owned subsidiary of Leucadia National Corporation. 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. As of November 30, 2014, Jefferies had 3,915 employees in the Americas, Europe, Asia and the Middle East. The net book value and net tangible book value of our investment in Jefferies were \$5.5 billion and \$3.5 billion, respectively, at December 31, 2014.

### Equities

#### *Equities Research, Sales and Trading*

Jefferies provides its clients full-service equities research, sales and trading capabilities across global securities markets. Jefferies earns commissions or spread revenue by executing, settling and clearing transactions for clients across these markets in equity and equity-related products, including common stock, American depository receipts, global depository receipts, exchange-traded funds, exchange-traded and over-the-counter (“OTC”) equity derivatives, convertible and other equity-linked products and closed-end funds. Jefferies acts as agent or principal (including as a market-maker) when executing client transactions via traditional “high-touch” and electronic “low-touch” channels. In order to facilitate client transactions, Jefferies may act as principal to provide liquidity, which requires the commitment of its capital and certain maintenance of dealer inventory.

Jefferies equity research, sales and trading efforts are organized across three geographical regions: the Americas; Europe, the Middle East, and Africa (“EMEA”); and Asia Pacific. Jefferies main product lines within the regions are cash equities, electronic trading, derivatives and convertibles. Jefferies clients are primarily institutional market participants such as mutual funds, hedge funds, investment advisors, pension and profit sharing plans, and insurance companies. Through its global research team and sales force, Jefferies maintains relationships with its clients, distributes investment research and strategy, trading ideas, market information and analyses across a range of industries and receives and executes client orders. Jefferies equity research covers over 1,800 companies around the world and a further approximate 600 companies are covered by eight leading local firms in Asia Pacific with whom Jefferies maintains alliances.

### Equity Finance

Jefferies Equity Finance business provides financing, securities lending and other prime brokerage services.

Jefferies offers prime brokerage services in the U.S. that provide hedge funds, money managers and registered investment advisors with execution, financing, clearing, reporting and administrative services. Jefferies finances its clients’ securities positions through margin loans that are collateralized by securities, cash or other acceptable liquid collateral. Jefferies earns an interest spread equal to the difference between the amount Jefferies pays for funds and the

amount Jefferies receives from its clients. Jefferies also operates a matched book in equity and corporate bond securities, whereby Jefferies borrows and lends securities versus cash or liquid collateral and earns a net interest spread.

Customer assets (securities and funds) held by Jefferies are segregated in accordance with regulatorily mandated customer protection rules. Jefferies offers selected prime brokerage clients with the option of custodizing their assets at an unaffiliated U.S. broker-dealer that is a subsidiary of a bank holding company. Under this arrangement, Jefferies provides its clients directly with all customary prime brokerage services.

### *Wealth Management*

Jefferies provides tailored wealth management services designed to meet the needs of high net worth individuals, their families and their businesses, private equity and venture funds and small institutions. Jefferies advisors provide access to all of its institutional execution capabilities and delivers other financial services. Jefferies open architecture platform affords clients access to products and services from both its firm and from a variety of other major financial services institutions.

## **Fixed Income**

### *Fixed Income Sales and Trading*

Jefferies provides its clients with sales and trading of investment grade and high yield corporate bonds, U.S. and European government and agency securities, municipal bonds, mortgage- and asset-backed securities, whole loans, leveraged loans, distressed securities, emerging markets debt and derivative products. Jefferies is designated as a Primary Dealer by the Federal Reserve Bank of New York and Jefferies International Limited is designated in similar capacities for several countries in Europe and trades a broad spectrum of other European government bonds. Additionally, through the use of repurchase agreements, Jefferies acts as an intermediary between borrowers and lenders of short-term funds and obtains funding for various of its inventory positions. Jefferies trades and makes markets globally in cleared and uncleared swaps and forwards referencing, among other things, interest rates, investment grade and non-investment grade corporate credits, credit indexes and asset-backed security indexes. Jefferies is registered as a swap dealer with the CFTC.

Jefferies strategists and economists provide ongoing commentary and analysis of the global fixed income markets. In addition, Jefferies fixed income research professionals, including research and desk analysts, provide investment ideas and analysis across a variety of fixed income products.

### *Futures, Foreign Exchange and Commodities*

Jefferies provides its clients 24-hour global coverage, with direct access to major commodity and financial futures exchanges including the CME, CBOT, NYMEX, ICE, NYSE Euronext, LME and Eurex and provides 24-hour global coverage, execution, clearing and market making in futures, options and derivatives on industrial metals including aluminum, copper, nickel, zinc, tin and lead. Products provided to clients include LME and CME futures and over-the-counter metals swaps and options.

Jefferies operates a full-service trading desk in all precious metals, cash, futures and exchange-for-physicals markets, and is a market-maker providing execution and clearing services as well as market analysis. Jefferies also provides prime brokerage services and is an authorized coin distributor of the U.S. Mint.

In addition, Jefferies is a market-maker in foreign exchange spot, forward, swap and option contracts across major currencies and emerging markets globally and conducts these activities through its futures commission merchant and its swap dealer each registered with the CFTC.

In late 2014, Jefferies began to pursue various strategic alternatives for its futures, foreign exchange and commodities business. These alternatives may include a sale to or combination with another similar business that improves the

combined businesses' competitive standing and margin and Jefferies anticipates that a decision in this regard will be forthcoming in the first half of fiscal 2015.

### *Investment Banking*

Jefferies provides its clients around the world with a full range of equity capital markets, debt capital markets and financial advisory services. Jefferies services are enhanced by its industry sector expertise, its global distribution capabilities and its senior level commitment to its clients.

Over 800 investment banking professionals operate in the Americas, Europe and Asia, and are organized into industry, product and geographic coverage groups. Jefferies sector coverage groups include Consumer & Retailing; Financial Institutions; Industrials; Healthcare; Energy; Real Estate, Gaming & Lodging; Media & Telecommunications; Technology; Financial Sponsors; and State & Local Governments. Jefferies product coverage groups include equity capital markets; debt capital markets; financial advisory, which includes both mergers and acquisitions and restructuring and recapitalization; and U.K. corporate broking. Jefferies geographic coverage groups include coverage teams based in major cities in the United States, Canada, Brazil, the United Kingdom, Germany, Sweden, Russia, India, China and Singapore.

### *Equity Capital Markets*

Jefferies provides a broad range of equity financing capabilities to companies and financial sponsors. These capabilities include private equity placements, initial public offerings, follow-on offerings, block trades and equity-linked convertible securities.

### *Debt Capital Markets*

Jefferies provides a wide range of debt financing capabilities for companies, financial sponsors and government entities. Jefferies focuses on structuring, underwriting and distributing public and private debt, including investment grade and non-investment grade corporate debt, leveraged loans, mortgage- and other asset-backed securities, and liability management solutions.

### *Advisory Services*

Jefferies provides mergers and acquisition and restructuring and recapitalization services to companies, financial sponsors and government entities. In the mergers and acquisition area, Jefferies advises sellers and buyers on corporate sales and divestitures, acquisitions, mergers, tender offers, spinoffs, joint ventures, strategic alliances and takeover and proxy fight defense. Jefferies also provides a broad range of acquisition financing capabilities to assist its clients. In the restructuring and recapitalization area, Jefferies provides to companies, bondholders and lenders a full range of restructuring advisory capabilities as well as expertise in the structuring, valuation and placement of securities issued in recapitalizations.

### **Asset Management**

Jefferies provides investment management services to pension funds, insurance companies and other institutional investors. Its primary asset management programs are strategic investment, special situation and convertible bond strategies. Jefferies partners with our asset management business in providing asset management services.

Jefferies strategic investment programs, including its Structured Alpha Program, are provided through the Strategic Investments Division of Jefferies Investment Advisers, LLC, which is registered as an investment adviser with the SEC. These programs are systematic, multi-strategy, multi-asset class programs with the objective of generating a steady stream of absolute returns irrespective of the direction of major market indices or phase of the economic cycle. These strategies are provided through both long-short equity private funds and separately managed accounts.

Jefferies special situation programs are also provided by Jefferies Investment Advisers, LLC, as investment manager, and consist of managed account and hedge fund offerings that employ event driven strategies evaluating corporate events, including mergers and restructuring for investment opportunities.

Jefferies offers convertible bond strategies through Jefferies (Switzerland) Limited, which is licensed by the Swiss Financial Market Supervisory Authority. These strategies are long only investment solutions in global convertible bonds offered to pension funds, insurance companies and private banking clients. As a result of an analysis of this activity, Jefferies has decided to wind-down its convertible bond offerings and expects that, pending regulatory approvals, these actions will be completed within the next twelve months.

## **Competition**

All aspects of Jefferies business are intensely competitive. Jefferies competes primarily with large global bank holding companies that engage in capital markets activities, but also with firms listed in the AMEX Securities Broker/Dealer Index, other brokers and dealers, and boutique investment banking firms. The large global bank holding companies have substantially greater capital and resources than Jefferies does. Jefferies believes that the principal factors affecting its competitive standing include the quality, experience and skills of its professionals, the depth of its relationships, the breadth of its service offerings, its ability to deliver consistently our integrated capabilities, and its tenacity and commitment to serve its clients.

## **Regulation**

*Regulation in the United States.* The financial services industry in which Jefferies operates is subject to extensive regulation. In the U.S., the Securities and Exchange Commission (“SEC”) is the federal agency responsible for the administration of federal securities laws, and the Commodity Futures Trading Commission (“CFTC”) is the federal agency responsible for the administration of laws relating to commodity interests (including futures and swaps). In addition, self-regulatory organizations, principally Financial Industry Regulatory Authority (“FINRA”) and the National Futures Association (“NFA”), are actively involved in the regulation of financial service businesses. The SEC, CFTC and self-regulatory organizations conduct periodic examinations of broker-dealers investment advisers, futures commission merchants (“FCMs”) and swap dealers. The applicable self-regulatory authority for Jefferies activities as a broker-dealer is FINRA, and the applicable self-regulatory authority for Jefferies FCM activities is the Chicago Board of Trade (which is owned by the CME Group). Financial service businesses are also subject to regulation by state securities commissions and attorneys general in those states in which they do business.

Broker-dealers are subject to SEC and FINRA regulations that cover all aspects of the securities business, including sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers’ funds and securities, capital structure of securities firms, anti-money laundering efforts, recordkeeping and the conduct of directors, officers and employees. Registered advisors are subject to, among other requirements, SEC regulations concerning marketing, transactions with affiliates, disclosure to clients, and recordkeeping; and advisors that are also registered as commodity trading advisors or commodity pool operators are also subject to regulation by the CFTC and the NFA. FCMs, introducing brokers and swap dealers that engage in commodities, futures or swap transactions are subject to regulation by the CFTC and the NFA. Additional legislation, changes in rules promulgated by the SEC, CFTC and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may directly affect the operations and profitability of broker-dealers, investment advisers, FCMs and swap dealers. The SEC, the CFTC and self-regulatory organizations, state securities commissions and state attorneys general may conduct administrative proceedings or initiate civil litigation that can result in censure, fine, suspension, expulsion of a firm, its officers or employees, or revocation of a firm’s licenses.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) was enacted in the United States. The Dodd-Frank Act is being implemented through extensive rulemaking by the SEC, the CFTC and other governmental agencies. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues. These studies could lead to additional regulatory changes. For additional information see Item 1A. Risk Factors – “Recent legislation and new and pending regulation may significantly affect Jefferies business.”

*Net Capital Requirements.* U.S. registered broker-dealers are subject to the SEC’s Uniform Net Capital Rule (the “Net Capital Rule”), which specifies minimum net capital requirements. Jefferies Group LLC is not a registered broker-dealer and is therefore not subject to the Net Capital Rule; however, its U.S. broker-dealer subsidiaries, Jefferies and Jefferies Execution Services, Inc. (“Jefferies Execution”), are registered broker-dealers and are subject to the Net Capital Rule. Jefferies and Jefferies Execution have elected to compute their minimum net capital requirement in accordance with the “Alternative Net Capital Requirement” as permitted by the Net Capital Rule, which provides that a broker-dealer shall not permit its net capital, as defined, to be less than the greater of 2% of its aggregate debit balances (primarily customer-related receivables) or \$250,000 (\$1.5 million for prime brokers). Compliance with the Net Capital Rule could limit operations of our broker-dealers, such as underwriting and trading activities, that require the use of significant amounts of capital, and may also restrict their ability to make loans, advances, dividends and other payments.

U.S. registered FCMs are subject to the CFTC’s minimum financial requirements for futures commission merchants and introducing brokers. Jefferies Group LLC is not a registered FCM or a registered Introducing Broker, and is therefore not subject to the CFTC’s minimum financial requirements; however, Jefferies is registered as a FCM following its merger with Jefferies Bache, LLC in September 2014 and is therefore subject to the minimum financial requirements. Under the minimum financial requirements, an FCM must maintain adjusted net capital equal to or in excess of the greater of (A) \$1,000,000 or (B) the FCM’s risk-based capital requirements totaling (1) eight percent of the total risk margin requirement for positions carried by the FCM in customer accounts, plus (2) eight percent of the total risk margin requirement for positions carried by the FCM in noncustomer accounts. An FCM’s ability to make capital and certain other distributions is subject to the rules and regulations of various exchanges, clearing organizations and other regulatory agencies which may have capital requirements that are greater than the CFTC’s. Jefferies, as a dually registered broker-dealer and FCM, is required to maintain net capital in excess of the greater of the SEC or CFTC minimum financial requirements.

Jefferies subsidiaries that are registered swap dealers will become subject to capital requirements under the Dodd-Frank Act once they become final. For additional information see Item 1A. Risk Factors – “Recent legislation and new and pending regulation may significantly affect Jefferies business.”

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Note 27 to our consolidated financial statements for additional information on net capital calculations.

*Regulation outside the United States.* Jefferies is an active participant in the international capital markets, engaging in commodity futures brokerage and providing investment banking services internationally, but primarily in Europe and Asia. As is true in the U.S., Jefferies subsidiaries are subject to extensive regulations promulgated and enforced by, among other regulatory bodies, the U.K. Financial Conduct Authority, the Hong Kong Securities and Futures Commission, the Japan Financial Services Agency and the Monetary Authority of Singapore. Every country in which Jefferies does business imposes upon us laws, rules and regulations similar to those in the U.S., including with respect to some form of capital adequacy rules, customer protection rules, anti-money laundering and anti-bribery rules, compliance with other applicable trading and investment banking regulations and similar regulatory reform. For additional information see Item 1A. Risk Factors – “Extensive international regulation of Jefferies business limits its activities, and, if Jefferies violate these regulations, it may be subject to significant penalties.”

### **Leucadia Asset Management**

During 2013, we formed Leucadia Asset Management (“LAM”), a registered investment advisor, through which we are seeding and developing focused funds managed by distinct management teams. These include Topwater Capital, a first-loss hedge fund; Global Equity Events Opportunity Fund, based on event driven strategies; Mazama Capital Management, a long-only growth equity fund manager; as well as our investment in Structured Alpha, a fund based on quantitative strategies. Our asset management strategies also include Folger Hill, a multi-manager hedge fund platform, which is in the process of launching its fund.

As the advisor and/or general partner to various private investment funds or other types of investment vehicles, LAM provides advisory, portfolio management and operational services to accredited investors and/or qualified purchasers. Once an investment vehicle is formed, it is expected that one of our subsidiaries will be an initial or major investor.

LAM receives compensation in the form of management fees and/or a performance fee based on investment returns generated for the investors.

### **HomeFed Corporation**

HomeFed Corporation is a developer and owner of residential and commercial real estate properties in California, Virginia, South Carolina, Florida, Maine and New York. HomeFed also investigates the acquisition of new real estate projects outside of its core geographical areas. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD). As a result of the 2014 transaction discussed above, we own 65% of HomeFed's common stock; however, our voting rights are limited such that we are not able to vote more than 45% of HomeFed's total voting securities voting on any matter. Resulting from a 1998 distribution to all of our shareholders, about 4.8% of HomeFed is beneficially owned by our Chairman, who also serves as HomeFed's Chairman. Our President is a Director of HomeFed.

At December 31, 2014, our investment had a net book value of \$236.6 million and we report HomeFed as an equity investment in our financial statements. HomeFed's strategic priorities vary by development project, ranging from pursuing further planning, entitlement and approval, to beginning construction, commencing sales, and taking other steps to maximize profits. HomeFed also continues to look for new opportunities both within, and outside of, the areas where it currently has projects under development.

### **Berkadia**

Berkadia Commercial Mortgage LLC, and its associated entities, comprise a commercial mortgage banking and servicing joint venture formed in 2009 with Berkshire Hathaway. We and Berkshire Hathaway each have a 50% equity interest in Berkadia. Berkadia has 3 primary business activities: mortgage banking, investment sales and servicing.

Berkadia originates commercial/multifamily real estate loans for Fannie Mae, Freddie Mac, Ginnie Mae and the FHA using their underwriting guidelines, and will typically sell the loan to such entities shortly after it is funded. Provided Berkadia adheres to their guidelines, these government-related entities must purchase the loan at the face amount plus accrued interest with Berkadia retaining the mortgage servicing rights. In addition, as a condition to Fannie Mae's delegation of responsibility for underwriting, originating and servicing of loans, Berkadia assumes a shared loss position throughout the term of each loan sold to Fannie Mae, with a maximum loss percentage of approximately one-third of the original principal balance. During 2014, Berkadia originated \$8.9 billion in Fannie Mae, Freddie Mac, Ginnie Mae and FHA loans. Berkadia also originates and brokers commercial/multifamily mortgage loans which are not part of the government agency programs. During 2014, Berkadia closed \$3.6 billion of loans in this capacity for life companies, conduits and other third-parties.

In addition, Berkadia originates loans for its own balance sheet. These loans provide interim financing to borrowers who intend to refinance the loan with longer-term loans from an eligible government agency or other third-party ("Bridge loans"). Bridge loans are typically floating rate loans with 1 to 3 year maturities. During 2014, Berkadia originated \$311.9 million of such loans and held \$566.8 million on its balance sheet at December 31, 2014.

Berkadia also provides a unified, national sales and investment platform that is currently focused exclusively on the multifamily industry. This business provides services related to the acquisition and disposition of multifamily real estate projects, including brokerage services, asset review, market research, financial analysis and due diligence support. During 2014, Berkadia closed over \$4.0 billion in sales transactions.

Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions ("CMBS"), banks, insurance companies and other financial institutions. Berkadia is an approved servicer of loans for Fannie Mae, Freddie Mac, Ginnie Mae and the FHA. As of December 31, 2014, Berkadia serviced approximately 26,000 loans with an unpaid principal balance of \$238.4 billion.

As a servicer, Berkadia is frequently responsible for managing, on behalf of its investors and borrowers, the balances that are maintained in custodial accounts for the purposes of collecting and distributing principal and interest, and for

managing and disbursing various reserve accounts related to the mortgaged properties among other things. Berkadia derives certain economic benefits from administering these custodial accounts. Such balances totaled in excess of \$5.6 billion as of December 31, 2014.

Our only capital contribution to Berkadia, in the amount of \$217.2 million, was made at the time Berkadia was formed in 2009. Through December 31, 2014 we have received cumulative cash distributions of \$303.8 million. At December 31, 2014, the net book value of our investment in Berkadia was \$208.5 million, and we report Berkadia as an equity investment in our financial statements. Our strategic priorities include continued value creation by growing origination volume and expanding servicing engagements with third parties.

Berkadia is required under its servicing agreements to maintain certain minimum servicer ratings or qualifications from the rating agencies. A downgrade below a certain level may give rise to the right of a customer or trustee of a securitized transaction to terminate Berkadia as servicer. Berkadia currently maintains approvals or ratings from Moody's Investors Service, Fitch Ratings, Standard & Poor's, Morningstar Credit Ratings and Dominion Bond Rating Services. These ratings currently exceed the minimum ratings required by the related servicing agreements. Ratings issued by the rating agencies can be withdrawn or lowered at any time. In addition, Fannie Mae and Freddie Mac retain broad discretion to terminate Berkadia as a seller/servicer without cause.

### **Merchant Banking**

The following provides more information about certain of our other subsidiaries and investments and our ownership percentages, including:

- National Beef, 79% (beef processing);
- Harbinger, 23% (diversified holding company);
- Vitesse Energy, 96% (oil and gas exploration and development);
- Juneau Energy, 98% (oil and gas exploration and development);
- Linkem, 55% fully-diluted (42% voting) (fixed wireless broadband services);
- Conwed Plastics, 100% (manufacturing);
- Idaho Timber, 100% (manufacturing);
- Garcadia, about 74% (automobile dealerships); and
- Golden Queen, 34% (a gold and silver mining project).

### **National Beef**

National Beef Packing Company, LLC is one of the largest beef processing companies in the U.S., accounting for approximately 13% of the market. National Beef processes and markets fresh boxed beef, case-ready beef, beef by-products and wet blue leather for domestic and international markets. Based in Kansas City, Missouri, National Beef had about 8,000 employees at December 31, 2014 and generated total revenues of \$7.8 billion in 2014. We purchased National Beef in 2011 and own 78.9%.

The largest share of National Beef's revenue, about 89%, is generated from the sale of fresh and chilled boxed beef products. National Beef also generates revenues through value-added production with its case-ready products. In addition, National Beef operates a wet blue tanning facility (wet blue tanning refers to the first step in processing raw and brine-cured hides into tanned leather), selling processed hides to tanners that produce finished leather for the automotive, luxury goods, apparel and furniture industries. Other streams of revenue include sales through its subsidiary, Kansas City Steak Company, LLC, which sells portioned beef and other products to customers in the food service and retail channels, as well as direct to consumers through internet and direct mail, and service revenues generated by National Carriers, Inc., a wholly owned truck fleet that is one of the largest refrigerated and livestock carrier operations in the U.S. and transports products for National Beef and a variety of other customers.

The net book value of our investment in National Beef was \$796.4 million at December 31, 2014.



### *Sales and Marketing*

National Beef markets its products to national and regional retailers, including supermarket chains, independent grocers, club stores, wholesalers and distributors, food service providers and distributors, further processors and the United States military. In addition, National Beef sells beef by-products to the variety meat, feed processing, fertilizer and pet food industries. National Beef exports products to more than 25 countries; in 2014 export sales represented approximately 12% of revenues. The demand for beef is generally strongest in the spring and summer months and generally decreases during the winter months.

National Beef emphasizes the sale of higher-margin, value-added products, which include branded boxed beef, consumer-ready beef, portion control beef and wet blue hides. National Beef believes its value-added products can command higher prices than commodity products because of National Beef's ability to consistently meet product specifications, based on quality, trim, weight, size, breed or other factors, tailored to the needs of its customers. In addition to the value-added brands that National Beef owns, National Beef licenses the use of Certified Angus Beef<sup>®</sup>, a registered trademark of Certified Angus Beef LLC, and Certified Hereford Beef<sup>®</sup>, a registered trademark of Certified Hereford Beef LLC.

### *Raw Materials and Procurement*

The primary raw material for the beef processing plants is live cattle. The domestic beef industry is characterized by cattle prices that change daily based on seasonal consumption patterns, supply and demand for beef and other proteins, cattle inventory levels, weather and other factors.

National Beef has entered into a cattle supply agreement with U.S. Premium Beef, LLC ("USPB"), the current owner of a 15.1% interest in National Beef, which sold a substantial portion of its ownership interest to us. USPB has agreed to supply, and National Beef has agreed to purchase through USPB from the members of USPB, 735,385 head of cattle per year (subject to adjustment), based on pricing grids furnished by National Beef to USPB. National Beef believes the pricing grids are based on terms that could be obtained from an unaffiliated party. The cattle supply agreement extends through December 31, 2017, with automatic, but optional one year extensions. During 2014, National Beef purchased approximately 23% of the total cattle it processed from USPB members pursuant to the cattle supply agreement. National Beef also purchased additional cattle from certain USPB members outside of the cattle supply agreement as well as from hundreds of other cattle suppliers.

### *Processing Facilities*

National Beef owns two beef processing facilities located in Liberal and Dodge City, Kansas, which can each process approximately 6,000 cattle per day. National Beef's three consumer-ready facilities are in Hummels Wharf, Pennsylvania, Moultrie, Georgia and Kansas City, Kansas. National Beef's wet blue tanning facility is in St. Joseph, Missouri.

### *Competition*

Competitive conditions exist both in the purchase of live cattle, as well as in the sale of beef products. Beef products compete with other protein sources, including pork and poultry, but National Beef's principal competition comes from other beef processors. National Beef believes the principal competitive factors in the beef processing industry are price, quality, food safety, customer service, product distribution, technological innovations (such as food safety interventions and packaging technologies) and brand loyalty. Some of National Beef's competitors have substantially larger beef operations, greater financial and other resources and wider brand recognition for their products.

### *Regulation and Environmental*

National Beef's operations are subject to extensive regulation by the USDA including its Food Safety and Inspection Service ("FSIS") and its Grain Inspection, Packers and Stockyards Administration ("GIPSA"), the Food and Drug

Administration (“FDA”), the U.S. Environmental Protection Agency (“EPA”) and other federal, state, local and foreign authorities regarding the processing, packaging, storage, safety, distribution, advertising and labeling of its products.

National Beef is subject to the Packers and Stockyards Act of 1921 (“PSA”). Among other things, this statute generally requires National Beef to make full payment for livestock purchases not later than the close of business the day after the purchase and transfer of possession or determination of the purchase price. Under the PSA, National Beef must hold in trust for the benefit of unpaid livestock suppliers all livestock purchased until the sellers have received full payment. At December 31, 2014, National Beef has obtained from an insurance company a surety bond in the amount of \$49.4 million to satisfy these requirements.

The Dodge City and Liberal facilities are subject to Title V permitting pursuant to the Federal Clean Air Act and the Kansas Air Quality Act. The St. Joseph facility is subject to a secondary air permit which is in place. The Dodge City, Liberal, Hummels Wharf and Moultrie facilities are subject to Clean Air Act Risk Management Plan requirements relating to the use of ammonia as a refrigerant.

All of National Beef’s plants are indirect dischargers of wastewater to publicly owned treatment works and are subject to requirements under the federal Clean Water Act, state and municipal laws, as well as agreements or permits with municipal or county authorities. Upon renewal of these agreements and permits, National Beef is from time to time required to make capital expenditures to upgrade or expand wastewater treatment facilities to address new and more stringent discharge requirements imposed at the time of renewal. Storm water discharges from National Beef’s plants are also regulated by state and local authorities.

All of National Beef’s facilities generate solid waste streams including small quantities of hazardous wastes. National Beef is subject to laws that provide for strict, and in certain circumstances, joint and several liability for remediation of hazardous substances at contaminated sites; however, National Beef has not received any demands that it has any liability at sites under the Comprehensive Environmental Response, Compensation and Liability Act (“Superfund”) or state counterparts. All plants are subject to community right to know reporting requirements under the Superfund Amendments and Reauthorization Act of 1986, which requires yearly filings as to the substances used on facility premises.

### *Employees*

Of National Beef’s 8,000 employees, about 5,500 are represented by collective bargaining agreements. About 2,600 employees at the Liberal plant are represented by the United Food and Commercial Workers International Union under a collective bargaining agreement scheduled to expire in December 2017, 2,700 employees at the Dodge City plant are represented by the United Food and Commercial Workers International Union under a collective bargaining agreement scheduled to expire in December 2016, and another 178 employees at the St. Joseph plant are represented by the United Cereal Workers ( R.W.D.S.U./U.F.C.W.) under a collective bargaining agreement scheduled to expire in June 2019.

### **Harbinger**

Harbinger Group Inc. is a publicly traded diversified holding company, the principal holdings of which are: (i) Spectrum Brands, its 59% owned subsidiary that provides global branded consumer products; (ii) FGL, its 80% owned subsidiary that provides life insurance and annuity products; (iii) Front Street, its subsidiary engaged in the business of providing long-term reinsurance, including reinsurance to the specialty insurance sector of fixed, deferred and payout annuities; (iv) HGI Asset Management Holdings, LLC, which, through its subsidiaries, provides financing and engages in asset management across a range of industries; and (v) Compass, its wholly-owned subsidiary that is engaged in the business of owning, operating, acquiring, exploiting and developing conventional oil and natural gas assets. Harbinger is publicly traded on the New York Stock Exchange under the symbol “HRG.”

As of December 31, 2014, we own about 46.6 million common shares of Harbinger, representing about 23% of its outstanding common shares, which we reflect in our financial results at fair value. In addition, we have two directors on Harbinger’s board, one of whom serves as its Chairman. We have agreed not to increase our interest in Harbinger above 27.5% through March 17, 2016. At December 31, 2014, the net book value of our holdings in Harbinger is \$659.9 million and our cost was \$475.6 million.

## **Vitesse Energy**

During May 2014, we formed Vitesse Energy, LLC, a non-operating owner of oil and gas properties in the core of the Bakken field. We own 96% of Vitesse, which acquires producing and undeveloped leasehold properties in North Dakota and Montana, and converts the undeveloped leasehold into cash flow producing assets. Vitesse has acquired 22,500 net acres of Bakken leasehold and has an interest in 866 producing wells (22 net wells) and 350 gross wells (9 net wells) that are currently drilling or permitted for drilling.

At December 31, 2014, we have made cumulative cash investments of \$239.0 million and our net book value is \$246.5 million. Our strategic priorities for Vitesse are to add to our desired core acreage, increase cash flow from new well development over the next 10 years, and selectively sell assets when appropriate.

## **Juneau Energy**

During February 2014, we made our first investment in Juneau Energy, LLC. Juneau leases and develops oil and gas properties in Texas and Oklahoma. We own 98% of Juneau, which engages in the exploration, development and production of oil and gas from onshore, unconventional resource areas. Juneau has about 56,900 net acres of East Texas leasehold. At December 31, 2014, we have made cumulative cash contributions of \$184.2 million and our net book value is \$175.8 million. Our strategic priorities include using our in-house geological and engineering expertise to generate a compelling return, even at lower prices, and to develop a diversified portfolio of quality assets that can grow production and cash flow in the future.

## **Linkem**

Linkem S.p.A. is a fixed wireless broadband service provider in Italy. In 2008, Linkem acquired wireless spectrum licenses in the 3.5GHz band and launched Italy's first commercial 4G wireless service. Unlike the U.S. and most of Western Europe, Italy does not have a national cable television system; as a result, Italy's broadband penetration rate is among the lowest in Europe, and the vast majority of residential broadband service is DSL, which relies on legacy copper telephone lines. Linkem offers residential broadband services at speeds equal to or faster than DSL, but priced at a discount.

Our initial investment in Linkem was made in July 2011. Since that time, we have funded most of Linkem's growth and become its largest shareholder. We own about 42% of Linkem's common shares and hold a 5% convertible note with a principal amount of €72.7 million due in 2018 (interest can be paid in cash or in kind). On an if-converted basis, we would own 55% of the common shares of Linkem.

Linkem owns or has exclusive rights to spectrum holdings of 84MHz covering approximately 80% of the population and at least 42MHz covering all of Italy. Linkem has signed agreements with several large telecommunication companies for the use of their infrastructure, providing Linkem access to over 30,000 wireless towers throughout Italy. At December 31, 2014, Linkem's network includes base stations deployed on over 1,035 wireless towers that can reach over 35% of the population. Linkem has over 240,000 subscribers for its services. Linkem plans to increase its network coverage across Italy over the coming years as it adds subscribers; expansion and customer acquisition costs are expected to result in operating losses over the next few years.

Linkem has begun to migrate its technology from WiMAX to LTE, which will provide subscribers with faster download speeds and improved service. Linkem completed its LTE trials and commenced commercial deployment in the first week of December 2014. In 2015, Linkem plans to deploy 400 new LTE base stations with significantly more LTE antennas overlaid on existing base stations.

At December 31, 2014, we have made cumulative cash investments of \$238.1 million and our net book value is \$159.1 million.

## **Conwed Plastics**

Conwed Plastics manufactures and markets lightweight plastic netting used for building and construction, erosion and sediment control, packaging, agricultural purposes, carpet padding, filtration, consumer products and other purposes. These products are primarily used for containment purposes, reinforcement of other products, packaging for produce and meats, various types of filtration and erosion prevention.

In March 2014, Conwed acquired 80% of Filtrexx, previously a significant customer. Filtrexx uses Conwed netting products to provide erosion control solutions with primary applications in oil and gas development, civil infrastructure, and commercial and residential construction. In August 2014, Conwed acquired 100% of Weaver Express, the leading installer of the products manufactured by Filtrexx.

As of December 31, 2014, we have owned Conwed for thirty years and received cash distributions of \$149.6 million in excess of our investments. At December 31, 2014, the net book value of our investment in Conwed was \$109.2 million. Our strategic priorities include further development of the business created by the Filtrexx and Weaver acquisitions and expansion of the products, markets and applications for Conwed's core technology.

Our plastic products are marketed both domestically and internationally, with approximately 17% of 2014 revenues generated by customers from Europe, Latin America, Japan and Australia. Manufacturing facilities are located in Minnesota, Georgia, Illinois, Virginia and Genk, Belgium (totaling approximately 689,000 square feet). The average cost of the principal raw material used in its products, polypropylene, has increased by approximately 75% since 2009, a continuing trend that started in 2002. The price of polypropylene has historically fluctuated with the price of oil and natural gas but growing economies in China and India have resulted in increased demand for raw materials and raised prices globally.

## **Idaho Timber**

Idaho Timber is a nationally recognized company in the forest products industry, providing an extensive range of quality wood products to markets across North America and the Pacific Rim. Idaho Timber manufactures and distributes various wood products, including: remanufacturing dimension lumber; remanufacturing, bundling and bar coding of home center boards for large retailers; and production of pine dimension lumber and 5/4" radius-edge, pine decking. In addition to its headquarters in Meridian, Idaho, Idaho Timber has plants in Idaho, Arkansas, Florida, Louisiana, New Mexico, North Carolina and Texas.

For the year ended December 31, 2014, Idaho Timber had revenues of \$251.6 million and pre-tax income of \$17.8 million. The net book value of our investment was \$71.7 million at December 31, 2014.

## **Garcadia**

Garcadia is a joint venture between us and Garff Enterprises, Inc. that owns and operates 26 automobile dealerships comprised of domestic and foreign automobile makers. The Garcadia joint venture agreement specifies that we and Garff shall have equal board representation and equal votes on all matters affecting Garcadia, and that all cash flows from Garcadia will be allocated 65% to us and 35% to Garff, with the exception of one dealership from which we receive 83% of all cash flows and five other dealerships from which we receive 71% of all cash flows. Garcadia's strategy is to acquire automobile dealerships in primary or secondary market locations meeting its specified return criteria. During 2014 we received cash distributions from our dealerships of \$41.4 million.

In addition, we own the land for certain dealerships and lease it to the dealerships. During 2014 we received rent payments related to these leases of \$8.5 million. At December 31, 2014, the net book value of our investment in Garcadia was \$167.9 million and was \$15.5 million for our land leased to the dealerships.

## **Golden Queen Mining Company**

The Golden Queen Mining Company LLC (“Golden Queen”) is a joint venture between Golden Queen Mining Co., Ltd. (“GQM”) and Gauss LLC, a newly formed limited liability company. Golden Queen is developing the Soledad Mountain Project, a fully-permitted, open pit, heap leach gold and silver project located in Kern County, California. The Project will use conventional open pit mining methods, cyanide heap leach and Merrill-Crowe processes to recover gold and silver from crushed, agglomerated ore. Construction has started on the site and commissioning is planned for late 2015. GQM is a Canadian company that has been developing and exploring its mineral properties at Soledad Mountain since 1985. GQM is publicly traded on both the Toronto Stock Exchange (“GQM”) and on the OTCQX International (“GQMN”).

In September 2014, we invested \$70.9 million, net in cash in Gauss LLC to partner with GQM and the Clay family, GQM’s largest shareholder, to jointly fund, develop and operate the Project. In exchange for a noncontrolling ownership interest in Gauss LLC, the Clay family contributed \$34.1 million, net in cash. Gauss LLC invested both our and the Clay family’s net contributions totaling \$105 million to the joint venture, Golden Queen, in exchange for a 50% ownership interest. GQM contributed the Soledad Mountain project to the joint venture in exchange for the other 50% interest.

We have committed to invest during the nine months after our initial investment up to an additional approximately \$27 million to fully develop the project. Our maximum exposure to loss as a result of our involvement with the joint venture is limited to our investment and this additional commitment. The net book value of our investment was \$69.9 million at December 31, 2014.

## **Financial Information about Segments**

Our operating segments consist of the consolidated businesses discussed above, which offer different products and services and are managed separately. Our reportable segments, based on both qualitative and quantitative requirements, are Jefferies, National Beef, and Corporate and other. Our all other businesses and investments consists of our Other Financial Services Businesses and our Other Merchant Banking Businesses. Other Financial Services Businesses consists of asset management and our specialty finance companies; our commercial mortgage banking investment and our investment in HomeFed are reflected as Income from Associated Companies. Other Merchant Banking Businesses consists of manufacturing, oil and gas exploration and production, real estate, our investment in a diversified holding company, and, for periods prior to their spin-off to shareholders in February 2013, our wineries; our investment in fixed wireless services in Italy, automobile dealerships, and a gold and silver mining operation are reflected as Income from Associated Companies. Our financial information regarding our reportable segments is contained in Note 31, in our consolidated financial statements.

## **Information about Leucadia on the Internet**

The following documents and reports are available on or through our website as soon as reasonably practicable after we electronically file such materials with, or furnish to, the SEC:

- Code of Business Practice;
- Reportable waivers, if any, from our Code of Business Practice by our executive officers;
- Board of Directors Corporate Governance Guidelines;
- Charter of the Audit Committee of the Board of Directors;
- Charter of the Nominating and Corporate Governance Committee of the Board of Directors;
- Charter of the Compensation Committee of the Board of Directors;
- Annual reports on Form 10-K;
- Quarterly reports on Form 10-Q;
- Current reports on Form 8-K;
- Beneficial ownership reports on Forms 3, 4 and 5; and
- Any amendments to the above-mentioned documents and reports.

Shareholders may also obtain a printed copy of any of these documents or reports free of charge by sending a request to Leucadia National Corporation, Investor Relations, 520 Madison Avenue, New York, NY 10022 or by calling 212-460-1900.

#### **Item 1A. Risk Factors.**

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this report, before you decide whether to purchase our common shares. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common shares could decline, and you may lose all or part of your investment.

**Future acquisitions and dispositions of our operations and investments are possible, changing the components of our assets and liabilities, and if unsuccessful could reduce the value of our common shares.** Any future acquisitions or dispositions may result in significant changes in the composition of our assets and liabilities. Consequently, our financial condition, results of operations and the trading price of our common shares may be affected by factors different from those affecting our financial condition, results of operations and trading price at the present time.

**We face numerous risks and uncertainties as we expand our business.** We expect the growth of our business to come primarily from internal expansion and through acquisitions and strategic partnering. As we expand our business, there can be no assurance that financial controls, the level and knowledge of personnel, operational abilities, legal and compliance controls and other corporate support systems will be adequate to manage our business and growth. The ineffectiveness of any of these controls or systems could adversely affect our business and prospects. In addition, if we acquire new businesses and introduce new products, we face numerous risks and uncertainties integrating their controls and systems, including financial controls, accounting and data processing systems, management controls and other operations. A failure to integrate these systems and controls, and even an inefficient integration of these systems and controls, could adversely affect our business and prospects.

Certain business initiatives, including expansions of existing businesses, may bring Jefferies into contact directly or indirectly, with individuals and entities that are not within its traditional client and counterparty base and may expose Jefferies to new asset classes and new markets. These business activities expose Jefferies to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, and reputational concerns regarding the manner in which these assets are being operated or held.

**Recent legislation and new and pending regulation may significantly affect Jefferies business.** In recent years, there has been significant legislation and increased regulation affecting the financial services industry. These legislative and regulatory initiatives affect not only Jefferies, but also its competitors and certain of its clients. These changes could have an effect on Jefferies revenue and profitability, limit Jefferies ability to pursue certain business opportunities, impact the value of assets that it holds, require Jefferies to change certain business practices, impose additional costs on Jefferies and otherwise adversely affect its business. Accordingly, we cannot provide assurance that legislation and regulation will not eventually have an adverse effect on Jefferies business, results of operations, cash flows and financial condition.

Title VII of the Dodd-Frank Act and the rules and regulations adopted and to be adopted by the SEC and CFTC introduce a comprehensive regulatory regime for swaps and security-based swaps and parties that deal in such swaps and security-based swaps. Jefferies has registered three of its subsidiaries as swap dealers with the CFTC and the NFA and may register one or more subsidiaries as security-based swap dealers with the SEC. The new laws and regulations will subject certain swaps and security-based swaps to clearing and exchange trading requirements and will subject swap dealers and security-based swap dealers to significant new burdens, including (i) capital and margin requirements, (ii) reporting, recordkeeping and internal business conduct requirements, (iii) external business conduct requirements in dealings with swap counterparties (which are particularly onerous when the counterparty is a special entity such as a federal, state, or municipal entity, an ERISA plan, a government employee benefit plan or an endowment), and (iv) large trader position reporting and certain position limit requirements. The final rules under Title VII, including those rules that have already been adopted, for both cleared and uncleared swap transactions will impose increased capital and margin requirements on Jefferies registered entities and require additional operational and compliance costs and resources that will likely affect Jefferies business.

Section 619 of the Dodd-Frank Act (Volcker Rule) limits certain proprietary trading by banking entities such as banks, bank holding companies and similar institutions. Although Jefferies is not a banking entity and is not otherwise subject to these rules, some of Jefferies clients and many of Jefferies counterparties are banks or entities affiliated with banks and are subject to these restrictions. These sections of the Dodd-Frank Act and the regulations that are adopted to implement them could negatively affect the swaps and securities markets by reducing their depth and liquidity and thereby affect pricing in these markets. Other negative effects could result from an expansive extraterritorial application of the Dodd-Frank Act in general or the Volcker Rule in particular and/or insufficient international coordination with respect to adoption of rules for derivatives and other financial reforms in other jurisdictions. We will not know the exact impact that these changes in the markets will have on Jefferies business until after the final rules are implemented.

The Dodd-Frank Act, in addressing systemic risks to the financial system, charges the Federal Reserve with drafting enhanced regulatory requirements for systemically important bank holding companies and certain other nonbank financial companies designated as systemically important by the Financial Stability Oversight Council. The enhanced requirements proposed by the Federal Reserve include capital requirements, liquidity requirements, limits on credit exposure concentrations and risk management requirements. We do not believe that Jefferies will be deemed to be a systemically important nonbank financial company under the new legislation and therefore will not be directly impacted. However, there will be an indirect impact to Jefferies to the extent that the new regulations apply to its competitors, counterparties and certain of its clients.

**Extensive international regulation of Jefferies business limits its activities, and, if Jefferies violates these regulations, it may be subject to significant penalties.** The financial services industry is subject to extensive laws, rules and regulations in every country in which Jefferies operates. Firms that engage in securities and derivatives trading, commodity futures brokerage, wealth and asset management and investment banking must comply with the laws, rules and regulations imposed by national and state governments and regulatory and self-regulatory bodies with jurisdiction over such activities. Such laws, rules and regulations cover all aspects of the financial services business, including, but not limited to, sales and trading methods, trade practices, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering and anti-bribery and corruption efforts, recordkeeping and the conduct of directors, officers and employees.

Each of Jefferies regulators supervises its business activities to monitor compliance with such laws, rules and regulations in the relevant jurisdiction. In addition, if there are instances in which Jefferies regulators question its compliance with laws, rules, and regulations, they may investigate the facts and circumstances to determine whether Jefferies has complied. At any moment in time, Jefferies may be subject to one or more such investigation or similar reviews. At this time, all such investigations and similar reviews are insignificant in scope and immaterial to Jefferies. However, there can be no assurance that, in the future, the operations of Jefferies businesses will not violate such laws, rules, or regulations and that related investigations and similar reviews could result in adverse regulatory requirements, regulatory enforcement actions and/or fines.

The European Market Infrastructure Regulation ("EMIR") was enacted in August 2012 and, in common with the Dodd-Frank Act in the U.S., is intended, among other things, to reduce counterparty risk by requiring standardized over-the-counter derivatives be cleared through a central counterparty and reported to registered trade repositories. EMIR is being introduced in phases in the U.K., with implementation of additional requirements expected through 2019. Likewise, the amendments to the Markets in Financial Instruments Directive and the Market Abuse Regulation and new Market Abuse Directive ("MAD 2") both in response to recommendations from the European Commission following the financial crisis are likely to impact Jefferies business when they come into force during 2016. The European Commission's changes to the Capital Requirements Directive ("CRD") comprising CRD IV and the Capital Requirements Regulation ("CRR") became effective January 1, 2014.

Additional legislation, changes in rules, changes in the interpretation or enforcement of existing laws and rules, or the entering into businesses that subject Jefferies to new rules and regulations may directly affect its business, results of operations and financial condition. Jefferies continues to monitor the impact of new European regulation on its businesses.

**Changing conditions in financial markets and the economy could impact Jefferies through decreased revenues, losses or other adverse consequences.** As a global securities and investment banking firm, global or regional changes in the financial markets or economic conditions could adversely affect Jefferies business in many ways, including the following:

- A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues Jefferies receives from commissions and spreads.
- Unfavorable financial or economic conditions could reduce the number and size of transactions in which Jefferies provides underwriting, financial advisory and other services. Jefferies investment banking revenues, in the form of financial advisory and sales and trading or placement fees, are directly related to the number and size of the transactions in which Jefferies participates and could therefore be adversely affected by unfavorable financial or economic conditions.
- Adverse changes in the market could lead to losses from principal transactions on Jefferies inventory positions.
- Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on Jefferies own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by Jefferies funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.
- Limitations on the availability of credit, such as occurred during 2008, can affect Jefferies ability to borrow on a secured or unsecured basis, which may adversely affect Jefferies liquidity and results of operations.
- New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect Jefferies profits.
- Should one of Jefferies customers or competitors fail, Jefferies business prospects and revenue could be negatively impacted due to negative market sentiment causing customers to cease doing business with Jefferies and Jefferies lenders to cease loaning Jefferies money, which could adversely affect its business, funding and liquidity.

**Unfounded allegations about Jefferies could result in extreme price volatility and price declines in its debt securities and loss of revenue, clients, and employees.** Jefferies reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. While Jefferies has been able to dispel such rumors in the past, its debt-securities prices suffered not only extreme volatility but also record high yields. In addition, Jefferies operations in the past have been impacted as some clients either ceased doing business or temporarily slowed down the level of business they do, thereby decreasing Jefferies revenue stream. Although Jefferies was able to reverse the negative impact of such unfounded allegations and false rumors, there is no assurance that Jefferies will be able to do so successfully in the future and the potential failure to do so could have a material adverse effect on Jefferies business, financial condition and liquidity.

**A credit rating agency downgrade could significantly impact our and Jefferies businesses.** We and Jefferies have credit ratings issued by various credit rating agencies. Maintaining our credit ratings is important to our and Jefferies business and financial condition. We advised certain credit rating agencies that we would target specific concentration, leverage and liquidity principles, expressed in the form of certain ratios and percentages. Our failure to meet these ratios and percentages may trigger a ratings downgrade. We and Jefferies intend to access capital markets and issue debt securities from time to time, and a ratings downgrade may decrease demand for such offered security. A decrease in demand would not only make a successful financing more difficult, but also increase our respective capital costs. Similarly, our and Jefferies access to other forms of credit may be limited and our respective borrowing costs may increase if our or Jefferies credit ratings are downgraded. A downgrade could also negatively impact our and Jefferies outstanding debt prices and our stock price. In addition, in connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, a ratings downgrade could cause us or Jefferies to provide additional collateral to counterparties, exchanges and clearing organizations which would negatively impact our and Jefferies liquidity and financial condition. There can be no assurance that our or Jefferies credit ratings will not be downgraded.

**Jefferies principal trading and investments expose us to risk of loss.** A considerable portion of Jefferies revenues is derived from trading in which Jefferies acts as principal. Jefferies may incur trading losses relating to the purchase, sale or short sale of fixed income, high yield, international, convertible, and equity securities and futures and commodities for its own account. In any period, Jefferies may experience losses on its inventory positions as a result of price fluctuations, lack of trading volume, and illiquidity. From time to time, Jefferies may engage in a large block trade in a single security or maintain large position concentrations in a single security, securities of a single issuer, securities of issuers engaged in a specific industry, or securities from issuers located in a particular country or region.



In general, because Jefferies inventory is marked to market on a daily basis, any adverse price movement in these securities could result in a reduction of Jefferies revenues and profits. In addition, Jefferies may engage in hedging transactions that if not successful, could result in losses.

**Increased competition may adversely affect Jefferies revenues, profitability and staffing.** All aspects of Jefferies business are intensely competitive. Jefferies competes directly with a number of bank holding companies and commercial banks, other brokers and dealers, investment banking firms and other financial institutions. In addition to competition from firms currently in the securities business, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations. Jefferies believes that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, the ability to execute the transaction, relative price of the service and products being offered, bundling of products and services and the quality of service. Increased competition or an adverse change in Jefferies competitive position could lead to a reduction of business and therefore a reduction of revenues and profits.

Competition also extends to the hiring and retention of highly skilled employees. A competitor may be successful in hiring away employees, which may result in Jefferies losing business formerly serviced by such employees. Competition can also raise Jefferies costs of hiring and retaining the employees Jefferies needs to effectively operate its business.

**Operational risks may disrupt Jefferies business, result in regulatory action against Jefferies or limit Jefferies growth.** Jefferies businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies, and the transactions Jefferies processes have become increasingly complex. If any of Jefferies financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in Jefferies internal processes, people or systems, Jefferies 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 Jefferies control, including a disruption of electrical or communications services or Jefferies inability to occupy one or more of our buildings. The inability of Jefferies systems to accommodate an increasing volume of transactions could also constrain its ability to expand its businesses.

Jefferies also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries Jefferies uses to facilitate its securities transactions. Any such failure or termination could adversely affect Jefferies ability to effect transactions and manage its exposure to risk.

In addition, despite the contingency plans Jefferies has in place, Jefferies ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by Jefferies or third parties with which Jefferies conducts business.

Jefferies operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Although Jefferies takes protective measures and endeavors to modify them as circumstances warrant, its 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. Additionally, if a client's computer system, network or other technology is compromised by unauthorized access, Jefferies may face losses or other adverse consequences by unknowingly entering into unauthorized transactions. If one or more of such events occur, this potentially could jeopardize Jefferies or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, Jefferies computer systems and networks, or otherwise cause interruptions or malfunctions in Jefferies, its clients', its counterparties' or third parties' operations, including the transmission and execution of unauthorized transactions. Jefferies may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and Jefferies may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by it.

**Jefferies international operations subject it to numerous risks which could adversely impact Jefferies business in many ways.** Jefferies business and operations are expanding internationally. Wherever Jefferies operates, it is subject to legal, regulatory, political, economic and other inherent risks. The laws and regulations applicable to the securities and investment banking industries differ in each country. Jefferies inability to remain in compliance with applicable

laws and regulations in a particular country could have a significant and negative effect on its business and prospects in that country as well as in other countries. A political, economic or financial disruption in a country or region could adversely impact Jefferies business and increase volatility in financial markets generally.

**Legal liability may harm Jefferies business.** Many aspects of Jefferies business involve substantial risks of liability, and in the normal course of business, Jefferies has been named as a defendant or codefendant in lawsuits involving primarily claims for damages. The risks associated with potential legal liabilities often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. The expansion of Jefferies business, including increases in the number and size of investment banking transactions and Jefferies expansion into new areas impose greater risks of liability. In addition, unauthorized or illegal acts of Jefferies employees could result in substantial liability. Substantial legal liability could have a material adverse financial effect or cause Jefferies significant reputational harm, which in turn could seriously harm Jefferies business and its prospects.

**Jefferies business is subject to significant credit risk.** In the normal course of Jefferies businesses, Jefferies is involved in the execution, settlement and financing of various customer and principal securities and derivative transactions. These activities are transacted on a cash, margin or delivery-versus-payment basis and are subject to the risk of counterparty or customer nonperformance. Although transactions are generally collateralized by the underlying security or other securities, Jefferies still faces the risks associated with changes in the market value of the collateral through settlement date or during the time when margin is extended and the risk of counterparty nonperformance to the extent collateral has not been secured or the counterparty defaults before collateral or margin can be adjusted. Jefferies may also incur credit risk in its derivative transactions to the extent such transactions result in uncollateralized credit exposure to counterparties.

Jefferies seeks to control the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. Jefferies may require counterparties to deposit additional collateral or return collateral pledged. In the case of aged securities failed to receive, Jefferies may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty. However, there can be no assurances that Jefferies risk controls will be successful.

**Derivative transactions may expose Jefferies to unexpected risk and potential losses.** Jefferies is party to a number of derivative transactions that require it to deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, Jefferies does not hold the underlying security, loan or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security, loan or other obligation through the physical settlement of other transactions. As a result, Jefferies is subject to the risk that it may not be able to obtain the security, loan or other obligation within the required contractual time frame for delivery. This could cause Jefferies to forfeit the payments due to it under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to the firm.

**The prices and availability of key raw materials affects the profitability of our beef processing and manufacturing operations.** The supply and market price of cattle purchased by National Beef are dependent upon a variety of factors over which National Beef has no control, including fluctuations in the size of herds maintained by producers, the relative cost of feed and energy, weather and livestock diseases. A decline in the supply of fed cattle available for National Beef's Brawley facility was a key factor in the 2013 decision to close the plant. The cost of raw materials used by our manufacturing businesses has increased as a result of a variety of factors, including increased foreign demand. Although our manufacturing subsidiaries are not currently experiencing any shortage of raw materials, if the subsidiaries experience shortages, revenues and profitability could decline.

**Outbreaks of disease affecting livestock can adversely affect the supply of cattle and the demand for National Beef's products.** National Beef is subject to risks relating to animal health and disease control. An outbreak of disease affecting livestock (such as foot-and-mouth disease or bovine spongiform encephalopathy ("BSE"), commonly referred to as mad cow disease) could result in restrictions on sales of products, restrictions on purchases of livestock from suppliers or widespread destruction of cattle. The discovery of BSE in the past caused certain countries to restrict or prohibit the importation of beef products. Outbreaks of diseases, or the perception by the public that an outbreak has occurred, or other concerns regarding diseases, can lead to inadequate supply, cancellation of orders by customers and create adverse publicity, any of which can have a significant negative impact on consumer demand and, as a result, on our consolidated financial position, cash flows and results of operations.

**If National Beef's products or products made by others using its products become contaminated or are alleged to be contaminated, National Beef may be subject to product liability claims that could adversely affect its business.** National Beef may be subject to significant liability in excess of insurance policy limits if its products or products made by others using its products causes injury, illness or death. In addition, National Beef could recall or be required to recall products that are, or are alleged to be, contaminated, spoiled or inappropriately labeled. Organisms producing food borne illnesses (such as *E. coli*) could be present in National Beef's products and result in illness or death if they are not eliminated through further processing or cooking. Contamination of National Beef's or its competitors' products may create adverse publicity or cause consumers to lose confidence in the safety and quality of beef products. Allegations of product contamination may also be harmful even if they are untrue or result from third-party tampering. Any of these events may increase costs or decrease demand for beef products, any of which could have a significant adverse effect on our consolidated financial condition, cash flows and results of operations.

**National Beef generally does not enter into long-term contracts with customers; as a result the volumes and prices at which beef products are sold are subject to market forces.** National Beef's customers generally place orders for products on an as-needed basis and, as a result, their order levels have varied from period to period in the past and may vary significantly in the future. The loss of one or more significant customers such as Walmart, a significant decline in the volume of orders from customers or a significant decrease in beef product prices for a sustained period of time could negatively impact cash flows and results of operations.

**Failure to replace Walmart's consumer-ready business would have a significant adverse effect on National Beef's sales and profitability.** Sales to Walmart represented approximately 10% of National Beef's total net sales during 2012. Walmart discontinued using National Beef as a provider of its consumer-ready products in 2013. National Beef continues to pursue replacement business for its consumer-ready facilities; however, it may not be able to fully replace the operating cash flow generated by the Walmart business in the near future, if at all. During 2014, the three consumer-ready facilities operated at reduced levels, and continue to do so.

**National Beef's international operations expose it to political and economic risks in foreign countries, as well as to risks related to currency fluctuations.** Approximately 12% of National Beef's annual sales are export sales, primarily to Japan, Mexico, South Korea, Hong Kong, China (for hides), Taiwan, Italy and Egypt, and on average these sales have a higher margin than domestic sales of similar products. A reduction in international sales could adversely affect revenues and margins. Risks associated with international activities include inflation or deflation and changes in foreign currency exchange rates, including changes in currency exchange rates of other countries that may export beef products in competition with National Beef; the closing of borders by foreign countries to product imports due to disease or other perceived health or food safety issues; exchange controls; changes in tariffs; changes in political or economic conditions; trade restrictions and changes in regulatory requirements. The occurrence of any of these events could increase costs, lower demand for products or limit operations, which could have a significant adverse effect on cash flows, results of operations and future prospects.

**National Beef incurs substantial costs to comply with environmental regulations and could incur additional costs as a result of new regulations or compliance failures that result in civil or criminal penalties, liability for damages and negative publicity.** National Beef's operations are subject to extensive and increasingly stringent environmental regulations administered by the EPA and state, local and other authorities with regards to water usage, wastewater and storm water discharge, air emissions and odor, and waste management and disposal. Failure to comply with these laws and regulations could have serious consequences, including criminal, civil and administrative penalties and negative publicity. In addition, National Beef incurs and will continue to incur significant capital and operating expenditures to comply with existing and new or more stringent regulations and requirements. All of National Beef's processing facilities procure wastewater treatment services from municipal or other regional governmental agencies that are in turn subject to environmental laws and permit limits regarding their water discharges. As permit limits are becoming more stringent, upgrades and capital improvements to these municipal treatment facilities are likely. In locations where National Beef is a significant volume discharger, it could be asked to contribute toward the costs of such upgrades or to pay significantly increased water or sewer charges to recoup such upgrade costs. National Beef may also be required to undertake upgrades and make capital improvements to its own wastewater pretreatment facilities, the cost of which could be significant. Compliance with environmental regulations has had and will continue to have a significant impact on National Beef's cash flows and profitability. In addition, under most environmental laws, most notably the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") and analogous state laws, National Beef could be held liable

for the cost to investigate or remediate any contamination at properties it owns or operates, or as to which it arranges for the disposal or treatment of hazardous substances, as such liability is imposed without regard to fault.

**National Beef is subject to extensive governmental regulation and noncompliance with or changes in applicable requirements could adversely affect its business, financial condition, cash flows and results of operations.** National Beef's operations are subject to extensive regulation and oversight by the USDA, including its FSIS and GIPSA agencies, the FDA, and other federal, state, local and foreign authorities regarding the processing, packaging, storage, safety, distribution, advertising and labeling of its products. Recently, food safety practices and procedures in the meat processing industry have been subject to more intense scrutiny and oversight by the USDA. National Beef is also subject to a variety of immigration, labor and worker safety laws and regulations, including those relating to the hiring and retention of employees. Failure to comply with existing or new laws and regulations could result in administrative penalties and injunctive relief, civil remedies, fines, interruption of operations, recalls of products or seizures of properties, potential criminal sanctions and personal injury or other damage claims. These remedies, changes in the applicable laws and regulations or discovery of currently unknown conditions could increase costs, limit business operations and reduce profitability.

**National Beef's performance depends on favorable labor relations with its employees, in particular employees represented by collective bargaining agreements.** A substantial number of National Beef's employees are covered by collective bargaining agreements. A labor-related work stoppage by unionized employees, or employees who become unionized in the future, could limit National Beef's ability to process and ship products or could increase costs. Any significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages at any of National Beef's locations, whether due to union activities, employee turnover or otherwise, could have a material adverse effect on our financial condition, cash flows and results of operations.

**Uncertainties inherent in Harbinger's business and operations could impact the realizability of the full value of our investment.** As a diversified holding company, Harbinger is subject to risks and uncertainties across the industries in which it invests. It is also subject to risks associated with its holding company structure, which include potential difficulties or limitations in receiving distributions from its subsidiaries, and the risk that acquisitions, dispositions or integrations of subsidiaries may not be successful. We hold about 23% of the common shares of Harbinger and we record our investment at fair value. As we do not control Harbinger, its management may make decisions that are not in our best interest. Harbinger could decide to issue additional common shares, which would dilute our current ownership. Additionally, changes in the market price of Harbinger shares may lead to volatility in our results of operations. For additional risk factors concerning Harbinger, see its SEC filings at [www.sec.gov](http://www.sec.gov).

**The performance of our oil and gas exploration and production investments, Juneau and Vitesse, is impacted by uncertainties specific to the oil and gas industry which we cannot control.** This industry is speculative by its very nature and involves a high degree of risk. The value of these investments may be impacted by changes in oil prices, which are affected by local, regional and global events or conditions that affect demand and which have a history of price volatility. These investments are also exposed to changes in regulations affecting the industry, which could increase our cost of compliance or reduce or delay business opportunities. In addition, there are numerous uncertainties inherent in estimating future production and associated future income streams. As a result, actual results could differ from those currently anticipated and our ability to profitably grow these investments could be adversely affected.

**Declines in the U.S. housing market have reduced revenues of our manufacturing businesses and may continue to do so.** Our manufacturing operations, particularly Idaho Timber, have generated significant revenues when the U.S. housing market was strong. The weak U.S. housing market during the last few years has resulted in fewer new housing starts, which has adversely impacted revenues of our manufacturing businesses, particularly Idaho Timber; revenues are not expected to return to prior levels until the U.S. housing market recovers.

**We may not be able to insure certain risks economically.** We cannot be certain that we will be able to insure all risks that we desire to insure economically or that all of our insurers or reinsurers will be financially viable if we make a claim. If an uninsured loss or a loss in excess of insured limits should occur, or if we are required to pay a deductible for an insured loss, results of operations could be adversely affected. Damages from storms could result in the closing of our facilities to make repairs, resulting in lost business and adversely affecting results of operations.

**If Berkadia does not maintain certain specified ratings from the credit rating agencies it could lose its mortgage servicing rights.** Berkadia is required to maintain specified servicer ratings from the credit rating agencies, and failure to do so would give its customers the right to terminate their mortgage servicing agreements. If mortgage servicing agreements were terminated as a result of a servicer ratings downgrade, we could lose our entire equity investment.

**When Berkadia originates loans for Fannie Mae, it is often required to share in the losses on such loans, which could be in excess of reserved amounts.** Berkadia carries a reserve on its balance sheet for contingent losses on loans originated for Fannie Mae that have loss sharing requirements. If actual losses exceed amounts reserved, Berkadia's profitability and cash flows will be reduced.

**The loss of or changes in Berkadia's relationships with U.S. Government-Sponsored Enterprises and federal agencies would have an adverse effect on Berkadia's business.** Berkadia's failure to comply with U.S. Government-Sponsored Enterprise or agency requirements may result in its termination as an approved seller/servicer, mortgagee or issuer. The loss of any such status could have a significant adverse impact on Berkadia's results of operations, could result in a loss of similar approvals from other U.S. Government-Sponsored Enterprises or federal agencies and could have other adverse consequences to the business. Fannie Mae and Freddie Mac retain broad discretion to terminate Berkadia as a seller/servicer without cause upon notice.

**Changes in existing government-sponsored and federal mortgage programs could negatively affect Berkadia's business.** Berkadia's ability to generate income through mortgage sales to institutional investors depends in part on programs sponsored by Fannie Mae, Freddie Mac and the FHA, which purchase such loans from Berkadia and/or facilitate the issuance of mortgage-backed securities in the secondary market. The federal government has announced that the continuation of these programs is under review, and that any or all of the government agency programs could be substantially modified or eliminated in the future. Any discontinuation of, or significant reduction or change in, the operation of those programs would have an adverse effect on Berkadia's loan origination and servicing business and results of operations.

**Berkadia's special servicing and fee-for-service businesses may be terminated on short notice.** Special servicing for each CMBS transaction is usually controlled by the subordinated bond holder class of the securitization. The owners of the subordinated bonds may change from time to time, and subordinated bond holders may replace Berkadia with a different special servicer. Fee-for-service customers are permitted to terminate Berkadia on short notice, usually 30 days. If Berkadia loses special servicing rights or is terminated by fee-for-service customers, it would negatively impact Berkadia's results of operations and cash flows.

**CMBS loan and Bridge loan programs will expose Berkadia to credit and interest rate risk that it is not subject to with its government agency lending programs.** Unlike its government agency lending programs, Berkadia cannot be assured it will be able to sell CMBS and Bridge loans at par value to a third-party without any exposure to credit or interest rate risk. If for any reason Berkadia is unable to sell a CMBS loan into the securitization market or if a borrower is unable to refinance a Bridge loan, Berkadia will retain all risks associated with such loan for as long as it owns the loan. Berkadia may be forced to foreclose on defaulted loans and suffer a loss, or to sell loans to a third party at a discount, either of which would reduce Berkadia's profitability and cash flows.

**If Berkadia suffered significant losses and was unable to repay its commercial paper borrowings, we would be exposed to loss pursuant to a reimbursement obligation to Berkshire Hathaway.** Berkadia obtains funds generated by commercial paper sales of an affiliate of Berkadia. All of the proceeds from the commercial paper sales are used by Berkadia to fund new mortgage loans, servicer advances, investments and other working capital requirements. Repayment of the commercial paper is supported by a \$2.5 billion surety policy issued by a Berkshire Hathaway insurance subsidiary and corporate guaranty, and we have agreed to reimburse Berkshire Hathaway for one-half of any losses incurred thereunder. If Berkadia suffers significant losses and is unable to repay its commercial paper borrowings, we would suffer losses to the extent of its reimbursement obligation to Berkshire Hathaway. As of December 31, 2014, the aggregate amount of commercial paper outstanding was \$2.47 billion.

**Berkadia's business is significantly affected by general economic conditions, particularly in the commercial real estate industry, and could be harmed in the event of a continued economic slowdown, prolonged recession or other market downturn or disruption.** Berkadia's business and earnings are sensitive to changes in government policies and regulations, changes in interest rates, inflation, deflation, oversupply of real estate properties, fluctuations

in the real estate and debt capital markets and developments in national and local economies. Unfavorable economic conditions could have an adverse effect on Berkadia's business, including decreasing the demand for new loans and the servicing of loans originated by third parties.

**Garcadia's business is dependent, in part, upon revenue from new and used car sales at its dealerships, and declines in revenues due to industry or other factors could result in reduced profitability, reduced cash flows and/or impairment charges.** Garcadia has recorded impairment charges in the past, principally for goodwill and other intangible assets, and if the automobile industry experiences a downturn in the future additional impairment charges are likely, reducing our profitability.

**From time to time we may invest in illiquid securities that are subject to standstill agreements or are otherwise restricted.** From time to time we may invest in securities that are subject to restrictions which prohibit us from selling the subject securities for a period of time. Although we are not a party to any such agreement currently should we enter into these agreements in the future and need to generate liquidity quickly, such agreements would limit our ability to dispose of the underlying investment while the agreement is effective.

**We could experience significant increases in operating costs and reduced profitability due to competition for skilled management and staff employees in our operating businesses.** We compete with many other entities for skilled management and staff employees, including entities that operate in different market sectors than us. Costs to recruit and retain adequate personnel could adversely affect results of operations.

**Extreme weather, loss of electrical power or other forces beyond our control could negatively impact our business.** Natural disasters, fire, terrorism, pandemic or extreme weather, including droughts, floods, excessive cold or heat, hurricanes or other storms, could interfere with our operating businesses due to power outages, fuel shortages, water shortages, damage to facilities or disruption of transportation channels, among other things. Any of these factors, as well as disruptions to information systems, could have an adverse effect on financial results.

**We rely on the security of our information technology systems and those of our third-party providers to protect our proprietary information and information of our customers.** Some of our businesses involve the storage and transmission of customers' personal information, consumer preferences and credit card information. While we believe that we have implemented protective measures to effectively secure information and prevent security breaches, our information technology systems may be vulnerable to unauthorized access, computer hacking, computer viruses or other unauthorized attempts by third parties to access the proprietary information of our customers. Information technology breaches and failures could disrupt our ability to function in the normal course of business resulting in lost revenue, the disclosure or modification of sensitive or confidential information and the incurrence of remediation and notification costs, resulting in legal and financial exposure. Moreover, loss of confidential customer identification information could harm our reputation and subject us to liability under laws that protect confidential personal data, resulting in increased costs or loss of revenues.

**From time to time we are subject to litigation, for which we may be unable to accurately assess our level of exposure and which if adversely determined, may have a significant adverse effect on our consolidated financial condition or results of operations.** We and our subsidiaries are or may become parties to legal proceedings that are considered to be either ordinary, routine litigation incidental to our business or not significant to our consolidated financial position or liquidity. Although our current assessment is that, other than as disclosed in this report, there is no pending litigation that could have a significant adverse impact, if our assessment proves to be in error, then the outcome of litigation could have a significant impact on our financial statements.

**We may not be able to generate sufficient taxable income to fully realize our deferred tax asset, which would also have to be reduced if U.S. federal income tax rates are lowered.** At December 31, 2014, we have recognized net deferred tax assets of \$1.7 billion. If we are unable to generate sufficient taxable income, we will not be able to fully realize the recorded amount of the net deferred tax asset. If we are unable to generate sufficient taxable income prior to the expiration of our federal income tax net operating loss carryforwards ("NOLs"), the NOLs would expire unused. Our projections of future taxable income required to fully realize the recorded amount of the net deferred tax asset reflect numerous assumptions about our operating businesses and investments, and are subject to change as conditions change specific to our business units, investments or general economic conditions. Changes that are adverse to us could result in the need to increase the deferred tax asset valuation allowance resulting in a charge to results of

operations and a decrease to total stockholders' equity. In addition, if U.S. federal income tax rates are lowered, we would be required to reduce our net deferred tax asset with a corresponding reduction to earnings during the period.

**If our tax filing positions were to be challenged by federal, state and local or foreign tax jurisdictions, we may not be wholly successful in defending our tax filing positions.** We record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and if so estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which result could be significant to our Consolidated Statement of Financial Condition or results of operations.

**We have indicated our intention to pay dividends at the annual rate of \$0.25 per common share, on a quarterly basis.** The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Board of Directors may deem to be relevant.

**Our common shares are subject to transfer restrictions.** We and certain of our subsidiaries have significant NOLs and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of the tax attributes, our certificate of incorporation contains provisions that generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of 5% or more of our common shares and the ability of persons or entities now owning 5% or more of our common shares from acquiring additional common shares. The restriction will remain until the earliest of (a) December 31, 2024, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) and (c) the beginning of a taxable year to which these tax benefits may no longer be carried forward. The restriction may be waived by our Board of Directors on a case by case basis. Shareholders are advised to carefully monitor their ownership of our common shares and consult their own legal advisors and/or us to determine whether their ownership of our common shares approaches the proscribed level.

#### **Item 1B. Unresolved Staff Comments.**

Not applicable.

#### **Item 2. Properties.**

Our and Jefferies global executive offices and principal administrative offices are located at 520 Madison Avenue, New York, New York under an operating lease arrangement. Jefferies maintains additional offices in over 30 cities throughout the world including, in the United States, Charlotte, Chicago, Boston, Houston, Los Angeles, San Francisco, Stamford, and Jersey City, and internationally, London, Frankfurt, Milan, Paris, Zurich, Hong Kong, Singapore, Tokyo and Mumbai. In addition, Jefferies maintains backup data center facilities with redundant technologies for each of its three main data center hubs in Jersey City, London and Hong Kong. Jefferies leases all of its office space, or contract via service arrangement, which management believes is adequate for its business.

National Beef's processing facilities, which are the principal properties used in its business, are described in Item 1 of this report. National Beef also leases corporate office space in Kansas City, Missouri (27,400 square feet) for its headquarters facility.

Conwed Plastics manufacturing facilities and Idaho Timber's plants and sawmills, which are the principal properties used in their businesses, are described in Item 1 of this report.

We lease numerous other manufacturing, warehousing, office and headquarters facilities. The facilities vary in size and have leases expiring at various times, subject, in certain instances, to renewal options. See Note 26 to our consolidated financial statements.

**Item 3. Legal Proceedings.**

The information set forth in response to this Item 3 is incorporated by reference from the “Contingencies” section in Note 26 in the notes to consolidated financial statements in Item 8 of Part II of this report, which is incorporated herein by reference.

**Item 4. Mine Safety Disclosures.**

Not applicable.



## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common shares are traded on the NYSE under the symbol LUK. The following table sets forth, for the calendar periods indicated, the high and low sales price per common share on the consolidated transaction reporting system, as reported by the Bloomberg Professional Service provided by Bloomberg L.P.

	Common Share	
	High	Low
<u>2013</u>		
First Quarter .....	\$27.57	\$22.98
Second Quarter .....	32.43	24.70
Third Quarter .....	28.75	24.80
Fourth Quarter .....	29.56	26.82
<u>2014</u>		
First Quarter .....	\$28.72	\$26.04
Second Quarter .....	28.09	24.52
Third Quarter .....	26.50	23.74
Fourth Quarter .....	24.72	20.96
<u>2015</u>		
First Quarter (through February 12, 2015) .....	\$23.84	\$21.28

As of February 12, 2015, there were approximately 1,856 record holders of the common shares.

We paid cash dividends of \$.0625 per share each quarter during 2014 and 2013 and \$0.25 per common share annually in 2012. We have indicated our intention to pay dividends currently at the annual rate of \$0.25 per common share on a quarterly basis. The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Board of Directors may deem to be relevant.

Certain of our subsidiaries have significant NOLs and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of our tax attributes, our certificate of incorporation contains provisions which generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of five percent or more of the common shares and the ability of persons or entities now owning five percent or more of the common shares from acquiring additional common shares. The restrictions will remain in effect until the earliest of (a) December 31, 2024, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) or (c) the beginning of a taxable year to which these tax benefits may no longer be carried forward.

The following table presents information on our purchases of our common shares during the three months ended December 31, 2014:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 2014 .....	38,940	\$22.93	–	25,000,000
November 2014 .....	30,891	\$24.05	–	25,000,000
December 2014 .....	<u>917,354</u>	\$21.70	<u>704,806</u>	24,295,194
Total .....	<u>987,185</u>		<u>704,806</u>	

In November 2012, our Board of Directors authorized a share repurchase program pursuant to which we may, from time to time, purchase up to an aggregate of 25,000,000 of our common shares, inclusive of prior authorizations. In December 2014, we repurchased 704,806 shares under the program. In addition, we repurchased an aggregate of

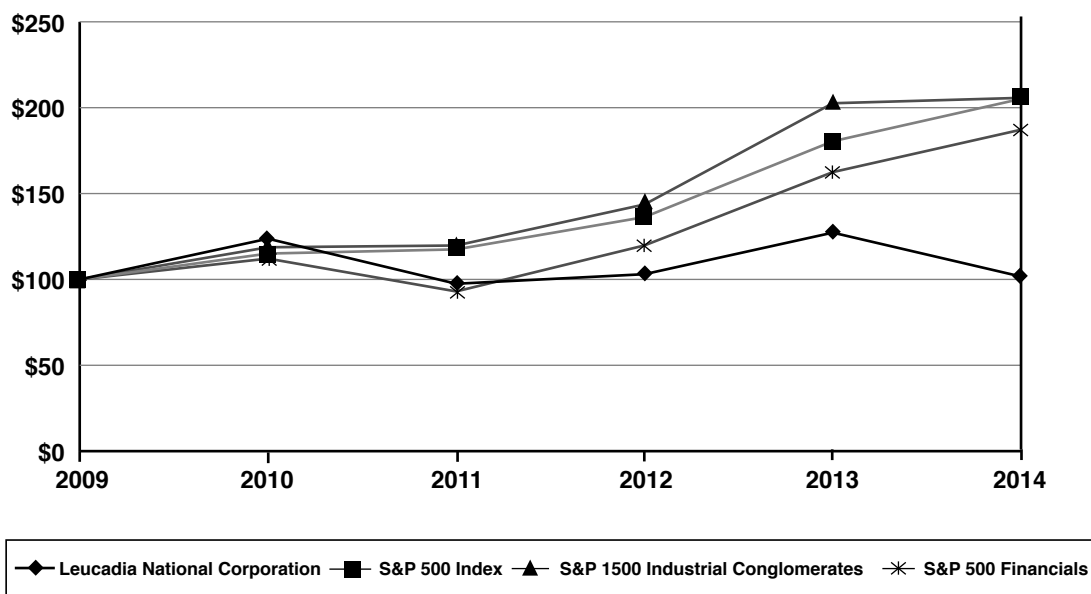
282,379 shares in connection with our share compensation plans which allow participants to use shares to satisfy certain tax liabilities arising from the vesting of restricted shares and the distribution of restricted share units. The total number of shares purchased does not include unvested shares forfeited back to us pursuant to the terms of our share compensation plans.

There were no unregistered sales of equity securities during the period covered by this report.

*Stockholder Return Performance Graph*

Set forth below is a graph comparing the cumulative total stockholder return on our common shares against the cumulative total return of the Standard & Poor’s 500 Stock Index, the Standard & Poor’s 1500 Industrial Conglomerates Index and the Standard & Poor’s 500 Financials Index for the period commencing December 31, 2009 to December 31, 2014. Index data was furnished by Standard & Poor’s Capital IQ. The graph assumes that \$100 was invested on December 31, 2009 in each of our common stock, the S&P 500 Index, the S&P 1500 Industrial Conglomerates Index and the S&P 500 Financials Index and that all dividends were reinvested.

**Comparison of Cumulative Five Year Total Return**



**Item 6. Selected Financial Data.**

The following selected financial data have been summarized from our consolidated financial statements and are qualified in their entirety by reference to, and should be read in conjunction with, such consolidated financial statements and Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations of this report.

	Year Ended December 31,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA: (a)					
Net revenues (b) . . . . .	<b>\$11,486,485</b>	\$10,425,746	\$9,404,584	\$637,265	\$1,418,813
Expenses . . . . .	<b>11,243,790</b>	9,999,202	8,051,204	578,701	654,478
Income from continuing operations before income taxes . . . . .	<b>381,222</b>	545,585	1,442,029	120,577	797,911
Income tax provision (benefit) (c) . . . . .	<b>165,971</b>	136,481	539,464	71,237	(1,142,943)
Income from continuing operations (c) . . . . .	<b>215,251</b>	409,104	902,565	49,340	1,940,854
Income (loss) from discontinued operations, including gain (loss) on disposal, net of taxes . . . . .	<b>(16,226)</b>	(46,911)	(37,924)	(24,384)	(618)
Net income attributable to Leucadia National Corporation common shareholders . . . . .	<b>204,306</b>	369,240	854,466	25,231	1,939,312
Per share:					
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:					
Income from continuing operations . . . . .	<b>\$ .58</b>	\$1.20	\$3.64	\$ .20	\$7.98
Income (loss) from discontinued operations, including gain (loss) on disposal . . . . .	<b>(.04)</b>	(.13)	(.15)	(.10)	(.01)
Net income . . . . .	<b><u>\$.54</u></b>	<u>\$1.07</u>	<u>\$3.49</u>	<u>\$.10</u>	<u>\$7.97</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:					
Income from continuing operations . . . . .	<b>\$ .58</b>	\$1.20	\$3.59	\$ .20	\$7.85
Income (loss) from discontinued operations, including gain (loss) on disposal . . . . .	<b>(.04)</b>	(.14)	(.15)	(.10)	—
Net income . . . . .	<b><u>\$.54</u></b>	<u>\$1.06</u>	<u>\$3.44</u>	<u>\$.10</u>	<u>\$7.85</u>

	At December 31,				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(In thousands, except per share amounts)				
SELECTED BALANCE SHEET DATA: (a)					
Total assets . . . . .	<b>\$52,623,908</b>	\$47,866,781	\$9,349,118	\$9,263,189	\$9,350,298
Long-term debt . . . . .	<b>8,527,929</b>	8,180,865	1,358,695	1,903,653	1,680,106
Mezzanine equity . . . . .	<b>311,686</b>	366,075	241,649	235,909	—
Shareholders' equity . . . . .	<b>10,302,158</b>	10,102,462	6,767,268	6,174,396	6,956,758
Book value per common share . . . . .	<b>\$28.03</b>	\$27.71	\$27.67	\$25.24	\$28.53
Cash dividends per common share . . . . .	<b>\$.25</b>	\$.25	\$.25	\$.25	\$.25

- (a) Subsidiaries are reflected above as consolidated entities from the date of acquisition. Jefferies was acquired on March 1, 2013. National Beef was acquired on December 30, 2011; however, since its operating activities subsequent to the acquisition during 2011 were not significant they were not included in the 2011 consolidated statement of operations.
- (b) Includes net securities gains of \$30.4 million, \$244.0 million, \$590.6 million, \$641.5 million and \$179.5 million for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, respectively.
- (c) At December 31, 2010, we concluded that it was more likely than not that we would be able to realize a portion of the net deferred tax asset; accordingly, \$1,157 million of the deferred tax valuation allowance was reversed as a credit to income tax expense.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources and results of operations. This analysis should be read in conjunction with the consolidated financial statements and related footnote disclosures contained in this report and the following "Cautionary Statement for Forward-Looking Information."

## Cautionary Statement for Forward-Looking Information

Statements included in this report may contain forward-looking statements. Such statements may relate, but are not limited, to projections of revenues, income or loss, development expenditures, plans for growth and future operations, competition and regulation, as well as assumptions relating to the foregoing. Such forward-looking statements are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted or quantified. When used in this report, the words “will,” “could,” “estimates,” “expects,” “anticipates,” “believes,” “plans,” “intends” and variations of such words and similar expressions are intended to identify forward-looking statements that involve risks and uncertainties. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements.

Factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted or may materially and adversely affect our actual results include, but are not limited to, those set forth in Item 1A. Risk Factors and elsewhere in this report and in our other public filings with the SEC.

Undue reliance should not be placed on these forward-looking statements, which are applicable only as of the date hereof. We undertake no obligation to revise or update these forward-looking statements to reflect events or circumstances that arise after the date of this report or to reflect the occurrence of unanticipated events.

## Results of Operations

We invest in a broad variety of businesses and focus on long-term value creation. We often have changes in the mix of our businesses and investments. Our investments may be reflected in our consolidated results as operating subsidiaries, equity investments, notes receivable, available for sale securities, or in other ways, depending on the structure of the investment. Further, as our investments span a number of industries, each may be impacted by different factors. For these reasons, our pre-tax income is not predictable from period to period.

A summary of results of continuing operations for the three years ended December 31, 2014 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pre-tax income (loss) from continuing operations:			
Jefferies . . . . .	<b>\$ 358,396</b>	\$260,984	\$ —
National Beef . . . . .	<b>(40,303)</b>	(42,358)	59,048
Corporate and other . . . . .	<b>(144,508)</b>	(91,917)	(122,476)
Other Financial Services Businesses . . . . .	<b>139,055</b>	275,430	374,595
Other Merchant Banking Businesses . . . . .	<b>166,697</b>	215,663	1,211,012
Parent Company Interest . . . . .	<b>(98,115)</b>	(72,217)	(80,150)
Total consolidated pre-tax income from continuing operations . . . . .	<b><u>\$ 381,222</u></b>	<b><u>\$545,585</u></b>	<b><u>\$1,442,029</u></b>

### *Jefferies*

Jefferies was acquired on March 1, 2013 and is reflected in our consolidated financial statements utilizing a one month lag; Jefferies fiscal year ends on November 30th and its fiscal quarters end one month prior to our reporting periods. A summary of results of operations for Jefferies included in the year ended December 31, 2014 and for the period from the Jefferies acquisition through December 31, 2013 is as follows (in thousands):

	<b>Year Ended December 31, 2014</b>	For the Period From the Jefferies Acquisition Through December 31, 2013
Net revenues .....	<b><u>\$2,986,325</u></b>	<u>\$2,134,002</u>
Expenses:		
Compensation and benefits .....	<b>1,697,533</b>	1,213,908
Floor brokerage and clearing fees .....	<b>215,329</b>	150,774
Depreciation and amortization .....	<b>78,566</b>	59,631
Provision for doubtful accounts .....	<b>55,355</b>	179
Selling, general and other expenses .....	<b><u>581,146</u></b>	<u>448,526</u>
	<b><u>2,627,929</u></b>	<u>1,873,018</u>
Income before income taxes .....	<b><u>\$ 358,396</u></b>	<u>\$ 260,984</u>

Jefferies comprises many business units, with many interactions and much integration among them. Business activities include the sales, trading, origination and advisory effort for various equity, fixed income, commodities, foreign exchange and advisory services. Jefferies business, by its nature, does not produce predictable or necessarily recurring revenues or earnings. Jefferies results in any given period can be materially affected by conditions in global financial markets, economic conditions generally, and its own activities and positions.

As more fully described in our discussion of Critical Accounting Estimates, Goodwill, Jefferies recognized goodwill impairment losses of \$54.0 million in its stand-alone financial statements for 2014 based on an evaluation performed on the basis of its reporting units. In accordance with U.S. GAAP, we have not recognized these losses on a consolidated basis.

The discussion below is presented on a detailed product and expense basis. Net revenues presented for equity and fixed income businesses include allocations of interest income and interest expense as Jefferies assesses 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 following provides a summary of net revenues by source included in the year ended December 31, 2014 and for the period from the Jefferies acquisition through December 31, 2013 (in thousands):

	<b>Year Ended December 31, 2014</b>	For the Period From the Jefferies Acquisition Through December 31, 2013
Equities .....	<b>\$ 690,793</b>	\$ 578,045
Fixed income .....	<b>751,848</b>	507,285
Total sales and trading .....	<b><u>1,442,641</u></b>	<u>1,085,330</u>
Investment banking:		
Capital markets:		
Equities .....	<b>339,683</b>	228,394
Debt .....	<b>627,536</b>	410,370
Advisory .....	<b>559,418</b>	369,191
Total investment banking .....	<b><u>1,526,637</u></b>	<u>1,007,955</u>
Other .....	<b>17,047</b>	40,717
Total net revenues .....	<b><u>\$2,986,325</u></b>	<u>\$2,134,002</u>

### *Net Revenues*

Net revenues for 2014 reflect record investment banking revenues, partially offset by lower revenue due to challenging trading environments in Jefferies fixed income business, particularly in the fourth quarter of 2014. Jefferies core equities

business performed relatively well during 2014. Jefferies 2014 results include a loss of \$14.7 million from its investment in KCG Holdings, Inc. (“KCG”) and a gain of \$19.9 million from its investment in Harbinger Group Inc. (“Harbinger”).

Net revenues for the period from the Jefferies acquisition through December 31, 2013 reflect solid performance in Jefferies equity sales and trading business and continued strength in its investment banking platform. Jefferies fixed income businesses experienced difficult trading conditions for a portion of the period as a result of a change in expectations for interest rates surrounding the Federal Reserve’s plans for tapering its asset purchase program; though fixed income performance significantly improved during the fourth quarter of 2013. Results include gains of \$89.3 million in aggregate within Equities Principal transaction revenues from Jefferies investments in Knight Capital and Harbinger.

### *Equities Revenue*

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

Equities revenue for the year ended December 31, 2014 include a loss of \$14.7 million from Jefferies investment in KCG and a gain of \$19.9 million from its investment in Harbinger, and for the period from the acquisition of Jefferies to December 31, 2013 include a gain of \$19.5 million from its investment in KCG and a gain of \$69.8 million from its investment in Harbinger. Additionally, during the first quarter of 2014, Jefferies recognized a gain of \$12.2 million in connection with its investment in CoreCommodity Management LLC. For the year ended December 31, 2014 and the period from the acquisition of Jefferies to December 31, 2013, included within Interest expense allocated to Jefferies equities business is positive income of \$45.1 million and \$33.7 million, respectively, related to the amortization of premiums arising from the adjustment of Jefferies long-term debt to fair value as part of acquisition accounting.

For 2014, U.S. stock prices continued an overall upward trend with company earnings and economic data largely meeting expectations and the outlook for monetary policy remaining favorable. While the markets in the fourth quarter were relatively unsettled, the S&P 500 Index was up 14.5% for the fiscal year and exchange trading volumes increased generally, which contributed to increased commission revenue. Similarly, European exchange volumes grew significantly throughout the 2014 year. Additionally, the performance from Jefferies electronic trading platform and prime brokerage business has continued to increase.

Equities revenue from the Jefferies Finance joint venture during the nine months ended December 31, 2014 were comparable to those from the joint venture during the same period in 2013. Equities revenue from Jefferies LoanCore joint venture decreased during 2014 as compared to the 2013 period due to fewer securitizations.

U.S. equity market conditions during the 2013 period were characterized by continually increasing stock prices as the U.S. government maintained its monetary stimulus program. In the equity markets, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average increased by 28%, 19% and 14%, respectively, with the S&P Index registering a series of record closing highs. However, economic data in the U.S. continued to indicate a slow recovery and geopolitical concerns regarding the Middle East and a U.S. federal government shutdown added volatility in the U.S. and international markets. Despite the rally in the equity markets in 2013, overall market volumes were subdued moderating customer flow in Jefferies U.S. cash equity business, although Jefferies benefited from certain block trading opportunities during the period. In Europe, during the 2013 period, liquidity returned to the market as the European Central Bank convinced investors that it would not allow the Eurozone to breakup aiding results to both our cash and option desks, although the results were still impacted by relatively low trading volumes given the region’s fragile economy. Additionally, Asian equity commissions were stronger, particularly in Japan with new monetary policies increasing trading volumes on the Nikkei Exchange.

Jefferies Securities Finance desk also contributed solidly to Equities revenue for the 2013 period and the performance of certain strategic investment strategies were strong. Revenue from Jefferies sales and trading of convertible securities is reflective of increased market share as we have expanded our team in this business. Net earnings from Jefferies Finance and LoanCore joint ventures reflect a solid level of securitization deals and loan closings during the 2013 period.

## *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.

Included within Interest expense for the year ended December 31, 2014 and for the 2013 period is positive income of \$55.5 million and \$40.1 million, respectively, from the allocation to Jefferies fixed income business of a portion of the amortization of premiums arising from adjusting Jefferies long-term debt to fair value as part of acquisition accounting.

The fixed income markets during 2014 were impacted at various points by uncertainty with respect to U.S. economic data and concerns about the global economy, as well as reactions to legal matters regarding Freddie Mac and Fannie Mae and anticipated monetary policy, which created market uncertainty. Client trading demand was lower across most of the fixed income platform with the exception of increased customer flow in Jefferies international rates business, which benefited from tightening yields in Europe. Credit spreads continued to tighten as the U.S. Federal Reserve continued to taper its bond buyback program at a measured pace. In the fourth quarter of 2014, the volatility in the equity markets and the lowering of oil prices, put downward pressure on high yield bonds, especially those in the energy and transport sectors, as well as on the distressed trading markets. Jefferies experienced a decline in the results of its efforts in distressed trading for the year, which was primarily due to mark to market inventory losses as a result of the broad sell-off in distressed and post-reorganization securities although investor interest in high yield asset classes was strong during the year as investors continued to migrate to certain asset classes in search of higher yields. Futures sales and trading revenues for 2014 were negatively impacted by challenging market conditions for foreign currency trading and U.S. futures trading given political and economic instability in various global environments.

During the fourth quarter, as a result of the growth and margin challenges recently faced in its Jefferies Bache business, which conducts Jefferies futures and foreign exchange trading activities, Jefferies decided to pursue strategic alternatives for the business. Jefferies is currently evaluating various options, which may include a sale to or combination with another similar business that improves the combined businesses' competitive standing and margin. Global net revenues from this business activity for 2014, which are included within Jefferies Fixed income results, were \$175.3 million. This is comprised of commissions, principal transaction revenues and net interest revenues.

Jefferies second quarter of fiscal 2013 was characterized by improving U.S. macroeconomic conditions, and, through the first half of May 2013, the U.S. Federal Reserve's policies resulted in historically low yields for fixed income securities motivating investors to take on more risk in search for yield. In May 2013, however, the Treasury market experienced a steep sell-off and credit spreads widened across the U.S. fixed income markets in reaction to an anticipated decrease in Federal Reserve treasury issuances and mortgage debt security purchases in future periods. These market conditions negatively impacted Jefferies U.S. rates, corporates and U.S. mortgages revenues through August as the volatility made it difficult to realize net revenue from Jefferies customer flow. In the latter part of the 2013 year, the fixed income markets stabilized with lower volatility and tightening spreads increasing overall customer flows across the various fixed income product classes.

While revenues rebounded towards the end of Jefferies fiscal year for its mortgage-backed securities business, the mid-year sell-off in U.S. Treasuries and the widening of credit spreads for mortgage products negatively impacted the overall results for 2013 by reducing trading volumes and increasing market volatility. Corporate bond revenues were also negatively impacted by the widening of credit spreads in the third quarter though there was significant improvement during the fourth quarter of 2013 with more robust trading volumes and narrowing credit spreads. Municipal securities underperformed as an asset class for a large part of the period as investors discounted greater risk than they had previously although investors began to return to the municipal market at the end of the period increasing Jefferies trading volumes. Components of Jefferies futures business experienced varying degrees of fluctuations in customer trading volume but trading volume was relatively constant when considered overall and across the full period.

While Jefferies U.S. rates, corporates and U.S. mortgages desks underperformed, its leveraged credit business produced solid results as investors sought investment yields in this fixed income class and issuers of bank debt were active with the supply level creating a positive effect on liquidity in the secondary market. Further, the low interest rate environment in the U.S. caused investors to seek higher yields in emerging market debt. In addition, suppressed long-term interest rates in the U.S. encouraged investment in international mortgage-backed securities resulting in increased trading volumes, improved market liquidity and ultimately increased revenues on Jefferies international mortgage desk, despite

experiencing reduced market liquidity and consequently lower levels of secondary market activity during the summer months of 2013.

### *Investment Banking Revenue*

Jefferies provides a full range of capital markets and financial advisory services to its clients across most industry sectors in the Americas, Europe and Asia. Capital markets revenue includes underwriting and placement revenue related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity-linked securities. Advisory revenue consists primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions.

Low borrowing costs and generally strong capital market conditions throughout most of 2014 were important factors in driving the growth in Jefferies debt and equity capital markets businesses. These factors, together with generally strong corporate balance sheets and record equity valuations, were important in driving the growth in its merger and acquisition advisory business.

During 2014, from equity and debt capital raising activities, Jefferies generated \$339.7 million and \$627.5 million in revenues, respectively. During 2014, Jefferies completed 1,109 public and private debt financings that raised \$250 billion and Jefferies completed 184 public equity financings and 9 convertible offerings that raised \$66 billion (159 of which it acted as sole or joint bookrunner). Financial advisory revenues totaled \$562.1 million, including revenues from 132 merger and acquisition transactions and 12 restructuring and recapitalization transactions with an aggregate transaction value of \$176 billion.

During the 2013 period, despite uneven U.S. economic growth and uncertainty surrounding the U.S. Federal Reserve's decision on quantitative easing, capital market conditions continued to improve due to the availability of low-priced credit and a general rise in the stock market during 2013. Mergers and acquisition activity gained momentum through the later part of the 2013 period.

During the 2013 period, from equity and debt capital raising activities, Jefferies generated \$228.4 million and \$410.4 million in revenues, respectively. Since the acquisition, Jefferies completed 412 public and private debt financings that raised \$162.3 billion in aggregate, as companies took advantage of low borrowing costs and Jefferies completed 130 public equity financings that raised \$32.9 billion (111 of which Jefferies acted as sole or joint bookrunner). Jefferies financial advisory revenues totaled \$369.2 million during this period, including revenues from 108 merger and acquisition transactions where Jefferies served as financial advisor.

### *Compensation and Benefits*

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

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in January 2010 and September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of \$283.3 million and \$232.0 million for 2014 and for the period from the Jefferies acquisition through December 31, 2013, respectively. In addition, compensation and benefits expense includes \$14.4 million and \$11.0 million for 2014 and for the 2013 period, respectively, of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements at the acquisition date. Compensation and benefits as a percentage of Net revenues was 56.8% and 56.9% for 2014 and for the 2013 period, respectively.



### *Non-Compensation Expenses*

Non-compensation expenses include floor brokerage and clearing fees, technology and communications expense, occupancy and equipment rental expense, business development, professional services, bad debt provision, impairment charges, depreciation and amortization expense and other costs. All of these expenses, other than floor brokerage and clearing fees, bad debt provision, goodwill impairment and depreciation and amortization expense, are included within Selling, general and other expenses in the Consolidated Statements of Operations.

Non-compensation expenses for 2014 include approximately \$7.6 million in impairment losses related to customer relationship intangible assets within its Jefferies Bache business, which constitutes Jefferies global futures sales and trading operations, and its International Asset Management business, which is included within Selling, general and other expenses in the Consolidated Statements of Operations. During the fourth quarter of 2014, Jefferies recognized a bad debt provision, which primarily relates to a receivable of \$52.3 million from a client to which it provided futures clearing and execution services, which declared bankruptcy.

Floor brokerage and clearing expenses for 2014 are reflective of the trading volumes in Jefferies equities trading businesses. Technology and communications expense includes costs associated with development of the various trading systems and projects associated with corporate support infrastructure, including communication enhancements to our global headquarters and incremental amortization expense associated with fair value adjustments to capitalized software recognized as part of acquisition accounting. Occupancy and equipment rental expense reflects incremental office re-configuration expenditures at our global headquarters. Business development costs reflect Jefferies continued efforts to continue to build market share, including its loan origination business conducted through its Jefferies Finance joint venture. Jefferies continues to incur legal and consulting fees as part of implementing various regulatory requirements.

Non-compensation expenses for the 2013 period include approximately \$21.1 million in incremental amortization expense associated with fair value adjustments to identifiable tangible and intangible assets recognized as part of acquisition accounting, \$6.3 million in additional lease expense related to recognizing existing leases at their current market value and \$11.6 million in merger-related investment banking filing fees. Additionally, during 2013 an \$8.7 million charge was recognized due to vacating certain office space in London. Other expenses for 2013 include \$38.4 million in litigation expenses, which includes litigation costs related to the final judgment on Jefferies last outstanding auction rate securities legal matter and to agreements reached in principle with the relevant authorities pertaining to an investigation of purchases and sales of mortgage-backed securities.

Floor brokerage and clearing expenses for the 2013 period are reflective of the trading volumes in Jefferies fixed income and equities trading businesses, including a meaningful volume of trading by its foreign exchange business. Technology and communications expense includes costs associated with development of the various trading systems and various projects associated with corporate support infrastructure, including technology initiatives to support Dodd-Frank reporting requirements. Jefferies continued to incur legal and consulting fees as part of implementing various regulatory requirements.

### *National Beef*

A summary of results of operations for National Beef for the three years in the period ended December 31, 2014 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net revenues . . . . .	<u>\$7,832,424</u>	<u>\$7,487,724</u>	<u>\$7,480,934</u>
Expenses:			
Cost of sales . . . . .	<u>7,708,007</u>	7,308,580	7,269,912
Compensation and benefits . . . . .	<u>38,660</u>	33,447	31,638
Interest . . . . .	<u>14,503</u>	12,272	12,431
Depreciation and amortization . . . . .	<u>85,305</u>	88,483	83,063
Selling, general and other expenses . . . . .	<u>26,252</u>	87,300	24,842
	<u>7,872,727</u>	<u>7,530,082</u>	<u>7,421,886</u>
Income (loss) before income taxes . . . . .	<u>\$ (40,303)</u>	<u>\$ (42,358)</u>	<u>\$ 59,048</u>

National Beef's profitability is dependent, in large part, on the spread between its cost for live cattle, the primary raw material for its business, and the value received from selling boxed beef and other products. Because National Beef operates in a large and liquid commodity market, it does not have much influence over the price it pays for cattle or the selling price it receives for the products it produces. National Beef's profitability typically fluctuates seasonally as well as cyclically, with relatively higher margins in the spring and summer months and during times of ample cattle availability.

The USDA reports market values for cattle, beef, offal and other products produced by ranchers, farmers and beef processors. Generally, National Beef expects its profitability to improve as the ratio of the USDA comprehensive boxed beef cutout (a weekly reported measure of the total value of all USDA inspected primal cuts, grind and trim produced from fed cattle) to the USDA 5-area weekly average slaughter cattle price increases and for profitability to decline as the ratio decreases. The ratio during 2012 was the lowest ratio for the corresponding periods during the past ten years and was largely unchanged during 2013 and 2014. The ratio will likely remain below historic norms until herd expansion and/or plant closures result in an improved equilibrium between industry slaughter capacity and the available supply of fed cattle.

Revenues in 2014 increased about 5% in comparison to 2013, due primarily to higher selling prices despite lower sales volume, as fewer cattle were processed. Revenues were largely unchanged during 2013 as compared to 2012. Cost of sales increased markedly during 2014 as compared to 2013 as industry slaughter declined approximately 5% from 2013 and cattle prices increased approximately 22% on average. Smaller cost increases in 2013 compared to 2012 were for similar reasons. The combined effects of both lower volumes and tighter margins due to the relative higher price of cattle compared to the selling price of beef impacted margins leading to reduced profitability year-over-year. Selling, general and other expenses in 2013 included a \$63.3 million impairment charge in connection with National Beef's decision to close its Brawley, California beef processing plant. In addition, in connection with closing the Brawley facility, National Beef recognized in 2014 \$6.9 million of costs including employee separation and retention, systems decommissioning and various other expenses. Of these amounts, \$4.6 million related to employee separation, which is included in compensation and benefits, and the various other costs are included in selling, general and other expenses. National Beef does not expect to incur significant additional costs related to the closure of the Brawley facility in future periods.

In addition to the unfavorable impacts of higher cattle prices and lower volumes, National Beef was also impacted by Walmart's decision to discontinue using National Beef as a provider of its consumer-ready products in 2013. National Beef has three consumer-ready processing facilities, one of which was completely dedicated to Walmart's business and another substantially so dedicated. National Beef continues to pursue replacement business for its consumer-ready facilities; however, it may not be able to fully replace the operating cash flow generated by the Walmart business in the near future, if at all. During 2013 and 2014, the consumer-ready facilities operated at reduced levels, and continue to do so. Results at the tannery were negatively impacted by record high costs for raw hides as an input, dislocation in its end-markets largely due to uneven demand from China and operating inefficiencies as the enhanced facility ramped-up production.

### *Corporate and other Results*

A summary of results of operations for corporate and other for the three years in the period ended December 31, 2014 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net revenues . . . . .	<u>\$ 60,720</u>	<u>\$ 50,190</u>	<u>\$ 67,039</u>
Expenses:			
Compensation and benefits . . . . .	<u>71,034</u>	83,005	107,748
Depreciation and amortization . . . . .	<u>5,627</u>	9,924	12,785
Selling, general and other expenses . . . . .	<u>129,396</u>	<u>52,573</u>	<u>71,632</u>
	<u>206,057</u>	<u>145,502</u>	<u>192,165</u>
Income related to associated companies . . . . .	<u>829</u>	3,395	2,650
Pre-tax loss from continuing operations . . . . .	<u>\$(144,508)</u>	<u>\$(91,917)</u>	<u>\$(122,476)</u>

Net revenues include net realized securities gains of \$30.4 million, \$16.0 million and \$46.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Net revenues also include interest income of \$22.6 million, \$20.1

million and \$15.7 million for 2014, 2013 and 2012, respectively, and other income, which in 2013 included \$6.4 million received in connection with the settlement of certain litigation.

For the years ended December 31, 2014, 2013 and 2012, compensation and benefits includes accrued incentive bonus expense of \$13.9 million, \$22.1 million and \$71.2 million, respectively, of which \$4.1 million, \$6.5 million and \$37.0 million, respectively, related to our Senior Executive Annual Incentive Bonus Plan. Bonus accruals under the Senior Executive Annual Incentive Bonus Plan are based on a percentage of pre-tax profits as defined in the plan. In addition, compensation and benefits for 2013 includes an accrual of \$8.3 million related to retention agreements with certain executive officers. Share-based compensation expense was \$26.3 million, \$22.8 million and \$14.3 million in 2014, 2013 and 2012, respectively.

Selling, general and other expenses for 2014 include a charge relating to the agreement to settle certain litigation, subject to court approval, for an aggregate payment of \$70 million along with attorney's fees to be determined and approved by the court. See Note 26 for further information. Selling, general and other expenses for 2013 include costs related to the acquisition of Jefferies of \$7.0 million and consent fees of \$2.3 million paid to amend a covenant in our senior note indenture to permit additional borrowings by Material Subsidiaries, as defined. Selling, general and other expenses for 2012 include expenses related to the repurchase of certain of our debt securities of \$24.2 million and costs for the investigation of investment opportunities and fees due for consummated transactions of \$5.5 million.

Income related to associated companies is comprised by our share of various investee's underlying net income or loss, none of which is significant during the three year period.

#### *Other Financial Services Businesses*

Our other financial services businesses include the consolidated results of certain Leucadia asset management fund managers, the returns on our investments in these funds, unrealized gains related to certain securities classified as trading assets, and our share of the income of Berkadia, HomeFed, and prior to the Jefferies acquisition, Jefferies High Yield Holdings, LLC ("JHYH").

For the years ended December 31, 2014, 2013 and 2012, revenues were \$68.2 million, \$186.1 million and \$301.4 million, respectively. Leucadia asset management generated the largest share of these revenues in 2014, totaling \$52.5 million. Leucadia asset management's revenues were not significant in 2013. Revenues and pre-tax results for 2013 and 2012 include principal transactions related to unrealized gains of \$182.7 million and \$301.3 million, respectively, from the change in value in securities classified as trading assets for which the fair value option was elected. These amounts related to our investment in Jefferies prior to the Jefferies acquisition in March 2013.

For 2014, pre-tax income for Leucadia asset management was \$39.2 million. Pre-tax income of \$139.1 million, \$275.4 million and \$374.6 million for 2014, 2013 and 2012, respectively, also reflects income related to associated companies of \$104.3 million in 2014, \$95.4 million in 2013 and \$73.9 million in 2012. For the years ended December 31, 2014, 2013 and 2012, income related to Berkadia was \$101.2 million, \$84.7 million and \$38.0 million, respectively; for 2013, our share of Berkadia's income includes an out of period adjustment of \$16.4 million to record income related to prior periods. For 2013 and 2012, income related to JHYH was \$7.2 million and \$33.9 million, respectively. Our share of HomeFed's income was not significant during the three year period.

*Other Merchant Banking Businesses*

A summary of results for other merchant banking businesses for the three years in the period ended December 31, 2014 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net revenues .....	<u>\$538,775</u>	<u>\$567,682</u>	<u>\$1,555,193</u>
Expenses:			
Cost of sales .....	<u>316,279</u>	259,127	209,834
Compensation and benefits .....	<u>21,917</u>	19,924	26,442
Interest .....	<u>1,544</u>	—	—
Depreciation and amortization .....	<u>12,229</u>	9,269	20,539
Selling, general and other expenses .....	<u>53,470</u>	83,950	99,510
	<u>405,439</u>	<u>372,270</u>	<u>356,325</u>
Income before income taxes and income related to associated companies .....	<u>133,336</u>	195,412	1,198,868
Income related to associated companies .....	<u>33,361</u>	20,251	12,144
Pre-tax income from continuing operations .....	<u>\$166,697</u>	<u>\$215,663</u>	<u>\$1,211,012</u>

Our other merchant banking operations reflect the results of a variety of other businesses including manufacturing and our recently formed oil and gas exploration and production businesses. During September of 2014, we decided to cease further development of the Lake Charles clean energy project. Project development costs to date, which were expensed as incurred, are reflected in discontinued operations. Other operations also include our winery operations conducted by Crimson until it was distributed to shareholders in February 2013, and our real estate operations, substantially all of which were sold to HomeFed during March 2014 in exchange for HomeFed common shares. Amounts for Crimson for the year ended December 31, 2012 include revenues of \$48.2 million and pre-tax profits of \$5.4 million; amounts for 2013 were not significant.

Net revenues for 2014 and 2012 include principal transactions related to unrealized gains of \$99.3 million and \$30.0 million, respectively, from the change in value in securities classified as trading assets for which the fair value option election was elected. The unrealized gain for 2014 relates to our investment in Harbinger. Net revenues also reflect net realized securities gains of \$227.6 million in 2013 related to the sale of our common shares of Inmet Mining Corporation and \$543.7 million in 2012 related to the sale of our common shares of Fortescue. Net revenues for 2012 also reflect a gain on the redemption of the FMG Note of \$526.2 million and \$116.8 million related to interest income on the FMG Note. In addition, net revenues for 2014 include a \$22.7 million gain on the sale of an equity interest for cash proceeds of \$33.0 million.

For the years ended December 31, 2014, 2013 and 2012, net revenues for manufacturing were \$380.5 million, \$310.8 million and \$252.9 million, respectively, and net revenues for real estate were \$11.2 million, \$16.7 million and \$10.9 million, respectively. Net revenues during 2014 for our oil and gas exploration and production businesses were \$19.9 million.

For the years ended December 31, 2014, 2013 and 2012, depreciation and amortization expenses for manufacturing were \$4.5 million, \$4.5 million and \$4.4 million, respectively, and depreciation and amortization expenses for real estate were \$3.2 million, \$3.7 million and \$3.6 million, respectively. Depreciation and amortization expenses for our oil and gas exploration and production businesses were \$3.9 million during 2014. Depreciation and amortization expenses include prepaid mining interest amortization related to the FMG Note of \$6.9 million during 2012.

For the years ended December 31, 2014, 2013 and 2012, selling, general and other expenses for manufacturing were \$8.5 million, \$5.8 million and \$5.9 million, respectively. Selling, general and other expenses for real estate were \$8.8 million, \$34.1 million and \$17.4 million for 2014, 2013 and 2012, respectively; included in these amounts were impairment charges for various real estate projects of \$20.0 million and \$4.2 million for 2013 and 2012, respectively. For the year ended December 31, 2013, impairment charges related to real estate include an out of period adjustment of \$15.4 million to record charges related to prior periods. There were no significant impairment charges in 2014. Selling, general and other expenses for 2014 and 2012 include charges of \$3.2 million and \$20.0 million, respectively,

for estimated potential losses related to a legal proceeding, which is discussed in Note 26, in our consolidated financial statements. The change in selling, general and other expenses during 2013 as compared to 2012 also reflects greater legal fees and costs related to certain litigation and lower costs for the winery operations.

For the years ended December 31, 2014, 2013 and 2012, pre-tax profits for manufacturing were \$31.7 million, \$24.9 million and \$17.9 million, respectively. Real estate generated pre-tax losses of \$2.9 million, \$23.0 million and \$11.9 million for 2014, 2013 and 2012, respectively. Pre-tax results for the oil and gas exploration and development businesses were not significant for 2014. Pre-tax losses for the Oregon LNG project were \$6.8 million, \$14.4 million and \$9.1 million for 2014, 2013 and 2012, respectively.

Income related to associated companies primarily relates to our investments in Linkem and Garcadia. For the years ended December 31, 2014, 2013 and 2012, losses related to Linkem were \$14.6 million, \$22.7 million and \$18.9 million, respectively, and income related to Garcadia were \$49.4 million, \$39.4 million and \$31.7 million, respectively.

#### *Parent Company Interest*

Parent company interest totaled \$98.1 million for 2014, \$72.2 million for 2013, and \$80.2 million for 2012. The change in interest expense during 2014 as compared to 2013 primarily reflects the issuance of \$750.0 million principal amount of 5.50% Senior Notes due 2023 and \$250.0 million principal amount of 6.625% Senior Notes due 2043 in October 2013 and the maturity of certain of our debt securities during 2013 and 2014. The decrease in interest expense in 2013 as compared to 2012 primarily reflects the maturity of certain of our debt securities during 2013 and repurchases of certain of our debt securities during the prior year. Interest expense for 2013 also reflects the aggregate issuance of the \$1 billion principal amount of Senior Notes in October 2013.

#### *Income Taxes*

For the year ended December 31, 2014, our provision for income taxes was \$166.0 million, representing an effective tax rate of about 44%. Our 2014 provision was impacted by \$24.5 million, or higher by 6%, related to the charge recorded to settle the litigation concerning the Jefferies acquisition, which is nondeductible. Our 2014 provision includes an offsetting benefit of \$22.2 million, or 6%, for the reduction of the valuation allowance with respect to certain net operating loss carryovers, which we now believe are more likely than not to be utilized before they expire. Excluding these items, our tax rate was higher primarily due to state income taxes, which were lower in 2013 as a result of favorable audit resolutions.

For the year ended December 31, 2013, our provision for income taxes was \$136.5 million, and our effective tax rate was about 25%. Our 2013 provision was impacted by \$12.3 million, or increased by 2%, related to a charge to reserve for a portion of our net deferred tax asset for state income taxes, resulting from the change in our expected state tax filings as a result of the Jefferies acquisition. Our 2013 provision includes offsetting benefits of \$97.9 million, which reduced our effective tax rate by 18%, related to the Jefferies acquisition. In periods prior to 2013, we recorded income tax expense and a related deferred tax liability for the unrealized gain on our Jefferies investment, which at that time we recorded at fair value. Upon acquisition of Jefferies, we reversed that deferred tax liability, benefitting our provision for income taxes by \$34.0 million. In addition, we did not record income tax expense with respect to the income from our Jefferies investment and the related deferred tax liability during the portion of the first quarter of 2013 prior to our acquisition of Jefferies, which benefitted our provision for income taxes by \$64.0 million.

#### *Discontinued Operations*

Our loss from discontinued operations, net of tax and our gain (loss) on disposal from discontinued operations, net of tax include the impact of a number of changes in the mix of our businesses and investments. During the three years ended December 31, 2014, discontinued operations include: our decision in September 2014 not to proceed with further development of the Lake Charles clean energy project that would have used gasification technology to convert low-grade fuel fossils into clean-energy products; our July 2014 sale of Premier, through which we had conducted our gaming entertainment operations; our sale of Empire in December 2013; our conclusion in October 2013 that we would no longer continue to fund Sangart's research and development operations, through which we had conducted our

medical product development operations; our sale of Keen Energy Services, LLC in December 2012; and other transactions whose impact are not significant to our consolidated results.

Our loss from discontinued operations, net of income tax totaled \$17.9 million in 2014, \$60.0 million in 2013 and \$33.8 million in 2012. Our 2014 loss consisted primarily of \$25.4 million in losses related to our Lake Charles clean energy project, offset by income of about \$6.1 million from Premier. Our 2013 loss includes primarily \$47.8 million in losses related to Lake Charles and \$23.7 million in losses from Sangart, offset by income of \$11.9 million from Premier. Our 2012 loss reflects losses of \$15.4 million from Lake Charles and \$29.2 million from Sangart, offset by income of \$8.4 million from Premier.

Our gain on disposal from discontinued operations, net of tax totaled \$1.7 million in 2014 and \$13.1 million in 2013; our loss on disposal from discontinued operations, net of tax totaled \$4.1 million in 2012. Our 2014 gain was not significant to our consolidated results. Our 2013 gain includes \$8.7 million related to the sale of Empire and the impact of a number of other insignificant transactions. Included in our 2012 loss, with offsetting gains, is \$11.7 million related to the sale of Keen Energy.

For further information, see Note 30 to our consolidated financial statements.

## **Liquidity and Capital Resources**

### *Parent Company Liquidity*

We are a holding company whose assets principally consist of the stock or membership interests of direct subsidiaries, cash and cash equivalents and other non-controlling investments in debt and equity securities. We continuously evaluate the retention and disposition of our existing operations and investments and investigate possible acquisitions of new businesses in order to maximize shareholder value. Accordingly, further acquisitions, divestitures, investments and changes in capital structure are possible. Our principal sources of funds are available cash resources, liquid investments, public and private capital market transactions, repayment of subsidiary advances, funds distributed from subsidiaries as tax sharing payments, management and other fees, and dividends from subsidiaries, as well as dispositions of existing businesses and investments.

In addition to cash and cash equivalents, we have certain other investments that are easily convertible into cash within a relatively short period of time. These are classified as trading assets, available for sale securities, and investments in managed funds. Together these total \$2.1 billion, with the largest portion comprised of cash and short-term bonds and notes of the U.S. Government and its agencies, and other publicly traded debt and equity securities. Our available liquidity, and the investment income realized from cash, cash equivalents and marketable securities is used to meet our short-term recurring cash requirements, which are principally the payment of interest on our debt and corporate overhead expenses.

The parent company's only long-term cash requirement is to make principal payments on its long-term debt (\$1,458.6 million principal outstanding as of December 31, 2014), of which \$458.6 million is due in 2015, \$750.0 million in 2023 and \$250.0 million in 2043. The \$97.6 million of 3.75% Convertible Senior Subordinated Notes due 2014 were converted primarily in April 2014 into 4,606,109 common shares prior to maturity and are no longer outstanding. Historically, we have used our available liquidity to make acquisitions of new businesses and other investments, but, except as disclosed in this report, the timing of any future investments and the cost cannot be predicted.

From time to time in the past, we have accessed public and private credit markets and raised capital in underwritten bond financings. The funds raised have been used by us for general corporate purposes, including for our existing businesses and new investment opportunities. Our senior debt obligations are rated Ba1 by Moody's Investors Services and BBB- by Standard and Poor's and Fitch Ratings. These ratings reflect S&P's downgrade by one notch (from BBB) during December 2014, in connection with the application of its new ratings criteria. Ratings issued by bond rating agencies are subject to change at any time.

As of December 31, 2014, we own approximately 46.6 million common shares of Harbinger, representing approximately 23% of its outstanding common shares, which are accounted for under the fair value option. The shares were acquired at an aggregate cost of \$475.6 million (\$317.5 million during 2014), are classified as Trading Assets and carried at fair value

of \$659.9 million at December 31, 2014. In addition, we currently have two directors on Harbinger's board, one of which serves as its Chairman. We have agreed not to increase our interest in Harbinger above 27.5% through March 17, 2016.

During 2014, we invested \$345.1 million in the Leucadia asset management platform, the majority of which is available for sale immediately and considered to be part of our available liquidity. Substantially all of the invested funds represent seed capital for new investment vehicles managed by us or third parties that employ distinct and diverse investment strategies. Leucadia asset management has raised and intends to continue to raise additional capital from third party investors as it seeks to build its asset management business.

In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC ("Folger Hill"), which has registered as an investment adviser with the SEC, and expects to launch a multi-manager investment partnership. We have committed to invest \$400 million in Folger Hill's investment partnership, which we expect to fund in the first quarter of 2015. We also committed to provide Folger Hill with a 3-year, \$20 million revolving credit facility to fund its start-up and initial operating expenses. As of December 31, 2014, no significant amounts have been provided to Folger Hill under the revolving credit facility.

During 2014, we also invested a total of \$184.2 million in initial and add-on investments in Juneau Energy, and a total of \$239.0 million in Vitesse Energy. Juneau leases and develops oil and gas properties in Texas and Oklahoma. Vitesse selectively acquires non-operating oil and gas interests in the heart of the Bakken Shale oil field.

In September 2014, we invested \$70.9 million, net in a joint venture (Golden Queen Mining Company, LLC) with Golden Queen Mining Co. Ltd. and the Clay family to jointly fund, develop and operate the Soledad Mountain project. The project is a fully-permitted, open pit, heap leach gold and silver project located in Kern County, California. Construction has started on site and commissioning is planned for late 2015. At December 31, 2014, we have an approximate 34% interest in the joint venture. We have committed to invest during the nine months after our initial investment up to an additional approximately \$27 million to fully develop the project.

In July 2014, we sold Premier, through which we had conducted our gaming operations, for aggregate cash consideration of \$250.0 million, subject to working capital adjustment. We recorded a pre-tax gain on sale of discontinued operations of \$12.1 million in the third quarter of 2014.

In January 2015, we entered into a credit agreement with FXCM Inc., for a \$300 million two-year senior secured term loan with rights to require a sale of FXCM and to a variable proportion of the sale proceeds. For further information, see Recent Transactions in Part I, Item 1 of this Report.

During 2014, we paid four quarterly dividends of \$0.0625 per share which aggregated \$93.1 million for the year. The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Board of Directors may deem to be relevant.

In February 2009, the Board of Directors authorized, from time to time, the purchase of our outstanding debt securities through cash purchases in open market transactions, privately negotiated transactions or otherwise. Such repurchases, if any, depend upon prevailing market conditions, our liquidity requirements and other factors; such purchases may be commenced or suspended at any time without notice.

At December 31, 2014, we had outstanding 367,498,615 common shares and 13,657,000 share based awards that do not require the holder to pay any exercise price (potentially an aggregate of 381,155,615 outstanding common shares if all awards become outstanding common shares). In November 2012, the Board of Directors increased the number of our common shares that we are authorized to purchase to 25,000,000. Such purchases may be made from time to time in the open market, through block trades or otherwise. Depending on market conditions and other factors, such purchases may be commenced or suspended at any time without notice. During December 2014, we repurchased 704,806 common shares for \$15.2 million. As of December 31, 2014 we are authorized to repurchase 24,295,194 common shares.

We and certain of our subsidiaries have federal income tax net operating loss carryforwards ("NOLs") of approximately \$3.4 billion at December 31, 2014 and other tax attributes. The amount and availability of the NOLs and other tax attributes are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain

changes in ownership could impose limitations on the use of the NOLs, our certificate of incorporation contains provisions which generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of five percent or more of the common shares and the ability of persons or entities now owning five percent or more of the common shares from acquiring additional common shares. The restrictions will remain in effect until the earliest of (a) December 31, 2024, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) or (c) the beginning of a taxable year to which certain tax benefits may no longer be carried forward. For more information about the NOLs and other tax attributes, see Note 22 to our consolidated financial statements.

In connection with presentations made to credit rating agencies with respect to the Jefferies acquisition, we advised the agencies that we would target specific concentration, leverage and liquidity principles in the future, expressed in the form of certain ratios and percentages, although there is no legal requirement to do so. These thresholds and calculations of the actual ratios and percentages are detailed below at December 31, 2014 (dollars in thousands):

Total equity .....	\$10,302,158
Less, investment in Jefferies .....	<u>(5,474,533)</u>
Equity excluding Jefferies .....	4,827,625
Less, our two largest investments:	
National Beef .....	(796,446)
Harbinger, at cost .....	<u>(475,600)</u>
Equity in a stressed scenario .....	3,555,579
Less, net deferred tax asset excluding Jefferies amount .....	<u>(1,312,938)</u>
Equity in a stressed scenario less net deferred tax asset .....	<u>\$ 2,242,641</u>
Balance sheet amounts:	
Available liquidity .....	<u>\$ 2,147,672</u>
Parent company debt (see Note 17 to our Consolidated financial statements) .....	<u>\$ 1,445,462</u>
Ratio of parent company debt to stressed equity:	
Maximum .....	.50x
Actual, equity in a stressed scenario .....	.41x
Actual, equity in a stressed scenario excluding net deferred tax asset .....	.64x
Ratio of available liquidity to parent company debt:	
Minimum .....	1.0x
Actual .....	1.5x

In addition, management has indicated that our largest single investment will be not more than 20% of equity excluding Jefferies (currently National Beef), and that the next largest investment will be no more than 10% of equity excluding Jefferies, in each case measured at the time such investment was made. The ratio of parent company debt to stressed equity excluding the net deferred tax asset exceeded the maximum due to the Senior Notes sold in October 2013. However, as these notes were issued, in part, to provide funds for maturing notes, it is considered to be a temporary situation that will not impact our credit ratings.

### *Jefferies Liquidity*

#### General

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

The 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. Jefferies has historically maintained a balance sheet consisting of a large portion of total assets



in cash and liquid marketable securities, arising principally from traditional securities brokerage activity. The liquid nature of these assets provides flexibility in financing and managing Jefferies business.

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 Jefferies platform, enable the businesses to remain competitive, maintain the ability to manage capital proactively and hold businesses accountable for both balance sheet and capital usage.

Jefferies LLC (Jefferies U.S. futures commission merchant) and Jefferies Bache Limited (Jefferies 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 under CFTC Regulation 1.25, is required to maintain customer cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients. Jefferies is 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 under the U.K. Financial Conduct Authority's Client Money Rules with respect to Jefferies European-based activities conducted through Jefferies Bache Limited and Jefferies International Limited (a U.K. broker-dealer). Customer funds received are required to be separately segregated and held by us as statutory trustee for our customers. If Jefferies rehypothecates customer securities, that activity is conducted only to finance customer activity. Additionally, Jefferies does not lend customer cash to counterparties to conduct securities financing activity (i.e., Jefferies does not lend customer cash to reverse in securities). Further, Jefferies has no customer loan activity in Jefferies International Limited and does 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 operations. Jefferies does not transfer U.S. customer assets to its U.K. entities.

Substantially all trading assets and trading liabilities are valued on a daily basis and balance sheet limits for the various businesses are monitored and employed. The overall securities inventory is continually monitored, including the inventory turnover rate, which confirms the liquidity of overall assets. As a Primary Dealer in the U.S. and with a similar role in several European jurisdictions, Jefferies carries inventory and makes an active market for its 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 Jefferies outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain, refer to Quantitative and Qualitative Disclosures about Market Risk below.

Of Jefferies total trading assets, approximately 74% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of Jefferies policy, a portion of these assets has internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Additionally, trading assets consisting of bank loans, investments and non-agency mortgage-backed securities are predominantly funded by Jefferies long term capital. Under Jefferies cash capital policy, capital allocation levels are modeled that are more stringent than the haircuts used in the market for secured funding; and surplus capital is maintained at these maximum levels. At December 31, 2014, our Consolidated Statement of Financial Condition includes Jefferies Level 3 trading assets that are 3% of total trading assets.

Securities financing assets and liabilities include both financing for 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. By executing repurchase agreements with central clearing corporations, Jefferies reduces the credit risk associated with these arrangements and decreases net outstanding balances.

The following table presents Jefferies 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):

	<b>Year Ended December 31, 2014</b>	From Jefferies Acquisition Through December 31, 2013
Securities purchased under agreements to resell:		
Period end .....	<b>\$ 3,927</b>	\$ 3,747
Month end average .....	<b>5,788</b>	4,936
Maximum month end .....	<b>8,081</b>	6,007
Securities sold under agreements to repurchase:		
Period end .....	<b>\$10,672</b>	\$10,780
Month end average .....	<b>13,291</b>	13,308
Maximum month end .....	<b>16,586</b>	16,502

Fluctuations in the balance of Jefferies repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of Jefferies securities purchased under agreements to resell are influenced in any given period by its clients' balances and 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 Jefferies considers the fluctuations intraperiod to be typical for the repurchase market.

#### Liquidity Management

The key objectives of Jefferies liquidity management framework are to support the successful execution of business strategies while ensuring sufficient liquidity through the business cycle and during periods of financial distress. The liquidity management policies are designed to mitigate the potential risk that adequate financing may not be accessible to service financial obligations without material franchise or business impact.

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

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

*Cash Capital Policy.* A cash capital model is maintained that measures long-term funding sources against requirements. Sources of cash capital include equity 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 Jefferies does not need to liquidate inventory in the event of a funding crises, Jefferies seeks to maintain surplus cash capital, which is reflected in the leverage ratios Jefferies maintains.

*Maximum Liquidity Outflow.* Jefferies businesses are diverse, and 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 Jefferies policy to ensure it has sufficient funds to cover estimates of what may be needed in a liquidity crisis, Jefferies holds more cash and

unencumbered securities and has greater long-term debt balances than the businesses would otherwise require. As part of this estimation process, Jefferies calculates a Maximum Liquidity Outflow that could be experienced in a liquidity crisis. Maximum Liquidity Outflow is based on a scenario that includes both market-wide stress and firm-specific stress.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios Jefferies determines, based on its calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and considers any adjustments that may be necessary to Jefferies inventory balances and cash holdings. Jefferies has sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow.

#### Sources of Liquidity

Within Jefferies, the following are financial instruments that are cash and cash equivalents or are deemed by Jefferies management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time, as reflected in our Consolidated Statements of Financial Condition (in thousands):

	December 31, 2014	Average Balance Fourth Quarter 2014 (1)	December 31, 2013
Cash and cash equivalents:			
Cash in banks . . . . .	\$1,083,605	\$ 603,459	\$ 830,438
Certificate of deposit . . . . .	75,000	59,524	50,005
Money market investments . . . . .	2,921,363	2,333,772	2,680,676
Total cash and cash equivalents . . . . .	<u>4,079,968</u>	<u>2,996,755</u>	<u>3,561,119</u>
Other sources of liquidity:			
Debt securities owned and securities purchased under agreements to resell (2) . . . . .	1,056,766	1,125,420	1,316,867
Other (3) . . . . .	363,713	572,024	403,738
Total other sources . . . . .	<u>1,420,479</u>	<u>1,697,444</u>	<u>1,720,605</u>
Total cash and cash equivalents and other liquidity sources . . . . .	<u>\$5,500,447</u>	<u>\$4,694,199</u>	<u>\$5,281,724</u>

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

(2) Consists of high quality sovereign government securities and reverse repurchase agreements collateralized by U.S. government securities and other high quality sovereign government securities; deposits with a central bank within the European Economic Area, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.

(3) Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that could be reasonably expected to be obtained from 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, LLC. On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies LLC, with Jefferies LLC as the surviving entity.

In addition to the cash balances and liquidity pool presented above, the majority of trading assets and liabilities are actively traded and readily marketable. Repurchase financing can be readily obtained for 74% of inventory at haircuts of 10% or less, which reflects the liquidity of the inventory. Jefferies continually assesses the liquidity of its inventory based on the level at which Jefferies could obtain financing in the marketplace 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 Jefferies trading assets by asset class that are considered to be of a liquid nature and the amount of such assets that have not been pledged as collateral as reflected in the Consolidated Statements of Financial Condition (in thousands):

	December 31, 2014		December 31, 2013	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities . . . . .	\$ 2,191,288	\$ 297,628	\$ 1,982,877	\$ 137,721
Corporate debt securities . . . . .	2,583,779	11,389	2,250,512	26,983
U.S. Government, agency and municipal securities . . . . .	3,124,780	250,278	2,513,388	400,821
Other sovereign obligations . . . . .	2,671,807	877,366	2,346,485	991,774
Agency mortgage-backed securities (1) . . . . .	3,395,771	–	2,976,133	–
Physical commodities . . . . .	62,234	–	37,888	–
	<u>\$14,029,659</u>	<u>\$1,436,661</u>	<u>\$12,107,283</u>	<u>\$1,557,299</u>

- (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.

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

#### Sources of Funding

##### *Secured Financing*

Readily available secured funding is used to finance Jefferies financial instruments inventory. The ability of Jefferies to support increases in total assets is largely a function of the ability to obtain short and intermediate term secured funding, primarily through securities financing transactions. Repurchase or reverse repurchase agreements (collectively “repos”), respectively, are used to finance a portion of long inventory and cover a portion of short inventory through pledging and borrowing securities. Approximately 80% of Jefferies repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of Jefferies total repo activity that is eligible for central clearing reflects the high quality and liquid composition of its trading inventory. The tenor of repurchase and reverse repurchase agreements generally exceeds the expected holding period of the financed assets. A significant portion of Jefferies financing of European Sovereign inventory is executed using central clearinghouse financing arrangements rather than via bi-lateral repo agreements. For those asset classes not eligible for central clearinghouse financing, bi-lateral financings are sought on an extended term basis.

In addition to the above financing arrangements, Jefferies issues notes backed by eligible collateral under a master repurchase agreement. The outstanding amount of the notes issued under the program was \$575.0 million in aggregate, which is presented within Other secured financings in the Consolidated Statement of Financial Condition at December 31, 2014. Of the \$575.0 million aggregate notes, \$60.0 million matures in February 2015, \$85.0 million matures in March 2015, \$200.0 million in July 2016 and \$80.0 million in August 2016, all bearing interest at a spread over one month LIBOR.

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months. Jefferies ability to finance inventory via central clearinghouses and bi-lateral arrangements is augmented by Jefferies ability to draw bank loans on an uncommitted basis under various banking arrangements. As of December 31, 2014, short-term borrowings, which include bank loans, as well as borrowings under revolving credit

facilities which must be repaid within one year or less, totaled \$12.0 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily short-term borrowings for Jefferies for 2014 and for the 2013 period were \$81.7 million and \$43.3 million, respectively.

### *Long-Term Debt*

Jefferies long-term debt reflected in the Consolidated Statement of Financial Condition at December 31, 2014 is \$6.3 billion, which excludes \$170.0 million of outstanding borrowings under a long-term revolving Credit Facility. Jefferies long-term debt has a weighted average maturity of 8 years, excluding the Jefferies Credit Facility. Jefferies next scheduled maturity is the \$500.0 million principal amount of 3.875% Senior Notes that mature in November 2015.

The Jefferies Credit Facility is a committed senior secured revolving credit facility with a group of commercial banks in Dollars, Euros and Sterling, for an aggregate committed amount of \$950.0 million, with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. In June 2014, Jefferies amended and restated the facility to extend the term for three years and reduced the committed amount to \$750.0 million. The borrowers under the facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, with a guarantee from Jefferies Group LLC. On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies LLC. Jefferies LLC is the surviving entity, and therefore, a borrower under the Credit Facility. Interest is based on, in the case of U.S. dollar borrowings, either the Federal funds rate or the London Interbank Offered Rate, or in the case of non-U.S. dollar borrowings, is based on the London Interbank Offered Rate. The facility is guaranteed by Jefferies Group LLC and contains financial covenants that, among other things, imposes restrictions on future indebtedness of its subsidiaries, requires Jefferies Group LLC to maintain specified levels of tangible net worth and liquidity amounts, and requires certain of its subsidiaries to maintain specified levels of regulated capital. Jefferies is currently in compliance with the facility and expects to remain in compliance given its current liquidity and anticipated additional funding requirements given its business plan and profitability expectations.

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

Jefferies long-term debt ratings are as follows:

	<u>Rating</u>	<u>Outlook</u>
Moody's Investors Service .....	Baa3	Negative
Standard and Poor's (1) .....	BBB-	Stable
Fitch Ratings .....	BBB-	Stable

- (1) On December 11, 2014, S&P announced its review of the ratings on 13 U.S. securities firms by applying its new ratings criteria for the sector. As part of this review, S&P downgraded our long-term debt rating one notch from "BBB" to "BBB-" and left the rating outlook unchanged at "stable."

Jefferies relies upon its cash holdings and external sources to finance a significant portion of its day to day operations. Jefferies access to these external sources, as well as the cost of that financing, is dependent upon various factors, including its debt ratings. Jefferies 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, capital structure, overall risk management, business diversification and market share and competitive position in the markets in which it operates. Deteriorations in any of these factors could impact Jefferies credit ratings. While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact on its 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 Jefferies.

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, Jefferies may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. 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 Jefferies long-term credit rating below investment grade was \$93.3 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management’s best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements is considered in Jefferies Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

Ratings issued by credit rating agencies are subject to change at any time.

*Net Capital*

Jefferies operates broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority (“FINRA”). Jefferies LLC and Jefferies Execution are subject to the Securities and Exchange Commission Uniform Net Capital Rule (“Rule 15c3-1”), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. On September 1, 2014, Jefferies Bache, LLC (a Futures Commission Merchant (“FCM”)) merged with and into Jefferies LLC. Jefferies LLC, as the surviving entity, registered as an FCM and is subject to Rule 1.17 of the Commodities Futures Trading Commission (“CFTC”), which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17. FINRA is the designated self-regulatory organization for the U.S. broker-dealers and the Chicago Mercantile Exchange is the designee for Jefferies LLC as an FCM.

Jefferies LLC and Jefferies Execution’s net capital and excess net capital were as follows (in thousands):

	<u>Net Capital</u>	<u>Excess Net Capital</u>
Jefferies LLC .....	\$1,025,113	\$913,465
Jefferies Execution .....	6,150	5,900

Certain other U.S. and non-U.S. subsidiaries of Jefferies are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are authorized and regulated by the Financial Conduct Authority in the U.K. The 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. Jefferies expects that these provisions will result in modifications to the regulatory capital requirements of some of its entities, and will result in some of its other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products, LLC and Jefferies Bache Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013 and Jefferies Financial Products, LLC, which registered during August 2014.

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

*Consolidated Statements of Cash Flows*

As discussed above, we have historically relied on our available liquidity to meet short-term and long-term needs, and to make acquisitions of new businesses and investments. Except as otherwise disclosed herein, our operating businesses do not generally require significant funds to support their operating activities, and we do not depend on positive cash flow from our operating segments to meet our liquidity needs. The mix of our operating businesses and investments can change frequently as a result of acquisitions or divestitures, the timing of which is impossible to predict but which often have a significant impact on our Consolidated Statements of Cash Flows in any one period. Further, the timing and amounts of distributions from investments in associated companies may be outside our control. As a result, reported

cash flows from operating, investing and financing activities do not generally follow any particular pattern or trend, and reported results in the most recent period should not be expected to recur in any subsequent period.

Net cash of \$987.2 million was used for operating activities in 2014 and net cash of \$702.3 million and \$645.4 million was provided by operating activities in 2013 and 2012, respectively. Jefferies used funds of \$276.6 million during 2014 and generated funds of \$750.1 million during 2013. National Beef used funds of \$55.0 million during 2014 and generated funds of \$85.4 million and \$141.4 million during 2013 and 2012, respectively; manufacturing generated funds of \$27.1 million, \$30.0 million and \$27.4 million during 2014, 2013 and 2012, respectively; and discontinued operations used funds of \$40.7 million, \$77.4 million and \$17.2 million in 2014, 2013 and 2012, respectively. During 2014, cash of \$317.5 million was used to acquire our investment in Harbinger and make additional investments of \$345.1 million in the Leucadia asset management platform, both of which are classified as a use of cash for operating activities. During 2012, operating cash of \$452.2 million was generated from our trading portfolio (primarily from the sale of our investment in Mueller Industries, Inc.). Operating cash for 2012 also reflects interest payments of \$202.2 million received from Chichester Metals Pty Ltd, a subsidiary of Fortescue Metals Group Ltd (the note (the "FMG Note") was redeemed in the fourth quarter of 2012) and premiums paid to redeem debt (\$17.1 million). The change in operating cash flows also reflects greater interest payments in 2014 and 2013 as compared to 2012 and lower income tax payments in 2014 and 2012 as compared to 2013. During 2014, distributions from associated companies principally were received from Berkadia (\$72.9 million), Garcadia (\$46.0 million) and Jefferies associated companies (\$54.0 million). During 2013, distributions from associated companies principally were received from Berkadia (\$69.0 million), Garcadia (\$26.0 million) and Jefferies associated companies (\$37.7 million). During 2012, distributions from associated companies principally were received from Berkadia (\$37.6 million), JHYH (\$5.2 million) and Garcadia (\$18.4 million). Net losses related to real estate, property and equipment, and other assets in 2013 include National Beef's impairment loss of \$63.3 million with respect to its Brawley facility. Net gains related to real estate, property and equipment, and other assets in 2012 include \$526.2 million from the redemption of the FMG Note.

Net cash of \$449.1 million and \$3,323.6 million was provided by investing activities in 2014 and 2013, respectively, as compared to net cash used for investing activities of \$16.6 million in 2012. Cash acquired upon acquisition of Jefferies was \$3,018.0 million in 2013. Acquisitions of property, equipment and leasehold improvements, and other assets include amounts primarily related to Jefferies (\$113.0 million and \$53.9 million in 2014 and 2013, respectively); National Beef (\$48.2 million, \$44.4 million and \$45.6 million in 2014, 2013 and 2012, respectively); other merchant banking businesses, primarily oil and gas exploration and production businesses in 2014, (\$406.6 million, \$11.0 million and \$10.6 million in 2014, 2013 and 2012, respectively); and discontinued operations (\$9.4 million, \$25.8 million and \$13.1 million in 2014, 2013 and 2012, respectively). Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold in 2014 relates to the sale of Premier and, in 2012, primarily relates to the sale of Keen Energy Services and our small Caribbean-based telecommunications provider. During 2012, cash used for investing activities reflects the proceeds received from the redemption of the FMG Note. Loans to and investments in associated companies includes Golden Queen (\$105.0 million, including \$34.1 million contributed from the noncontrolling interest), Garcadia (\$48.3 million), Linkem (\$18.4 million) and Jefferies associated companies (\$2,786.4 million) for 2014; Garcadia (\$38.4 million), Linkem (\$107.4 million) and Jefferies associated companies (\$2,241.2 million) for 2013; and Linkem (\$23.7 million) in 2012. Capital distributions and loan repayment from associated companies includes Jefferies associated companies (\$2,750.6 million) and Garcadia (\$3.8 million) in 2014; Jefferies associated companies (\$2,360.7 million) and Garcadia (\$14.2 million) in 2013; and Berkadia (\$35.0 million) and Garcadia (\$12.0 million) in 2012.

Net cash of \$917.8 million was provided by financing activities in 2014 and \$270.5 million and \$651.7 million was used for financing activities in 2013 and 2012, respectively. During 2014, issuance of debt primarily reflects increases in Jefferies debt (\$681.2 million), borrowings by National Beef under its bank credit facility (\$135.1 million), borrowings by the other financial services businesses (\$125.5 million) and borrowings by the other merchant banking businesses (\$60.8 million). Issuance of long-term debt during 2013 primarily reflects \$750.0 million principal amount of our 5.50% Senior Notes due 2023, \$250.0 million principal amount of our 6.625% Senior Notes due 2043, borrowings by National Beef under its bank credit facility (\$106.8 million) and increases in Jefferies debt (\$1,034.7 million).

Reduction of debt for 2014 includes \$32.8 million related to National Beef's debt, \$280.0 million related to Jefferies debt and \$117.8 million of debt related to other financial services businesses' debt. Reduction of debt for 2013 includes \$94.5 million and \$307.4 million, respectively, on the maturity of our 7.75% Senior Notes and 7% Senior Notes, \$120.6 million related to National Beef's debt, \$980.0 million related to Jefferies debt and the decrease in repurchase agreements (exclusive of Jefferies) of \$391.7 million. Reduction of debt for 2012 includes redemptions of debt of the

parent company (\$516.2 million principal amount), a decrease in repurchase agreements and repayments under National Beef's term loans and bank credit facility. Distributions to noncontrolling interests in 2013 principally represent the redemption of third-party investors in JHYH. Contributions from noncontrolling interests include \$34.1 million related to Golden Queen in 2014 and \$37.5 million related to Leucadia asset management in 2013. Purchases of common shares for treasury relate to shares received from participants in our stock compensation plans and, in 2014, the buyback of our common shares in the open market (\$15.2 million).

As shown below, at December 31, 2014, our contractual cash obligations totaled \$13,150.6 million.

Contractual Cash Obligations	Total	Expected Maturity Date (in millions)				
		2015	2016	2017 and 2018	2019 and 2020	After 2020
Indebtedness . . . . .	\$ 8,150.3	\$1,032.2	\$408.0	\$1,384.8	\$1,327.1	\$3,998.2
Estimated interest expense on debt . . . .	3,774.5	431.3	370.4	683.6	501.8	1,787.4
Cattle commitments . . . . .	121.6	121.6	—	—	—	—
Operating leases, net of sublease income . . . . .	772.9	62.9	67.4	129.3	112.3	401.0
Other . . . . .	331.3	78.0	59.9	96.6	55.7	41.1
Total Contractual Cash Obligations . . . .	<u>\$13,150.6</u>	<u>\$1,726.0</u>	<u>\$905.7</u>	<u>\$2,294.3</u>	<u>\$1,996.9</u>	<u>\$6,227.7</u>

Amounts related to our U.S. pension obligations (\$112.1 million) are not included in the above table as the timing of payments is uncertain; however, we do not expect to make any contributions to these plans in 2015. For further information, see Note 21 in our consolidated financial statements. In addition, the above amounts do not include liabilities for unrecognized tax benefits as the timing of payments, if any, is uncertain. Such amounts aggregated \$185.9 million at December 31, 2014; for more information, see Note 22 in our consolidated financial statements.

Our U.S. pension obligations relate to frozen defined benefit pension plans, principally the defined benefit plan of WilTel Communications Group, LLC, our former telecommunications subsidiary. When we sold WilTel in 2005, its defined benefit pension plan was not transferred in connection with the sale. At December 31, 2014, we had recorded a liability of \$107.9 million in our Consolidated Statement of Financial Condition for WilTel's unfunded defined benefit pension plan obligation. This amount represents the difference between the present value of amounts owed to former employees of WilTel (referred to as the projected benefit obligation) and the market value of plan assets set aside in segregated trust accounts. Since the benefits in this plan have been frozen, future changes to the unfunded benefit obligation are expected to principally result from benefit payments, changes in the market value of plan assets, differences between actuarial assumptions and actual experience and interest rates.

Calculations of pension expense and projected benefit obligations are prepared by actuaries based on assumptions provided by management. These assumptions are reviewed on an annual basis, including assumptions about discount rates, interest credit rates and expected long-term rates of return on plan assets. The timing of expected future benefit payments was used in conjunction with the Citigroup Pension Discount Curve to develop a discount rate for the WilTel plan that is representative of the high quality corporate bond market. Holding all other assumptions constant, a 0.25% change in the discount rate would affect pension expense in 2015 by \$0.5 million and the benefit obligation by \$11.7 million, of which \$10.2 million relates to the WilTel plan.

The deferred losses in accumulated other comprehensive income (loss) have not yet been recognized as components of net periodic pension cost in the Consolidated Statements of Operations (\$126.2 million at December 31, 2014). These deferred amounts primarily result from differences between the actual and assumed return on plan assets and changes in actuarial assumptions, including changes in discount rates and changes in interest credit rates. They are amortized to expense if they exceed 10% of the greater of the projected benefit obligation or the market value of plan assets as of the beginning of the year. The estimated net loss that will be amortized from accumulated other comprehensive income (loss) into pension expense in 2015 is \$7.8 million.

The assumed long-term rates of return on plan assets are based on the investment objectives of the plans, which are more fully discussed in Note 21 in our consolidated financial statements.



## Off-Balance Sheet Arrangements

As shown below, at December 31, 2014, our commitments and guarantees, substantially all of which related to Jefferies, totaled \$70,645.5 million.

Commitments and Guarantees	Total	Expected Maturity Date (in millions)				
		2015	2016	2017 and 2018	2019 and 2020	After 2020
Equity commitments . . . . .	\$ 226.4	\$ —	\$ 9.3	\$ 0.8	\$ —	\$216.3
Loan commitments . . . . .	794.9	50.7	440.2	283.1	20.7	0.2
Mortgage-related and other purchase commitments . . . . .	2,341.9	1,058.5	1,165.8	117.6	—	—
Forward starting reverse repos and repos . . . . .	5,127.2	5,127.2	—	—	—	—
Other unfunded commitments . . . . .	29.3	6.3	—	—	—	23.0
Derivative contracts (1):						
Non credit related . . . . .	61,566.8	59,875.6	229.6	252.1	721.8	487.7
Credit related . . . . .	485.0	—	—	—	485.0	—
Standby letters of credit . . . . .	74.0	73.7	—	—	—	0.3
<b>Total Commitments and Guarantees . . .</b>	<b>\$70,645.5</b>	<b>\$66,192.0</b>	<b>\$1,844.9</b>	<b>\$653.6</b>	<b>\$1,227.5</b>	<b>\$727.5</b>

(1) Certain of Jefferies derivative contracts meet the definition of a guarantee and are therefore included in the above table. For additional information on commitments, see Note 26 in our consolidated financial statements.

We have agreed to reimburse Berkshire Hathaway for up to one-half of any losses incurred under a \$2.5 billion surety policy securing outstanding commercial paper issued by an affiliate of Berkadia. As of December 31, 2014, the aggregate amount of commercial paper outstanding was \$2.47 billion. This commitment is not included in the table above as the timing of payments, if any, is uncertain.

In the normal course of business Jefferies engages 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 Trading assets - Derivative contracts or Trading Liabilities - 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 Notes 2, 5 and 6 in our consolidated financial statements.

Jefferies is routinely involved with variable interest entities ("VIEs") in connection with 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. We do not generally consolidate the various VIEs related to Jefferies mortgage-backed securities securitization activities because we are not the primary beneficiary.

At December 31, 2014, Jefferies did not have any commitments to purchase assets from its securitization vehicles. Jefferies held \$540.0 million of mortgage-backed securities issued by VIEs for which it was initially involved as transferor and placement agent, which are accounted for at fair value and recorded within Trading assets on our Consolidated Statement of Financial Condition at December 31, 2014. For additional information regarding VIEs, see Notes 8 and 10 in our consolidated financial statements.

## Critical Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires us to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could significantly differ from those estimates. We believe that the following discussion addresses our most critical accounting policies, which are those that are important to the presentation of our financial condition and results of operations and require our most difficult, subjective and complex judgments.

*Income Taxes* – We record a valuation allowance to reduce our net deferred tax asset to the net amount that is more likely than not to be realized. If in the future we determine that it is more likely than not that we will be able to realize our net deferred tax asset in excess of our net recorded amount, an adjustment to increase the net deferred tax asset would increase income in such period. If in the future we were to determine that we would not be able to realize all or part of its recorded net deferred tax asset, an adjustment to decrease the net deferred tax asset would be charged to income in such period. We are required to consider all available evidence, both positive and negative, and to weight the evidence when determining whether a valuation allowance is required and the amount of such valuation allowance. Generally, greater weight is required to be placed on objectively verifiable evidence when making this assessment, in particular on recent historical operating results.

Our estimate of future taxable income considers all available evidence, both positive and negative, about our operating businesses and investments, includes an aggregation of individual projections for each significant operating business and investment, estimated apportionment factors for state and local taxing jurisdictions and includes all future years that we estimate we will have available NOLs (until 2029). We believe that our estimate of future taxable income is reasonable but inherently uncertain, and if our current or future operations and investments generate taxable income different than the projected amounts, further adjustments to the valuation allowance are possible. The current balance of the deferred tax valuation allowance principally reserves for NOLs of certain subsidiaries that are not available to offset income generated by other members of the consolidated tax return group.

We also record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and if so estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which could be significant to our Consolidated Statement of Financial Condition or results of operations.

*Fair Value of Financial Instruments* – Trading assets and trading liabilities are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. Trading assets and trading liabilities include Jefferies trading activities, financial instruments of other consolidated entities that are accounted for through the fair value option election and, prior to the Jefferies acquisition, trading assets include our investment in Jefferies common shares. Gains and losses on trading assets and trading liabilities are recognized in our Consolidated Statements of Operations. Available for sale securities are reflected at fair value, with unrealized gains and losses reflected as a separate component of equity, net of taxes. When sold, realized gains and losses on available for sale securities are reflected in the caption Net realized securities gains. Fair value 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).

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.

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.

Jefferies Independent Price Verification Group, independent of its trading function, plays an important role in determining that 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.

For further information on the fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, see Notes 2 and 5 in our consolidated financial statements.

*Impairment of Long-Lived Assets* – We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When testing for impairment, we group our long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (or asset group). The determination of whether an asset group is recoverable is based on management's estimate of undiscounted future cash flows directly attributable to the asset group as compared to its carrying value. If the carrying amount of the asset group is greater than the undiscounted cash flows, an impairment loss would be recognized for the amount by which the carrying amount of the asset group exceeds its estimated fair value.

We recorded impairment charges of \$3.2 million in 2014, \$83.3 million in 2013 and \$4.2 million in 2012. \$63.3 million of the 2013 charge related to National Beef's processing facility in Brawley, California which declined in profitability due to a reduced supply of fed cattle and fixed cost inefficiencies inherent in a single shift plant.

During 2013, Walmart discontinued using National Beef as a supplier of consumer-ready beef products. National Beef has three consumer-ready processing facilities, one of which was completely dedicated to Walmart's business and another substantially so dedicated. National Beef continues to pursue replacement business for its consumer-ready facilities; however, it may not be able to fully replace the operating cash flow generated by the Walmart business in the near future, if at all. During 2014, the three consumer-ready facilities operated at reduced levels, and continue to do so. Failure to fully replace the operating cash flow could lead to additional impairment charges.

*Impairment of Equity Method Investments* – We evaluate equity method investments for impairment when operating losses or other factors may indicate a decrease in value which is other than temporary. We consider a variety of factors including economic conditions nationally and in their geographic areas of operation, adverse changes in the industry in which they operate, declines in business prospects, deterioration in earnings, increasing costs of operations and other relevant factors specific to the investee. Whenever we believe conditions or events indicate that one of these investments might be significantly impaired, we obtain from such investee updated cash flow projections and impairment analyses of the investee assets. We use this information and, together with discussions with the investee's management, evaluate if the book value of its investment exceeds its fair value, and if so and the situation is deemed other than temporary, record an impairment charge.

*Goodwill* – We allocate the acquisition cost of consolidated businesses to the specific tangible and intangible assets acquired and liabilities assumed based upon their fair values. Significant judgments and estimates are often made by management to determine these values, and may include the use of appraisals, consideration of market quotes for similar transactions, use of discounted cash flow techniques or consideration of other information we believe to be relevant. Any excess acquisition cost over the fair values of the net assets acquired is recorded as goodwill, which is not amortized to expense. Substantially all of our goodwill was recognized in connection with the Jefferies acquisition.

At least annually, and more frequently if warranted, we assess whether goodwill has been impaired at the reporting unit level. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any. The fair values are based on valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating fair value include market capitalization, price-to-book multiples of comparable exchange traded companies, multiples of mergers and acquisitions of similar businesses and/or projected cash flows. 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.

An independent valuation specialist was engaged to assist with the valuation process relating to Jefferies for its annual goodwill impairment test as of August 1. The results of this test did not indicate any impairment. During the fourth quarter of 2014, Jefferies decided to pursue alternative strategies for its Futures business, including possible divesture, given the recent operating performance and margin challenges of the business. In addition, during the fourth quarter of 2014, Jefferies decided to liquidate its International Asset Management business. In connection with these two events, Jefferies recognized goodwill impairment losses of \$54.0 million. As U.S. GAAP requires that our assessment be performed at our reporting unit level, and the estimated fair value of Jefferies exceeded its carrying value, we are not recognizing any impairment losses related to Jefferies. The \$54.0 million impairment loss recorded by Jefferies is a difference between its stand-alone financial statements and the Jefferies results included in our consolidated financial statements.

An independent valuation specialist was also engaged to assist with the valuation process relating to National Beef. As the estimated fair value of National Beef was less than its carrying value, further analysis was performed, which indicated that the implied fair value of the goodwill exceeded the carrying amount of the goodwill. Accordingly, National Beef's goodwill was not impaired.

*Intangible Assets* – Intangible assets deemed to have finite lives are generally amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. If future undiscounted cash flows are estimated to be less than the carrying amounts of the asset groups used to generate those cash flows in subsequent reporting periods, particularly for those with large investments in amortizable intangible assets, impairment charges would have to be recorded.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment 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. Fair value will be determined using valuation techniques consistent with what a market participant would use. All of our indefinite-lived intangible assets were recognized in connection with the Jefferies acquisition, and our annual impairment testing date is as of August 1.

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

*Contingencies* – 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 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, can be highly subjective and is subject to significant change with the passage of time as more information becomes available. Estimating the ultimate impact of litigation matters is inherently uncertain, in particular because the ultimate outcome will rest on events and decisions of others that may not be within our power to control. We do not believe that any of our current litigation will have a significant adverse effect on our consolidated financial position, results of operations or liquidity; however, if amounts paid at the resolution of litigation are in excess of recorded reserve amounts, the excess could be significant in relation to results of operations for that period. For further information, see Note 26 in our consolidated financial statements.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The following includes “forward-looking statements” that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. The discussion of risk is presented separately for Jefferies and the balance of our company. Exclusive of Jefferies, our market risk arises principally from interest rate risk related to our financial instruments owned and equity price risk. As more fully discussed elsewhere in this Report, we own approximately 46.6 million common shares of Harbinger, representing approximately 23% of Harbinger’s outstanding common shares, which are accounted for under the fair value option and included within Trading Assets at fair value of \$659.9 million at December 31, 2014. Assuming a decline of 10% in market prices, the value of our investment in Harbinger could decrease by approximately \$66 million.

The potential for changes in the value of financial instruments is referred to as market risk. Jefferies 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. Jefferies seeks to manage its 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*

Within Jefferies, Value-at-Risk (VaR) is used as a measurement of market risk 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. Jefferies calculates a one-day VaR using a one year look-back period measured at a 95% confidence level.

As with all measures of VaR, the 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 Jefferies believes the assumptions and inputs in its risk model are reasonable, Jefferies 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 Jefferies uses in its daily risk management activities. When comparing the VaR numbers to those of other firms, it is important to remember that different methodologies and assumptions could produce significantly different results.

The following table illustrates each separate component of VaR for each component of market risk by interest rate, equity, currency and commodity products, as well as for Jefferies overall trading positions using the past 365 days of historical data. The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the four risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated. Since we consolidate Jefferies on a one month lag, all amounts reported are for Jefferies annual fiscal periods.

(In millions)	<b>Daily VaR (1)</b>			
	<b>Value-at-Risk In Trading Portfolios</b>			
	<b>VaR as of November 30, 2014</b>	<b>Daily VaR for the Year Ended November 30, 2014</b>		
<b><u>Risk Categories</u></b>		<b><u>Average</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>
<b>Interest Rates</b> .....	<b>\$ 5.56</b>	<b>\$ 5.77</b>	<b>\$ 8.69</b>	<b>\$ 3.16</b>
<b>Equity Prices</b> .....	<b>10.53</b>	<b>11.08</b>	<b>14.68</b>	<b>7.85</b>
<b>Currency Rates</b> .....	<b>0.87</b>	<b>1.33</b>	<b>6.59</b>	<b>0.15</b>
<b>Commodity Prices</b> .....	<b>0.19</b>	<b>0.70</b>	<b>2.14</b>	<b>0.07</b>
<b>Diversification Effect (2)</b> .....	<b>(3.87)</b>	<b>(4.53)</b>	<b>—</b>	<b>—</b>
<b>Firmwide</b> .....	<b><u>\$13.28</u></b>	<b><u>\$14.35</u></b>	<b><u>\$19.68</u></b>	<b><u>\$10.31</u></b>
	VaR as of	Daily VaR for the Year Ended		
	<u>November 30, 2013</u>	<u>November 30, 2013</u>		
<b><u>Risk Categories</u></b>		<b><u>Average</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>
<b>Interest Rates</b> .....	<b>\$ 7.33</b>	<b>\$ 5.38</b>	<b>\$ 9.46</b>	<b>\$3.68</b>
<b>Equity Prices</b> .....	<b>12.22</b>	<b>6.57</b>	<b>12.37</b>	<b>3.85</b>
<b>Currency Rates</b> .....	<b>0.56</b>	<b>0.83</b>	<b>2.07</b>	<b>0.11</b>
<b>Commodity Prices</b> .....	<b>0.74</b>	<b>0.94</b>	<b>1.70</b>	<b>0.37</b>
<b>Diversification Effect (2)</b> .....	<b>(4.60)</b>	<b>(3.29)</b>	<b>N/A</b>	<b>N/A</b>
<b>Firmwide</b> .....	<b><u>\$16.25</u></b>	<b><u>\$10.43</u></b>	<b><u>\$16.25</u></b>	<b><u>\$6.00</u></b>

(1) VaR is the potential loss in value of Jefferies 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 Jefferies VaR and VaR values for the four risk categories might have occurred on different days during the period.

Average daily VaR increased to \$14.35 million for the year ended November 30, 2014 from \$10.43 million for the year ended November 30, 2013. The increase was primarily driven by higher equity price risk as a result of an increase in various equity block positions compared to the prior year along with Jefferies' investments in KCG and Harbinger. The increase was partially offset by an increase in the diversification benefit across asset classes. Market risk from interest rate volatility, currency rates and commodity prices risk did not change significantly from the comparable 2013 period. Excluding the investments in KCG and Harbinger for the years ended November 30, 2014 and 2013, average VaR was \$8.55 million and \$6.59 million, respectively.

The primary method used to test the efficacy of the VaR model is to compare actual daily net revenue for those positions included in the VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading

portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e., no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e., once in every 20 days). During the year ended November 30, 2014, results of the evaluation at the aggregate level demonstrated three days when the net trading loss exceeded the 95% one day VaR.

Certain individual positions within financial instruments are not included in the VaR model because VaR is not the most appropriate measure of risk. Accordingly, Jefferies Risk Management has additional procedures in place to assure that the level of potential loss that would arise from market movements are within acceptable levels. Such procedures include performing stress tests, monitoring concentration risk and tracking price target/stop loss levels. The table below presents the potential reduction in net income associated with a 10% stress of or the sensitivity to a 10% stress of the fair value of the positions that are not included in the VaR model at November 30, 2014 (in thousands):

	<u>10% Sensitivity</u>
Private investments . . . . .	\$39,019
Corporate debt securities in default . . . . .	12,971
Trade claims . . . . .	2,330

There were 44 days with trading losses out of a total of 251 days in the year ended November 30, 2014, including 17 in the three months ended November 30, 2014. Excluding trading losses associated with the daily marking to market of the position in KCG in the year ended November 30, 2014, there were 26 days with trading losses, of which 16 occurred in the fourth quarter of 2014.

#### *Scenario Analysis and Stress Tests*

While VaR measures potential losses due to adverse changes in historical market prices and rates, Jefferies uses stress testing to analyze the potential impact of specific events or moderate or extreme market moves on its 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 Jefferies 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, Jefferies also performs ad hoc stress tests and adds new scenarios as market conditions dictate. Because Jefferies stress scenarios are meant to reflect market moves that occur over a period of time, its estimates of potential loss assume some level of position reduction for liquid positions. Unlike Jefferies 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 Jefferies aggregate risk position as well as for limit setting and risk/reward analysis.

#### *Counterparty Credit Risk and Issuer Country Exposure*

##### *Counterparty Credit Risk*

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract. Jefferies is 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 Jefferies financial soundness and profitability that Jefferies properly and effectively identify, assess, monitor and manage the various credit and counterparty risks inherent in its 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 a Jefferies enterprise level in order to limit exposure to loss related to credit risk.

Jefferies employs a Credit Risk Framework, which is responsible for identifying credit risks throughout its operating businesses, establishing counterparty limits and managing and monitoring those credit limits. Jefferies 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 its Risk Management Committee;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- delivering credit limits to all relevant sales and trading desks;
- maintaining credit reviews for all active and new counterparties;
- operating a control function for exposure analytics and exception management and reporting;
- determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- actively managing daily exposure, exceptions, and breaches;
- monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and
- setting the minimum global requirements for systems, reports, and technology.

#### Jefferies 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 outstanding. In addition, credit exposures on forward settling traded loans are included within Jefferies loans and lending exposures for consistency with the balance sheet categorization of these items.
- 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 Jefferies derivative credit exposures.
- Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks.

Current counterparty credit exposures 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 Jefferies country risk exposure tables below. The amounts in the tables below are for amounts included in our Consolidated Statement of Financial Condition at December 31, 2014 and 2013 (in millions).



### Counterparty Credit Exposure by Credit Rating

	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Total	Cash and Cash Equivalents	Total with Cash and Cash Equivalents
<b>December 31, 2014</b>						
AAA Range	\$ –	\$ 1.9	\$ –	\$ 1.9	\$2,921.4	\$2,923.3
AA Range	2.7	134.6	7.1	144.4	412.9	557.3
A Range	7.6	586.9	218.1	812.6	731.3	1,543.9
BBB Range	132.3	73.6	34.8	240.7	2.8	243.5
BB or Lower	189.9	127.9	45.2	363.0	–	363.0
Unrated	139.6	–	–	139.6	11.5	151.1
Total	<u>\$472.1</u>	<u>\$924.9</u>	<u>\$305.2</u>	<u>\$1,702.2</u>	<u>\$4,079.9</u>	<u>\$5,782.1</u>
<b>December 31, 2013</b>						
AAA Range	\$ –	\$ 0.2	\$ –	\$ 0.2	\$2,680.6	\$2,680.8
AA Range	–	104.8	14.7	119.5	144.1	263.6
A Range	–	374.4	56.7	431.1	734.7	1,165.8
BBB Range	71.0	39.9	16.2	127.1	1.7	128.8
BB or Lower	120.3	115.4	9.5	245.2	–	245.2
Unrated	86.6	–	18.6	105.2	–	105.2
Total	<u>\$277.9</u>	<u>\$634.7</u>	<u>\$115.7</u>	<u>\$1,028.3</u>	<u>\$3,561.1</u>	<u>\$4,589.4</u>

### Counterparty Credit Exposure by Region

	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Total	Cash and Cash Equivalents	Total with Cash and Cash Equivalents
<b>December 31, 2014</b>						
Asia/Latin America/Other	\$ 48.8	\$ 55.7	\$ 24.6	\$ 129.1	\$ 221.0	\$ 350.1
Europe	8.5	218.2	76.1	302.8	617.5	920.3
North America	414.8	651.0	204.5	1,270.3	3,241.4	4,511.7
Total	<u>\$472.1</u>	<u>\$924.9</u>	<u>\$305.2</u>	<u>\$1,702.2</u>	<u>\$4,079.9</u>	<u>\$5,782.1</u>
<b>December 31, 2013</b>						
Asia/Latin America/Other	\$ –	\$ 30.9	\$ 11.6	\$ 42.5	\$ 183.3	\$ 225.8
Europe	–	180.3	47.6	227.9	269.3	497.2
North America	277.9	423.5	56.5	757.9	3,108.5	3,866.4
Total	<u>\$277.9</u>	<u>\$634.7</u>	<u>\$115.7</u>	<u>\$1,028.3</u>	<u>\$3,561.1</u>	<u>\$4,589.4</u>

### Counterparty Credit Exposure by Industry

	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Total	Cash and Cash Equivalents	Total with Cash and Cash Equivalents
<b>December 31, 2014</b>						
Asset Managers	\$ –	\$ 91.8	\$ –	\$ 91.8	\$2,921.4	\$3,013.2
Banks, Broker-dealers	10.7	482.2	251.4	744.3	1,158.5	1,902.8
Commodities	–	59.9	24.8	84.7	–	84.7
Other	461.4	291.0	29.0	781.4	–	781.4
Total	<u>\$472.1</u>	<u>\$924.9</u>	<u>\$305.2</u>	<u>\$1,702.2</u>	<u>\$4,079.9</u>	<u>\$5,782.1</u>
<b>December 31, 2013</b>						
Asset Managers	\$ –	\$ 7.1	\$ 0.5	\$ 7.6	\$2,680.7	\$2,688.3
Banks, Broker-dealers	–	354.9	73.8	428.7	880.4	1,309.1
Commodities	–	35.6	9.4	45.0	–	45.0
Other	277.9	237.1	32.0	547.0	–	547.0
Total	<u>\$277.9</u>	<u>\$634.7</u>	<u>\$115.7</u>	<u>\$1,028.3</u>	<u>\$3,561.1</u>	<u>\$4,589.4</u>

For additional information regarding credit exposure to OTC derivative contracts, see Note 6 in our consolidated financial statements.

## Jefferies 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. Jefferies defines country risk as the country of jurisdiction or domicile of the obligor. The following tables reflect Jefferies top exposures to the sovereign governments, corporations and financial institutions in those non-U.S. countries in which there is net long issuer and counterparty exposure, as reflected in our Consolidated Statement of Financial Condition at December 31, 2014 and 2013 (in millions):

December 31, 2014									
	Issuer Risk			Counterparty Risk				Issuer and Counterparty Risk	
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Germany	\$ 357.6	\$ (153.7)	\$ 196.1	\$ –	\$ 97.8	\$ 16.8	\$ 59.5	\$ 514.6	\$ 574.1
Spain	587.2	(171.0)	–	0.2	1.2	–	–	417.6	417.6
Great Britain	441.0	(252.5)	(25.4)	6.5	29.8	25.2	138.9	224.6	363.5
Belgium	137.6	(65.9)	(8.4)	–	2.5	–	278.7	65.8	344.5
Canada	123.1	(28.8)	(27.3)	–	120.2	79.6	5.3	266.8	272.1
Netherlands	341.4	(121.0)	(13.5)	–	5.4	–	–	212.3	212.3
Italy	1,467.9	(880.1)	(427.7)	–	–	0.3	–	160.4	160.4
Hong Kong	18.4	(8.5)	–	–	0.6	–	145.1	10.5	155.6
Luxembourg	5.6	(6.9)	2.9	–	0.4	–	127.2	2.0	129.2
Puerto Rico	108.2	–	–	–	–	0.8	–	109.0	109.0
Total	<u>\$3,588.0</u>	<u>\$(1,688.4)</u>	<u>\$(303.3)</u>	<u>\$6.7</u>	<u>\$257.9</u>	<u>\$122.7</u>	<u>\$754.7</u>	<u>\$1,983.6</u>	<u>\$2,738.3</u>

December 31, 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	\$ 418.8	\$ (181.5)	\$(27.2)	\$ –	\$ 42.5	\$20.7	\$113.1	\$ 273.3	\$ 386.4
Germany	462.0	(226.1)	(70.5)	–	93.2	10.9	3.3	269.5	272.8
Netherlands	445.7	(198.8)	(2.3)	–	5.2	1.5	0.3	251.3	251.6
Italy	1,181.4	(1,017.6)	74.2	–	1.8	0.1	–	239.9	239.9
Canada	140.6	(59.0)	18.8	–	99.5	0.2	2.2	200.1	202.3
Spain	352.3	(159.8)	0.3	–	3.0	0.2	0.1	196.0	196.1
Puerto Rico	130.1	–	–	–	–	–	–	130.1	130.1
Luxembourg	75.0	(15.1)	–	–	0.1	–	68.0	60.0	128.0
Hong Kong	33.9	(18.3)	(0.9)	–	0.3	–	104.3	15.0	119.3
Austria	130.2	(32.8)	–	–	5.0	–	0.1	102.4	102.5
Total	<u>\$3,370.0</u>	<u>\$(1,909.0)</u>	<u>\$(7.6)</u>	<u>\$ –</u>	<u>\$250.6</u>	<u>\$33.6</u>	<u>\$291.4</u>	<u>\$1,737.6</u>	<u>\$2,029.0</u>

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

The table below reflects not only Jefferies exposure to the sovereign debt and economic derivative positions in Greece, Ireland, Italy, Portugal, and Spain but also includes its exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries, as reflected in our Consolidated Statement of Financial Condition at December 31, 2014. This table is presented in a manner consistent with how Jefferies management views and monitors these exposures as part of its risk management framework. Issuer exposure to these European countries arises primarily in the context of Jefferies market making activities and its role as a major dealer in the debt securities of these countries. While the economic derivative positions are presented on a notional basis, Jefferies believes this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of its positions. Long and short financial instruments are offset against each other for determining net

exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities.

	Fair Value			Notional Amount			Total Net Exposure
	Long Debt Securities(1)(2)	Short Debt Securities(2)(3)	Net Cash Inventory	Long Derivatives	Short Derivatives	Net Derivatives	
<i>(In millions)</i>							
Greece:							
Sovereigns	\$ 1.0	\$ 0.3	\$ 0.7	\$ –	\$ –	\$ –	\$ 0.7
Corporations (4)	7.9	1.3	6.6	–	0.2	(0.2)	6.4
Financial Institutions	3.3	–	3.3	–	–	–	3.3
Structured Products	1.4	–	1.4	–	–	–	1.4
Total Greece	13.6	1.6	12.0	–	0.2	(0.2)	11.8
Ireland:							
Sovereigns	2.4	0.4	2.0	–	–	–	2.0
Corporations	1.7	1.1	0.6	–	–	–	0.6
Financial Institutions	17.1	12.5	4.6	–	–	–	4.6
Structured Products	2.0	–	2.0	–	–	–	2.0
Total Ireland	23.2	14.0	9.2	–	–	–	9.2
Italy:							
Sovereigns (5)	1,283.9	858.0	425.9	51.8	479.5	(427.7)	(1.8)
Corporations	61.3	10.6	50.7	–	–	–	50.7
Financial Institutions	60.2	11.5	48.7	–	–	–	48.7
Structured Products	62.5	–	62.5	–	–	–	62.5
Total Italy	1,467.9	880.1	587.8	51.8	479.5	(427.7)	160.1
Portugal:							
Sovereigns	72.0	45.3	26.7	–	–	–	26.7
Corporations	–	1.7	(1.7)	–	–	–	(1.7)
Financial Institutions	2.2	–	2.2	–	–	–	2.2
Structured Products	28.3	–	28.3	–	–	–	28.3
Total Portugal	102.5	47.0	55.5	–	–	–	55.5
Spain:							
Sovereigns	270.0	154.9	115.1	–	–	–	115.1
Corporations	18.9	13.0	5.9	–	–	–	5.9
Financial Institutions	111.9	3.1	108.8	–	–	–	108.8
Structured Products	186.4	–	186.4	–	–	–	186.4
Total Spain	587.2	171.0	416.2	–	–	–	416.2
Total	\$2,194.4	\$1,113.7	\$1,080.7	\$51.8	\$479.7	\$(427.9)	\$652.8
Total Sovereign	\$1,629.3	\$1,058.9	\$ 570.4	\$51.8	\$479.5	\$(427.7)	\$142.7
Total Non-sovereign	\$ 565.1	\$ 54.8	\$ 510.3	\$ –	\$ 0.2	\$ (0.2)	\$510.1

(1) Long securities represent the fair value of debt securities and are presented within Trading assets 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) Classification of securities by country and by issuer type is presented based on the view of Jefferies Risk Management Department. Jefferies 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.

- (3) Short securities represent the fair value of debt securities sold short and are presented within Trading liabilities 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.
- (4) These derivative contract positions are comprised of listed equity options.
- (5) These derivative positions are comprised of bond futures executed on exchanges outside Italy.

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

	Remaining Maturity Less Than One Year	Remaining Maturity Greater Than or Equal to One Year	Total Average Balance
Financial instruments owned –			
Debt securities			
Greece .....	\$ –	\$ 4.1	\$ 4.1
Ireland .....	1.3	6.5	7.8
Italy .....	675.6	1,841.9	2,517.5
Portugal .....	6.7	106.2	112.9
Spain .....	<u>125.9</u>	<u>304.6</u>	<u>430.5</u>
Total average fair value of long debt securities (1) .....	<u>809.5</u>	<u>2,263.3</u>	<u>3,072.8</u>
Financial instruments sold – Debt securities			
Greece .....	–	2.8	2.8
Ireland .....	0.5	3.8	4.3
Italy .....	537.0	1,113.1	1,650.1
Portugal .....	3.0	80.5	83.5
Spain .....	<u>3.1</u>	<u>301.7</u>	<u>304.8</u>
Total average fair value of short debt securities .....	<u>543.6</u>	<u>1,501.9</u>	<u>2,045.5</u>
Total average net fair value of debt securities ..	<u>265.9</u>	<u>761.4</u>	<u>1,027.3</u>
Derivative contracts – long notional exposure			
Italy .....	–	103.6 <sup>(2)</sup>	103.6
Total average notional amount – long .....	–	<u>103.6</u>	<u>103.6</u>
Derivative contracts – short notional exposure			
Italy .....	–	297.9 <sup>(2)</sup>	297.9
Total average notional amount – short .....	–	<u>297.9</u>	<u>297.9</u>
Total average net derivative notional exposure ..	–	<u>(194.3)</u>	<u>(194.3)</u>
Total average net exposure to select European countries .....	<u>\$265.9</u>	<u>\$ 567.1</u>	<u>\$ 833.0</u>

(1) Classification of securities by country and by issuer type is presented based on the view of Jefferies 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.

In addition, non-U.S. sovereign obligations recorded in trading assets and trading liabilities are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion is executed with central clearing organizations. Accordingly, foreign sovereign obligations are utilized as underlying collateral for our repurchase financing arrangements. 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):

	Reverse Repurchase Agreements (1)	Repurchase Agreements (1)	Net
Greece .....	\$ -	\$ -	\$ -
Ireland .....	5.2	81.0	(75.8)
Italy .....	1,081.3	1,533.2	(451.9)
Portugal .....	35.5	57.3	(21.8)
Spain .....	159.1	513.4	(354.3)
Total .....	<u>\$1,281.1</u>	<u>\$2,184.9</u>	<u>\$(903.8)</u>

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

Collateral management of the risk due to exposure from these sovereign obligations is subject to Jefferies overall collateral and cash management risk framework.

Exclusive of Jefferies and our investment in Harbinger, our financial instrument portfolio is primarily classified as available for sale, and consequently, is recorded at fair value with unrealized gains and losses reflected in equity. Included in our available for sale portfolio are fixed income securities, which comprised approximately 94% of the total available for sale portfolio at December 31, 2014. These fixed income securities are primarily rated “investment grade” or are U.S. governmental agency issued or U.S. Government-Sponsored Enterprises. The estimated weighted average remaining life of these fixed income securities was approximately 2.5 years at December 31, 2014. Our fixed income securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. At December 31, 2013 fixed income securities comprised approximately 91% of the total portfolio and had an estimated weighted average remaining life of approximately 1.6 years.

Also included in the available for sale portfolio are equity securities, which are recorded at an aggregate fair value of \$89.4 million (aggregate cost of \$52.2 million) and which comprised approximately 6% of our total available for sale portfolio at December 31, 2014. We evaluate our portfolio for impairment on a quarterly basis.

The following table provides information about our financial instruments used for purposes other than trading that are primarily sensitive to changes in interest rates.

For additional information see Note 9 to our consolidated financial statements.

	Expected Maturity Date						Total	Fair Value
	2015	2016	2017	2018	2019	Thereafter		
	(Dollars in thousands)							
<b>Rate Sensitive Assets:</b>								
Available for Sale Fixed Income Securities:								
U.S. Government	\$ 593,773	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 593,773	\$ 593,773
Weighted-Average Interest Rate	.04%							
Residential mortgage-backed:								
Rated Investment Grade	\$ 114,218	\$ 76,084	\$ 57,356	\$ 44,968	\$ 36,496	\$ 210,574	\$ 539,696	\$ 539,696
Weighted-Average Interest Rate	2.57%	2.58%	2.57%	2.56%	2.54%	2.47%		
Rated Less Than Investment Grade/Not Rated	\$ 37,349	\$ 10,738	\$ 5,537	\$ 3,264	\$ 2,341	\$ 7,758	\$ 66,987	\$ 66,987
Weighted-Average Interest Rate	3.87%	4.31%	4.18%	4.39%	4.69%	4.75%		
Commercial mortgage-backed:								
Rated Investment Grade	\$ -	\$ -	\$ 6,918	\$ 51	\$ 54	\$ 378	\$ 7,401	\$ 7,401
Weighted-Average Interest Rate			5.05%	5.57%	5.57%	5.57%		
Rated Less Than Investment Grade/Not Rated	\$ -	\$ 8,855	\$ 23,037	\$ 2,785	\$ 1,022	\$ 301	\$ 36,000	\$ 36,000
Weighted-Average Interest Rate		5.69%	4.91%	4.28%	5.66%	4.00%		
Other asset-backed:								
Rated Investment Grade	\$ 119,286	\$ 75,051	\$ 39,126	\$ 4,693	\$ -	\$ -	\$ 238,156	\$ 238,156
Weighted-Average Interest Rate	4.36%	3.70%	3.00%	3.79%				
Rated Less Than Investment Grade/Not Rated	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,000	\$ 7,000
Weighted-Average Interest Rate	4.00%							
All other corporates:								
Rated Investment Grade	\$ -	\$ 2,849	\$ -	\$ -	\$ -	\$ -	\$ 2,849	\$ 2,849
Weighted-Average Interest Rate		7.25%						
Rated Less Than Investment Grade/Not Rated	\$ 13,297	\$ 6,330	\$ 2,450	\$ 4,962	\$ 515	\$ -	\$ 27,554	\$ 27,554
Weighted-Average Interest Rate	3.54%	3.89%	7.25%	5.75%	6.75%			

We are also subject to interest rate risk on our long-term fixed interest rate debt. Generally, the fair market value of debt securities with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise. The following table represents principal cash flows by expected maturity dates for our consolidated long-term debt obligations. For the variable rate borrowings, the weighted average interest rates are based on implied forward rates in the yield curve at the reporting date. Our market risk with respect to foreign currency exposure on our long-term debt is also shown below. For additional information, see Note 17 to our consolidated financial statements.

	Expected Maturity Date						Total	Fair Value
	2015	2016	2017	2018	2019	Thereafter		
	(Dollars in thousands)							
<b>Rate Sensitive Liabilities:</b>								
Fixed Interest Rate Borrowings	\$ 964,940	\$ 364,251	\$ 345,327	\$ 800,340	\$ 700,354	\$ 3,607,094	\$ 6,782,306	\$ 7,422,219
Weighted-Average Interest Rate	5.91%	5.67%	3.88%	5.13%	8.50%	3.51%		
Variable Interest Rate Borrowings	\$ 67,289	\$ 43,711	\$ 201,930	\$ 382,144	\$ 2,082	\$ 43,722	\$ 740,878	\$ 741,119
Weighted-Average Interest Rate	2.68%	3.54%	2.31%	4.93%	3.96%	4.02%		
Borrowings with Foreign Currency Exposure	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 627,152	\$ 627,152	\$ 643,362
Weighted-Average Interest Rate						2.37%		

## **Item 8. Financial Statements and Supplementary Data.**

Financial Statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 15(a) below.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

## **Item 9A. Controls and Procedures.**

### *Evaluation of disclosure controls and procedures*

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2014. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2014.

### *Changes in internal control over financial reporting*

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Management's Report on Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, the Company's management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

Based on our assessment and those criteria, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein in Item 8.

**Item 9B. Other Information.**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers of the Registrant and Corporate Governance.**

Information with respect to this item will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.

We have a code of Business Practices, which is applicable to all directors, officers and employees, and includes a Code of Practice applicable to our principal executive officer and senior financial officers. Both of the Code of Business Practice and Code of Practice are available on our website. We intend to post amendments to or waivers from our Code of Practice on our website as required by applicable law.

**Item 11. Executive Compensation.**

Information with respect to this item will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.**

Information with respect to this item will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information with respect to this item will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

Information with respect to this item will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.



## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

#### (a)(1) Financial Statements.

Report of Independent Registered Public Accounting Firm .....	F-1
Financial Statements:	
Consolidated Statements of Financial Condition at December 31, 2014 and 2013 .....	F-2
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012 .....	F-3
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012 .....	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 .....	F-6
Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012 .....	F-8
Notes to Consolidated Financial Statements .....	F-9

#### (2) Financial Statement Schedules.

Schedules are omitted because they are not required or are not applicable or the required information is shown in the financial statements or notes thereto.

#### (3) See Item 15(b) below for a complete list of Exhibits to this report, including Executive Compensation Plans and Arrangements.

#### (b) Exhibits.

We will furnish any exhibit upon request made to our Corporate Secretary, 520 Madison Avenue, New York, NY 10022. We charge \$.50 per page to cover expenses of copying and mailing.

All documents referenced below were filed pursuant to the Securities Exchange Act of 1934 by the Company, file number 1-5721, unless otherwise indicated.

- 2.1 Agreement and Plan of Merger, dated as of November 11, 2012, by and among Leucadia National Corporation, Limestone Merger Sub, LLC, Jefferies Group, Inc., JSP Holdings, Inc. and Jasper Merger Sub, Inc. (filed as Exhibit 2.1 of the Current Report on Form 8-K filed by Jefferies Group, Inc. on November 13, 2012).\*
- 2.2 Agreement and Plan of Merger, dated as of November 11, 2012, by and among Jefferies Group, Inc., JSP Holdings, Inc. and Jasper Merger Sub, Inc. (filed as Exhibit 2.2 of the Current Report on Form 8-K filed by Jefferies Group, Inc. on November 13, 2012).\*
- 2.3 Purchase Agreement, dated as of February 28, 2014, by and among HomeFed Corporation, Leucadia National Corporation, Baldwin Enterprises, Inc., LUK-REN, Inc., LUK-Myrtle Beach, LLC, Leucadia Financial Corporation, Leucadia LLC, Maine Isles, LLC, Glen Cove TND, LLC and Rockport Properties, Inc. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated February 28, 2014).\*
- 2.4 Preferred Securities Purchase Agreement, dated as of March 18, 2014, by and among Harbinger Capital Partners Master Fund, Ltd., Global Opportunities Breakaway Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Leucadia National Corporation (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K/A dated March 18, 2014).\*

- 3.1 Restated Certificate of Incorporation (filed as Exhibit 5.1 to the Company's Current Report on Form 8-K dated July 14, 1993).\*
- 3.2 Certificate of Amendment of the Certificate of Incorporation dated as of May 14, 2002 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the "2003 10-K")).\*
- 3.3 Certificate of Amendment of the Certificate of Incorporation dated as of December 23, 2002 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).\*
- 3.4 Certificate of Amendment of the Certificate of Incorporation dated as of May 13, 2004 (filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).\*
- 3.5 Certificate of Amendment of the Certificate of Incorporation dated as of May 17, 2005 (filed as Exhibit 3.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "2005 10-K")).\*
- 3.6 Certificate of Amendment of the Certificate of Incorporation dated as of May 23, 2007 (filed as Exhibit 4.7 to the Company's Registration Statement on Form S-8 (No. 333-143770)).\*
- 3.7 Certificate of Amendment to the Certificate of Incorporation dated as of February 26, 2013 (filed as Exhibit 3.7 to the Company's Current Report on Form 8-K on March 1, 2013 (the "March 1, 2013 Form 8-K")).\*
- 3.8 Certificate of Amendment to the Certificate of Incorporation dated as of February 26, 2013 (filed as Exhibit 3.8 to the March 1, 2013 Form 8-K).\*
- 3.9 Amended and Restated By-laws of Leucadia National Corporation (filed as Exhibit 3.9 to the March 1, 2013 Form 8-K).\*
- 4.1 The Company undertakes to furnish the Securities and Exchange Commission, upon written request, a copy of all instruments with respect to long-term debt not filed herewith.
- 10.31 1999 Stock Option Plan as Amended and Restated (filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (No. 333-169377)).\* +
- 10.32 Form of Grant Letter for the 1999 Stock Option Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 24, 2012 (the "February 24, 2012 8-K")).\* +
- 10.33 Leucadia National Corporation 2003 Incentive Compensation Plan (filed as Appendix II to the Company's Proxy Statement dated June 27, 2013 (the "2013 Proxy Statement")).\* +
- 10.34 Form of Restricted Stock Units Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 31, 2013).\* +
- 10.35 Form of Restricted Stock Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated July 31, 2013).\* +
- 10.36 Leucadia National Corporation 1999 Directors' Stock Compensation Plan (filed as Appendix II to the 2013 Proxy Statement).\* +
- 10.37 Leucadia National Corporation 2011 Senior Executive Warrant Plan (filed as Annex A to the Company's Proxy Statement dated April 13, 2011).\* +
- 10.38 Form of Common Share Purchase Warrant (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011 (the "2nd Quarter 2011 10-Q")).\* +

- 10.39 Amended and Restated Shareholders Agreement dated as of June 30, 2003 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.5 to the 2003 10-K).\* +
- 10.40 Amendment No. 1, dated as of May 16, 2006, to the Amended and Restated Shareholders Agreement dated as of June 30, 2003, by and among Ian M. Cumming, Joseph S. Steinberg and the Company (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006). \* +
- 10.41 Services Agreement, dated as of January 1, 2004, between the Company and Joseph S. Steinberg (filed as Exhibit 10.38 to the 2005 10-K).\* +
- 10.42 Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 16, 2006 (filed as Annex A to the Company's Proxy Statement dated April 17, 2006).\* +
- 10.43 Employment Agreement made as of June 30, 2005 by and between the Company and Joseph S. Steinberg (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K dated July 13, 2005 8-K).\* +
- 10.44 Exhibit 1 to the Agreement and Plan of Reorganization between the Company and TLC Associates, dated February 23, 1989 (filed as Exhibit 3 to Amendment No. 12 to the Schedule 13D dated December 29, 2004 of Ian M. Cumming and Joseph S. Steinberg with respect to the Company).\*
- 10.45 Compensation Information Concerning Non-Employee Directors (incorporated by reference to page 31 of the Company's Proxy Statement dated April 13, 2012).\* +
- 10.46 Credit Agreement dated as of December 10, 2009 among Berkadia Commercial Mortgage LLC and BH Finance LLC (filed as Exhibit 10.1 to the 2nd Quarter 2011 10-Q).\*
- 10.47 Amendment No. 1 to Credit Agreement dated as of October 29, 2010 among Berkadia Commercial Mortgage LLC, BH Finance LLC and Baldwin Enterprises, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 5, 2010).\*
- 10.48 Guaranty, dated as of December 10, 2009, by Leucadia National Corporation in favor of BH Finance LLC, in its own capacity as the lender under the Credit Agreement, dated as of December 10, 2009, among Berkadia Commercial Mortgage LLC and BH Finance LLC, and on behalf of each of the other Secured Parties under (and as defined in) the Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 14, 2009).\*
- 10.49 Retention Agreement, dated March 1, 2010, between Leucadia National Corporation and Justin R. Wheeler (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 5, 2010).\* +
- 10.50 Form of Retention Agreement, dated June 22, 2010, between Leucadia National Corporation and Thomas E. Mara/Joseph A. Orlando (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 22, 2010).\* +
- 10.51 Form of Amended Retention Agreement for Thomas E. Mara, Joseph A. Orlando, and Justin R. Wheeler (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 23, 2012).\* +
- 10.52 Employment Agreement, dated as of June 24, 2013, between Leucadia National Corporation and Justin R. Wheeler (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 26, 2013).\* +
- 10.53 Participation Agreement dated as of October 29, 2010 between Baldwin Enterprises, Inc. and BH Finance LLC (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed November 5, 2010).\*
- 10.54 Amendment No. 1 to Guaranty dated as of October 29, 2010 made by Leucadia National Corporation in favor of BH Finance LLC in its own capacity as a lender under the Credit Agreement referred to therein and on behalf of each of the other Secured Parties under the Credit Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed November 5, 2010).\*

- 10.55 Membership Interest Purchase Agreement among Leucadia National Corporation, National Beef Packing Company, LLC, U.S. Premium Beef, LLC, NBPCo Holdings, LLC, TKK Investments, LLC, TMKCo, LLC and TMK Holdings, LLC (filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed December 30, 2011 (the “December 30, 2011 8-K”)).\*
- 10.56 First Amended and Restated Limited Liability Company Agreement of National Beef Packing Company, dated as of December 30, 2011 (filed as Exhibit 10.1 to the December 30, 2011 8-K).\*
- 10.57 Cattle Purchase and Sale Agreement by and between National Beef Packing Company, LLC and U.S. Premium Beef, LLC, dated as of December 30, 2011 (filed as Exhibit 10.6 to the December 30, 2011 8-K).\*
- 10.58 Summary of executive compensation (filed in the Company’s Current Report on Form 8-K dated February 4, 2015).\*<sup>+</sup>
- 10.59 Summary of executive compensation for Richard B. Handler, Brian P. Friedman and Michael J. Sharp (filed in the Company’s Current Report on Form 8-K dated February 28, 2014).\*<sup>+</sup>
- 10.60 General Termination and Release dated as of December 31, 2011 by and among Berkadia Commercial Mortgage LLC, BH Finance LLC, Baldwin Enterprises, Inc., Berkadia Commercial Mortgage Inc. and Leucadia National Corporation (filed as Exhibit 10.2 to the February 24, 2012 8-K).\*
- 10.61 Agreement of Terms dated as of December 31, 2011 between Leucadia National Corporation and Berkshire Hathaway Inc. (filed as Exhibit 10.1 to the February 24, 2012 8-K).\*
- 10.62 Deed of Release, Termination and Settlement dated as of September 19, 2012 between Fortescue Metals Group Ltd and Chichester Metals Pty Ltd and John Andrew Henry Forrest and Leucadia National Corporation and Baldwin Enterprises, Inc. (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K dated September 19, 2012).\*
- 10.63 Voting Agreement, dated as of November 11, 2012, by and among the Company, BEI Jeffvest, LLC and Jefferies Group, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed by Jefferies Group, Inc. on November 13, 2012).\*
- 10.64 Memo of Terms (filed as Exhibit 99.2 to the Company’s Current Report on Form 8-K dated November 11, 2012).\*<sup>+</sup>
- 10.65 Membership Interest Purchase Agreement by and among GAR, LLC, Premier Entertainment Biloxi LLC, Leucadia National Corporation and Twin River Management Group, Inc., dated as of December 14, 2013 (filed as Exhibit 10 to the Company’s Current Report on Form 8-K on December 16, 2013).\*
- 10.66 Letter Agreement, dated as of February 15, 2013, among Jefferies Group, Inc., JSP Holdings, Inc., Leucadia National Corporation, Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K on February 26, 2013).\*
- 10.67 Acknowledgement to Registration Rights Agreement, dated as of March 18, 2014, by and among Harbinger Group Inc., Harbinger Capital Partners Master Fund, Ltd., Global Opportunities Breakaway Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Leucadia National Corporation (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K/A dated March 18, 2014).\*
- 10.68 Letter Agreement, dated as of March 18, 2014, by and between Harbinger Group Inc. and Leucadia National Corporation (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K/A dated March 18, 2014).\*
- 10.69 Exchange Agreement by and among Harbinger Capital Group Partners Master Fund I, Ltd., Global Opportunities Breakaway Ltd., Harbinger Capital Partners Special Situations Fund, L.P., and Leucadia National Corporation (filed as Exhibit 99.5 to Schedule 13D filed March 28, 2014).\*

- 10.70 Joinder Agreement to Registration Rights Agreement by and among Harbinger Capital Group Partners Master Fund I, Ltd., Global Opportunities Breakaway Ltd., Harbinger Capital Partners Special Situations Fund, L.P., and Leucadia National Corporation (filed as Exhibit 99.8 to Schedule 13D filed on March 28, 2014).\*
- 10.71 Stockholders Agreement, dated as of March 28, 2014, by and between HomeFed Corporation and Leucadia National Corporation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 3, 2014).\*
- 10.72 Employment Agreement between Leucadia National Corporation and Teresa S. Gendron dated July 2, 2014 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q dated November 7, 2014). \*\*
- 21 Subsidiaries of the registrant.
- 23.1 Consent of PricewaterhouseCoopers LLP, with respect to the incorporation by reference into the Company's Registration Statements on Form S-8 (No. 333-169377), Form S-8 (No. 333-51494), Form S-8 (No. 333-143770), Form S-8 (No. 333-185318) and Form S-3 (No. 333-191533).
- 23.2 Consent of PricewaterhouseCoopers LLP, with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of Jefferies Group, Inc. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 333-169377), Form S-8 (No. 333-51494), Form S-8 (No. 333-143770), Form S-8 (No. 333-185318) and Form S-3 (No. 333-191533).
- 23.3 Consent of independent auditors from Deloitte & Touche LLP, with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of Jefferies Group, Inc. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 333-169377), Form S-8 (No. 333-51494), Form S-8 (No. 333-143770), Form S-8 (No. 333-185318) and Form S-3 (No. 333-191533).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101 Financial statements from the Annual Report on Form 10-K of Leucadia National Corporation for the year ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Changes in Equity and (vi) the Notes to Consolidated Financial Statements.

**(c) Financial statement schedules.**

- (1) Jefferies Group, Inc. financial statements for the three months ended February 28, 2013, and Jefferies Group, Inc. financial statements for the year ended November 30, 2012.

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+ Management/Employment Contract or Compensatory Plan or Arrangement.

\* Incorporated by reference.

\*\* Furnished herewith pursuant to item 601(b) (32) of Regulation S-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

LEUCADIA NATIONAL CORPORATION

February 27, 2015

By:           /s/ Barbara L. Lowenthal            
Barbara L. Lowenthal  
Vice President and Comptroller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the date set forth below.

<u>Date</u>	<u>Signature</u>	<u>Title</u>
February 27, 2015	By: <u>          /s/ Joseph S. Steinberg          </u> Joseph S. Steinberg	Chairman of the Board
February 27, 2015	By: <u>          /s/ Richard B. Handler          </u> Richard B. Handler	Chief Executive Officer and Director (Principal Executive Officer)
February 27, 2015	By: <u>          /s/ Brian P. Friedman          </u> Brian P. Friedman	President and Director
February 27, 2015	By: <u>          /s/ Teresa S. Gendron          </u> Teresa S. Gendron	Vice President and Chief Financial Officer (Principal Financial Officer)
February 27, 2015	By: <u>          /s/ Barbara L. Lowenthal          </u> Barbara L. Lowenthal	Vice President and Comptroller (Principal Accounting Officer)
February 27, 2015	By: <u>          /s/ Linda L. Adamany          </u> Linda L. Adamany	Director
February 27, 2015	By: <u>          /s/ Robert D. Beyer          </u> Robert D. Beyer	Director
February 27, 2015	By: <u>          /s/ Francisco L. Borges          </u> Francisco L. Borges	Director
February 27, 2015	By: <u>          /s/ W. Patrick Campbell          </u> W. Patrick Campbell	Director
February 27, 2015	By: <u>          /s/ Robert E. Joyal          </u> Robert E. Joyal	Director
February 27, 2015	By: <u>          /s/ Jeffrey C. Keil          </u> Jeffrey C. Keil	Director
February 27, 2015	By: <u>          /s/ Michael T. O'Kane          </u> Michael T. O'Kane	Director
February 27, 2015	By: <u>          /s/ Stuart H. Reese          </u> Stuart H. Reese	Director

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Shareholders of Leucadia National Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Leucadia National Corporation and its subsidiaries (the “Company”) at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in “Management’s Report on Internal Control over Financial Reporting” appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
New York, New York  
February 27, 2015

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Financial Condition**

December 31, 2014 and 2013

(Dollars in thousands, except par value)

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and cash equivalents . . . . .	\$ 4,276,775	\$ 3,907,595
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations . . . . .	3,444,674	3,616,602
Financial instruments owned, including securities pledged of \$14,794,488 and \$13,253,537:		
Trading assets, at fair value . . . . .	19,612,490	16,699,542
Available for sale securities . . . . .	1,608,769	2,866,143
Total financial instruments owned . . . . .	21,221,259	19,565,685
Investments in managed funds . . . . .	281,470	57,285
Loans to and investments in associated companies . . . . .	1,712,568	1,258,341
Securities borrowed . . . . .	6,853,103	5,359,846
Securities purchased under agreements to resell . . . . .	3,926,858	3,746,920
Securities received as collateral . . . . .	5,418	11,063
Receivables . . . . .	3,934,825	3,816,680
Property, equipment and leasehold improvements, net . . . . .	726,376	885,859
Intangible assets, net and goodwill . . . . .	2,720,763	2,768,628
Deferred tax asset, net . . . . .	1,712,535	1,809,943
Other assets . . . . .	1,807,284	1,062,334
Total . . . . .	<u>\$52,623,908</u>	<u>\$47,866,781</u>
<b>Liabilities</b>		
Short-term borrowings . . . . .	\$ 12,000	\$ 12,000
Trading liabilities, at fair value . . . . .	8,904,592	7,293,102
Securities loaned . . . . .	2,598,487	2,506,122
Securities sold under agreements to repurchase . . . . .	10,672,157	10,779,845
Other secured financings . . . . .	705,126	234,711
Obligation to return securities received as collateral . . . . .	5,418	11,063
Payables, expense accruals and other liabilities . . . . .	10,516,491	8,309,945
Long-term debt . . . . .	8,527,929	8,180,865
Total liabilities . . . . .	<u>41,942,200</u>	<u>37,327,653</u>
Commitments and contingencies		
<b>Mezzanine Equity</b>		
Redeemable noncontrolling interests . . . . .	186,686	241,075
Mandatorily redeemable convertible preferred shares . . . . .	125,000	125,000
<b>Equity</b>		
Common shares, par value \$1 per share, authorized 600,000,000 shares; 367,498,615 and 364,541,333 shares issued and outstanding, after deducting 48,447,573 and 46,695,470 shares held in treasury . . . . .	367,499	364,541
Additional paid-in capital . . . . .	5,059,508	4,881,031
Accumulated other comprehensive income . . . . .	447,082	538,050
Retained earnings . . . . .	4,428,069	4,318,840
Total Leucadia National Corporation shareholders' equity . . . . .	<u>10,302,158</u>	<u>10,102,462</u>
Noncontrolling interests . . . . .	67,864	70,591
Total equity . . . . .	<u>10,370,022</u>	<u>10,173,053</u>
Total . . . . .	<u>\$52,623,908</u>	<u>\$47,866,781</u>

The accompanying notes are an integral part of these consolidated financial statements.



LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Operations**

For the years ended December 31, 2014, 2013 and 2012

(In thousands, except per share amounts)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Revenues:</b>			
Beef processing services .....	\$ 7,824,246	\$ 7,486,332	\$7,479,251
Commissions .....	668,801	472,596	–
Principal transactions .....	662,213	574,895	331,359
Investment banking .....	1,526,637	997,955	–
Interest income .....	1,052,151	737,780	20,492
Net realized securities gains .....	30,394	243,957	590,581
Other .....	570,465	485,492	982,901
Total revenues .....	<u>12,334,907</u>	<u>10,999,007</u>	<u>9,404,584</u>
Interest expense .....	848,422	573,261	–
Net revenues .....	<u>11,486,485</u>	<u>10,425,746</u>	<u>9,404,584</u>
<b>Expenses:</b>			
Cost of sales .....	8,024,286	7,567,707	7,479,746
Compensation and benefits .....	1,841,674	1,352,654	166,138
Floor brokerage and clearing fees .....	215,329	150,774	–
Interest .....	117,174	84,964	92,581
Depreciation and amortization .....	185,993	167,425	116,388
Provision for doubtful accounts .....	59,695	1,490	1,903
Selling, general and other expenses .....	799,639	674,188	194,448
	<u>11,243,790</u>	<u>9,999,202</u>	<u>8,051,204</u>
Income from continuing operations before income taxes and income related to associated companies .....	242,695	426,544	1,353,380
Income related to associated companies .....	138,527	119,041	88,649
Income from continuing operations before income taxes .....	381,222	545,585	1,442,029
Income tax provision .....	165,971	136,481	539,464
Income from continuing operations .....	215,251	409,104	902,565
Loss from discontinued operations, net of income tax (benefit) of \$(9,634), \$(32,303) and \$(20,971) .....	(17,893)	(60,026)	(33,797)
Gain (loss) on disposal of discontinued operations, net of income tax provision (benefit) of \$899, \$(3,009) and \$(2,222) .....	1,667	13,115	(4,127)
Net income .....	199,025	362,193	864,641
Net loss attributable to the noncontrolling interests .....	727	1,162	2,060
Net (income) loss attributable to the redeemable noncontrolling interests .....	8,616	9,282	(12,235)
Preferred stock dividends .....	(4,062)	(3,397)	–
Net income attributable to Leucadia National Corporation common shareholders .....	<u>\$ 204,306</u>	<u>\$ 369,240</u>	<u>\$ 854,466</u>

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Operations, continued**

For the years ended December 31, 2014, 2013 and 2012

(In thousands, except per share amounts)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations .....	\$ .58	\$1.20	\$3.64
Loss from discontinued operations .....	(.05)	(.17)	(.13)
Gain (loss) on disposal of discontinued operations .....	.01	.04	(.02)
Net income .....	<u>\$ .54</u>	<u>\$1.07</u>	<u>\$3.49</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations .....	\$ .58	\$1.20	\$3.59
Loss from discontinued operations .....	(.05)	(.17)	(.13)
Gain (loss) on disposal of discontinued operations .....	.01	.03	(.02)
Net income .....	<u>\$ .54</u>	<u>\$1.06</u>	<u>\$3.44</u>
Amounts attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations, net of taxes .....	<b>\$220,584</b>	\$415,093	\$890,941
Loss from discontinued operations, net of taxes .....	<b>(17,945)</b>	(58,968)	(32,348)
Gain (loss) on disposal of discontinued operations, net of taxes .....	<b>1,667</b>	13,115	(4,127)
Net income .....	<u><b>\$204,306</b></u>	<u>\$369,240</u>	<u>\$854,466</u>

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Comprehensive Income (Loss)**

For the years ended December 31, 2014, 2013 and 2012

(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net income .....	<b><u>\$199,025</u></b>	<u>\$ 362,193</u>	<u>\$ 864,641</u>
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on investments arising during the period, net of income tax provision (benefit) of \$(4,923), \$(543) and \$53,903 .....	<b>(8,866)</b>	(979)	97,086
Less: reclassification adjustment for net (gains) losses included in net income (loss), net of income tax provision (benefit) of \$1,631, \$118,292 and \$162,014 .....	<b>(2,939)</b>	<u>(213,058)</u>	<u>(291,807)</u>
Net change in unrealized holding gains (losses) on investments, net of income tax provision (benefit) of \$(6,554), \$(118,835) and \$(108,111) .....	<b>(11,805)</b>	<u>(214,037)</u>	<u>(194,721)</u>
Net unrealized foreign exchange gains (losses) arising during the period, net of income tax provision (benefit) of \$(6,837), \$865 and \$(1,626) .....	<b>(43,307)</b>	22,900	(2,929)
Less: reclassification adjustment for foreign exchange (gains) losses included in net income (loss), net of income tax provision (benefit) of \$149, \$0 and \$0 .....	<b>(267)</b>	—	—
Net change in unrealized foreign exchange gains (losses), net of income tax provision (benefit) of \$(6,986), \$865 and \$(1,626) .....	<b>(43,574)</b>	<u>22,900</u>	<u>(2,929)</u>
Net unrealized gains (losses) on derivatives arising during the period, net of income tax provision (benefit) of \$0, \$(9) and \$(86) .	—	(15)	(154)
Less: reclassification adjustment for derivative (gains) losses included in net income (loss), net of income tax provision (benefit) of \$(95), \$0 and \$0 .....	<b>169</b>	—	—
Net change in unrealized derivative gains (losses), net of income tax provision (benefit) of \$95, \$(9) and \$(86) .....	<b>169</b>	<u>(15)</u>	<u>(154)</u>
Net pension and postretirement gains (losses) arising during the period, net of income tax provision (benefit) of \$(17,698), \$11,685 and \$(6,998) .....	<b>(38,959)</b>	19,274	(12,606)
Less: reclassification adjustment for pension and postretirement (gains) losses included in net income (loss), net of income tax provision (benefit) of \$(1,676), \$(2,665) and \$(1,731) .....	<b>3,201</b>	<u>4,799</u>	<u>3,118</u>
Net change in pension liability and postretirement benefits, net of income tax provision (benefit) of \$(16,022), \$14,350 and \$(5,267) .....	<b>(35,758)</b>	<u>24,073</u>	<u>(9,488)</u>
Other comprehensive loss, net of income taxes .....	<b>(90,968)</b>	<u>(167,079)</u>	<u>(207,292)</u>
Comprehensive income .....	<b>108,057</b>	195,114	657,349
Comprehensive loss attributable to the noncontrolling interests .....	<b>727</b>	1,162	2,060
Comprehensive (income) loss attributable to the redeemable noncontrolling interests .....	<b>8,616</b>	9,282	(12,235)
Preferred stock dividends .....	<b>(4,062)</b>	<u>(3,397)</u>	—
Comprehensive income attributable to Leucadia National Corporation common shareholders .....	<b><u>\$113,338</u></b>	<u>\$ 202,161</u>	<u>\$ 647,174</u>

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**

For the years ended December 31, 2014, 2013 and 2012

(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Net cash flows from operating activities:</b>			
Net income	\$ 199,025	\$ 362,193	\$ 864,641
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Deferred income tax provision	126,885	70,047	484,974
Depreciation and amortization of property, equipment and leasehold improvements	124,977	111,175	96,507
Other amortization	14,767	27,789	73,606
Share-based compensation	109,838	87,309	14,459
Provision for doubtful accounts	69,907	13,945	10,707
Net securities gains	(30,394)	(243,957)	(590,581)
Income related to associated companies	(228,769)	(211,221)	(88,649)
Distributions from associated companies	176,491	137,098	65,461
Net (gains) losses related to real estate, property and equipment, and other assets	(27,784)	94,074	(528,188)
Income related to Fortescue's Pilbara project, net of proceeds received	-	-	107,881
(Gain) loss on disposal of discontinued operations	(12,566)	(10,106)	6,349
Change in estimated litigation reserve	101,710	-	20,000
Net change in:			
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	166,108	113,754	-
Trading assets	(3,223,327)	(383,682)	120,857
Investments in managed funds	(80,247)	2,674	-
Securities borrowed	(1,497,438)	(41,678)	-
Securities purchased under agreements to resell	(200,568)	(156,197)	-
Receivables from brokers, dealers and clearing organizations	11,872	336,263	-
Receivables from customers of securities operations	(349,767)	225	-
Other receivables	(161,415)	(93,690)	(23,358)
Other assets	(107,028)	23,488	(19,078)
Trading liabilities	1,832,930	(2,511,777)	-
Securities loaned	95,607	600,539	-
Securities sold under agreements to repurchase	(84,303)	2,794,412	-
Payables to brokers, dealers and clearing organizations	968,615	(507,722)	-
Payables to customers of securities operations	1,089,423	(249,305)	-
Trade payables, expense accruals and other liabilities	(3,546)	345,345	30,348
Other	(68,163)	(8,655)	(497)
Net cash provided by (used for) operating activities	<u>(987,160)</u>	<u>702,340</u>	<u>645,439</u>
<b>Net cash flows from investing activities:</b>			
Acquisitions of property, equipment and leasehold improvements, and other assets	(598,659)	(137,130)	(71,325)
Acquisitions of and capital expenditures for real estate investments	(2,178)	(28,999)	(7,689)
Proceeds from disposals of real estate, property and equipment, and other assets	52,011	24,400	10,728
Net change in restricted cash	5,000	86	4,816
Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold	223,217	20,997	130,753
Proceeds from redemption of FMG Note	-	-	715,000
Cash acquired upon acquisition of Jefferies Group LLC	-	3,017,958	-
Acquisitions, net of cash acquired	(61,493)	-	(25,232)
Cash paid and cash of real estate operations sold to HomeFed Corporation	(19,730)	-	-
Advances on notes and other receivables	(8,500)	(1,934)	(4,818)
Collections on notes, loans and other receivables	22,002	18,852	31,021
Loans to and investments in associated companies	(2,959,689)	(2,388,540)	(35,964)
Capital distributions and loan repayment from associated companies	2,756,320	2,381,145	51,196
Deconsolidation of asset management entities	(207,965)	-	-
Purchases of investments (other than short-term)	(1,821,635)	(3,789,166)	(2,689,715)
Proceeds from maturities of investments	1,191,349	2,368,734	397,886
Proceeds from sales of investments	1,878,427	1,838,029	1,475,327
Other	606	(810)	1,397
Net cash provided by (used for) investing activities	<u>449,083</u>	<u>3,323,622</u>	<u>(16,619)</u>

The accompanying notes are an integral part of these consolidated financial statements.

(continued)

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Cash Flows**, continued

For the years ended December 31, 2014, 2013 and 2012

(In thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Net cash flows from financing activities:</b>			
Issuance of debt, net of issuance costs	<b>\$1,002,636</b>	\$2,038,226	\$ 1,022
Change in short-term borrowings	—	(88,000)	—
Reduction of debt	<b>(434,278)</b>	(1,894,301)	(572,924)
Net proceeds from other secured financings	<b>470,415</b>	114,711	—
Issuance of common shares	<b>2,190</b>	5,557	—
Cash and cash equivalents of Crimson Wine Group, Ltd., which was spun off	—	(21,042)	—
Net distributions to redeemable noncontrolling interests	<b>(2,765)</b>	(8,073)	(12,722)
Distributions to noncontrolling interests	<b>(7,797)</b>	(355,086)	(3,909)
Contributions from noncontrolling interests	<b>54,259</b>	65,870	1,083
Purchase of common shares for treasury	<b>(75,728)</b>	(40,024)	—
Dividends paid	<b>(93,071)</b>	(91,335)	(61,146)
Other	<b>1,921</b>	2,990	(3,112)
Net cash provided by (used for) financing activities	<b>917,782</b>	(270,507)	(651,708)
Effect of foreign exchange rate changes on cash	<b>(10,525)</b>	6,180	358
Net increase (decrease) in cash and cash equivalents	<b>369,180</b>	3,761,635	(22,530)
Cash and cash equivalents at January 1, including cash classified as assets of discontinued operations	<b>3,907,595</b>	145,960	168,490
Cash and cash equivalents at December 31, including cash classified as assets of discontinued operations	<b>\$4,276,775</b>	\$3,907,595	\$ 145,960
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest	<b>\$1,038,201</b>	\$ 722,695	\$ 103,999
Income tax payments, net	<b>\$ 9,880</b>	\$ 75,925	\$ 37,355
Non-cash investing activities:			
Common stock issued for acquisition of Jefferies Group LLC	\$ —	\$3,385,699	\$ —
Issuance of mandatorily redeemable convertible preferred shares for acquisition of Jefferies Group LLC	\$ —	\$ 125,000	\$ —
Non-cash financing activities:			
Net assets excluding cash and cash equivalents of Crimson Wine Group, Ltd., which was spun off	\$ —	\$ 175,958	\$ —
Issuance of common shares for debt conversion	<b>\$ 97,546</b>	\$ —	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

**Consolidated Statements of Changes in Equity**

For the years ended December 31, 2014, 2013 and 2012

(In thousands, except par value and per share amounts)

	Leucadia National Corporation Common Shareholders						
	Common Shares \$1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Subtotal	Noncontrolling Interests	Total
<b>Balance, January 1, 2012</b> . . . . .	\$244,583	\$1,570,684	\$912,421	\$3,446,708	\$ 6,174,396	\$ 3,865	\$ 6,178,261
Net income . . . . .				854,466	854,466	(2,060)	852,406
Other comprehensive loss, net of taxes . . . . .			(207,292)		(207,292)		(207,292)
Contributions from noncontrolling interests . . . . .					–	1,083	1,083
Distributions to noncontrolling interests . . . . .					–	(3,909)	(3,909)
Change in interest in consolidated subsidiary . . . . .		(1,388)			(1,388)	1,388	–
Share-based compensation expense . . . . .		14,459			14,459		14,459
Change in fair value of redeemable noncontrolling interests . . . . .		(6,227)			(6,227)		(6,227)
Dividends (\$.25 per common share)				(61,146)	(61,146)		(61,146)
<b>Balance, December 31, 2012</b> . . . . .	244,583	1,577,528	705,129	4,240,028	6,767,268	367	6,767,635
Net income . . . . .				369,240	369,240	(1,162)	368,078
Other comprehensive loss, net of taxes . . . . .			(167,079)		(167,079)		(167,079)
Acquisition of Jefferies Group LLC . . . . .	119,363	3,266,336			3,385,699	356,180	3,741,879
Distribution of common shares of Crimson Wine Group, Ltd. to shareholders . . . . .				(197,000)	(197,000)		(197,000)
Contributions from noncontrolling interests . . . . .					–	65,870	65,870
Distributions to noncontrolling interests . . . . .					–	(355,086)	(355,086)
Change in interest in consolidated subsidiary . . . . .		(4,422)			(4,422)	4,422	–
Share-based compensation expense . . . . .		87,309			87,309		87,309
Change in fair value of redeemable noncontrolling interests . . . . .		(16,781)			(16,781)		(16,781)
Exercise of options to purchase common shares, including excess tax benefit . . . . .	184	4,361			4,545		4,545
Purchase of common shares for treasury . . . . .	(1,423)	(38,601)			(40,024)		(40,024)
Dividends (\$.25 per common share)				(93,428)	(93,428)		(93,428)
Other . . . . .	1,834	5,301			7,135		7,135
<b>Balance, December 31, 2013</b> . . . . .	364,541	4,881,031	538,050	4,318,840	10,102,462	70,591	10,173,053
Net income . . . . .				204,306	204,306	(727)	203,579
Other comprehensive loss, net of taxes . . . . .			(90,968)		(90,968)		(90,968)
Contributions from noncontrolling interests . . . . .					–	72,221	72,221
Distributions to noncontrolling interests . . . . .					–	(8,977)	(8,977)
Deconsolidation of asset management entities . . . . .					–	(77,475)	(77,475)
Change in interest in consolidated subsidiary . . . . .		(3,654)			(3,654)	3,654	–
Share-based compensation expense . . . . .		109,838			109,838		109,838
Change in fair value of redeemable noncontrolling interests . . . . .		45,401			45,401		45,401
Issuance of common shares for debt conversion . . . . .	4,606	92,940			97,546		97,546
Exercise of options to purchase common shares, including excess tax benefit . . . . .	36	777			813		813
Purchase of common shares for treasury . . . . .	(2,990)	(72,738)			(75,728)		(75,728)
Dividends (\$.25 per common share)				(95,077)	(95,077)		(95,077)
Other . . . . .	1,306	5,913			7,219	8,577	15,796
<b>Balance, December 31, 2014</b> . . . . .	<u>\$367,499</u>	<u>\$5,059,508</u>	<u>\$447,082</u>	<u>\$4,428,069</u>	<u>\$10,302,158</u>	<u>\$ 67,864</u>	<u>\$10,370,022</u>

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES  
**Notes to Consolidated Financial Statements**

**1. Nature of Operations:**

Leucadia National Corporation (“Leucadia” or the “Company”) is a diversified holding company engaged through its consolidated subsidiaries in a variety of businesses, including investment banking and capital markets (Jefferies Group), asset management (Leucadia Asset Management), beef processing (National Beef Packing Company), manufacturing (Conwed Plastics and Idaho Timber) and oil and gas exploration and production (Juneau Energy and Vitesse Energy). We also own equity interests in businesses which are not consolidated, including, HomeFed Corporation (real estate), Berkadia Commercial Mortgage LLC (commercial mortgage banking and servicing), Harbinger Group Inc. (diversified holding company), Linkem S.p.A. (wireless broadband services provider in Italy), Garcadia (automobile dealerships) and Golden Queen Mining Company, LLC (development of a gold and silver mining project). We continuously review and consider new and add-on acquisitions and investments in businesses, securities and assets. Changes in the scale and mix of our businesses and investments should be expected.

On March 1, 2013, Jefferies Group LLC (“Jefferies”) became our largest wholly-owned subsidiary. Jefferies is a global full-service, integrated securities and investment banking firm. Jefferies shareholders received 0.81 of a share of our common shares for each share of Jefferies common stock they held (the “Exchange Ratio”). Prior to the closing, we owned 58,006,024 common shares of Jefferies, representing approximately 28% of the outstanding common shares of Jefferies. Richard Handler, Chairman and Chief Executive Officer of Jefferies, was appointed the Chief Executive Officer and a Director of Leucadia, and Brian P. Friedman, the Chairman of the Executive Committee of Jefferies, was appointed President and a Director of Leucadia.

Jefferies Finance is our joint venture through Jefferies with Babson Capital Management LLC and Massachusetts Mutual Life Insurance Company. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt of middle market and growth companies in the form of term and revolving loans.

Through Jefferies we also have a 48.5% voting interest in Jefferies LoanCore, a joint venture with the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore originates and purchases commercial real estate loans throughout the United States.

Jefferies has a November 30th fiscal year, which it retains for standalone reporting purposes. We reflect Jefferies in our consolidated financial statements utilizing a one month lag. We have reviewed Jefferies business and internal operating results for the month of December 2014 for the purpose of evaluating whether additional financial statement disclosure or adjustments are required to this Annual Report on Form 10-K, and we have concluded that no additional disclosures or adjustments are warranted.

We own approximately 65% of HomeFed, which owns and develops real estate projects. HomeFed is a public company traded on the NASD OTC Bulletin Board. During 2014, we sold substantially all of our standalone real estate operations to HomeFed; see Notes 11 and 29 for more information.

Berkadia, our 50-50 joint venture with Berkshire Hathaway, originates and brokers commercial real estate loans under various programs and services commercial real estate loans in the U.S.

We own 78.9% of National Beef Packing Company. National Beef processes, packages and markets fresh boxed beef, case-ready beef, beef by-products and wet blue leather for domestic and international markets. National Beef operates two beef processing facilities, three consumer-ready facilities and a wet blue tanning facility, all located in the U.S. National Beef’s products include boxed beef, ground beef, hides, tallow, and other beef and beef by-products. National Beef operates the largest wet blue tanning facility in the world that sells processed hides to tanners that produce finished leather for the automotive, luxury goods, apparel and furniture industries. National Beef owns Kansas City Steak Company, LLC, which sells portioned beef and other products to customers in the food service and retail channels as well as direct to consumers through the internet and direct mail. National Beef also owns a refrigerated and livestock transportation company that provides transportation services for National Beef and third parties.

## Notes to Consolidated Financial Statements, continued

### 1. Nature of Operations, continued:

Conwed Plastics manufactures and markets lightweight plastic netting used for building and construction, erosion and sediment control, packaging, agricultural purposes, carpet padding, filtration, consumer products and other purposes. Conwed Plastics has four domestic manufacturing facilities, and it owns and operates a manufacturing and sales facility in Belgium.

Idaho Timber is engaged in the manufacture and/or distribution of various wood products, including the following principal product lines: remanufacturing dimension lumber; remanufacturing, bundling and bar coding of home center boards for large retailers; and production of pine dimension lumber and 5/4" radius-edge, pine decking. Idaho Timber operates ten facilities located in the U.S.

Juneau Energy, LLC engages in the exploration, development and production of oil and gas from onshore, unconventional resource areas. Juneau currently has interests in acreage in the Oklahoma and Texas Gulf Coast regions. Vitesse Energy, LLC acquires and develops non-operated working and royalty oil and gas interests in the Bakken Shale oil field in North Dakota.

We own approximately 23% of Harbinger, a diversified holding company that operates in four business segments: consumer products, insurance, energy and asset management. Harbinger is a public company traded on the NYSE.

We own approximately 42% of the common shares of Linkem and a convertible note which, if converted, would increase our ownership to approximately 55% of Linkem's common shares. Linkem provides residential broadband services using Wimax and LTE technologies deployed over the 3.5 GHz spectrum band. Linkem operates in Italy, which has few cable television systems and poor broadband alternatives.

Garcadia is a joint venture that owned and operated 26 automobile dealerships in the U.S. as of December 31, 2014.

Golden Queen Mining Company, LLC owns the Soledad Mountain project, a fully-permitted, open pit, heap leach gold and silver project in Kern County, California. We and the Clay family have formed and made contributions to a limited liability company, controlled by us, through which we invested in Golden Queen Mining Company, LLC for the development and operation of the project. Our effective ownership of Golden Queen Mining Company, LLC is approximately 34%.

On February 25, 2013, we distributed to our shareholders the common shares of the Crimson Wine Group, Ltd., a holding company through which we historically conducted our winery operations. The distribution was structured to qualify as a tax-free spin-off for U.S. federal income tax purposes. Our common shareholders on the record date received one share of Crimson common stock for every ten common shares of Leucadia, with cash in lieu of fractional shares. The distribution was a condition to the Jefferies acquisition. As a result, we recorded a dividend of \$197.0 million. Crimson was not reflected as a discontinued operation in our consolidated financial statements as amounts were not significant.

Certain amounts have been reclassified to be consistent with the 2014 presentation.

### 2. Significant Accounting Policies:

The preparation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, we evaluate all of these estimates and assumptions. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, asset impairment, the ability to realize deferred tax assets, the recognition and measurement of uncertain tax positions and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be different from these estimates.



## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

#### *Consolidation*

Our policy is to consolidate all entities in which we can vote 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. We consider special allocations of cash flows and preferences, if any, to determine amounts allocable to noncontrolling interests. All intercompany transactions and balances are eliminated in consolidation.

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 GAAP. We have also formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies and are carried at fair value. Our subsidiaries may 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.

#### *Revenue Recognition Policies*

##### *Beef Processing and Other Operations*

Revenues are recognized when the following conditions are met: (1) collectibility is reasonably assured; (2) title to the product has passed or the service has been rendered and earned; (3) persuasive evidence of an arrangement exists; and (4) there is a fixed or determinable price. National Beef's revenues are recognized based on the terms of the sale, which for beef processing operations is typically upon delivery to customers. Manufacturing revenues are recognized when title passes.

##### *Investment Banking Activities*

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

*Principal Transactions.* Trading assets and trading liabilities are carried at fair value with gains and losses reflected in Principal transactions in the Consolidated Statements of Operations 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 Selling, general and administrative expenses in the Consolidated Statements of Operations.

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

*Interest Revenue and Expense.* Interest expense that is deducted from Revenues to arrive at Net revenues is related to Jefferies operations. Contractual interest on Trading assets and Trading liabilities is recognized on an accrual basis as a component of Interest income and Interest 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 Operations rather than as a component of interest income or expense. Discounts/premiums arising on long-term debt are accreted/amortized to Interest expense using the effective yield method over the remaining lives of the underlying debt obligations. Interest revenue related to Securities borrowed and Securities purchased under agreements to resell activities and interest expense related to Securities loaned and Securities sold under agreements to repurchase activities are recognized 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 LLC, as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In addition, certain financial instruments used for initial and variation margin purposes with clearing and depository organizations are recorded in this caption. Jefferies 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 and Fair Value*

Trading assets and Trading liabilities are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. Gains and losses on trading assets and trading liabilities are recognized in our Consolidated Statements of Operations in Principal transactions. Available for sales securities are reflected at fair value, with unrealized gains and losses reflected as a separate component of equity, net of taxes. When sold, realized gains and losses on available for sale securities are reflected in the caption Net realized securities gains. The cost of securities sold is based on average cost. Fair value 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:

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

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 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.

#### *Jefferies Valuation Process for Financial Instruments*

The Jefferies Independent Price Verification ("IPV") Group, which is part of the Jefferies finance department, in partnership with Jefferies Risk Management, is responsible for establishing Jefferies valuation policies and procedures. The IPV Group and Risk Management, which are independent of business functions, play an important role and serve as a control function in determining that Jefferies 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 Jefferies Global Controller and is subject to the oversight of the IPV Committee, which includes senior members of Jefferies finance department and other personnel. Jefferies independent price verification policies and procedures are reviewed, at a minimum, annually and changes to the policies require the approval of the IPV Committee.

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

*Price Testing Process.* Jefferies business units are responsible for determining the fair value of Jefferies 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 the 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 the 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 the classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists management 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 Jefferies Audit Committee.

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

*Third Party Pricing Information.* Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. Jefferies has a process whereby it challenges 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. Jefferies 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, the 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

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

rates and loss severity. Further, Jefferies considers pricing data from multiple service providers as available as well as compares pricing data to prices observed for recent transactions, if any, in order to corroborate valuation inputs.

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

#### *Investments in Managed Funds*

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

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.

#### *Loans to and Investments in Associated Companies*

Loans to and investments in associated companies include investments in private equity and other operating entities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such investments. Loans to and investments in associated companies are accounted for using the equity method. See Notes 11 and 29 for additional information regarding certain of these investments.

Under the equity method of accounting, our share of the investee’s underlying net income or loss is recorded as Income (loss) related to associated companies, or as part of Other revenues if such investees are considered to be an extension of our business. Income (loss) for investees for which the fair value option was elected is reported as Principal transactions revenues.

#### *Receivables and Provision for Doubtful Accounts*

At December 31, 2014 and 2013, Receivables include receivables from brokers, dealers and clearing organizations of \$2,187.5 million and \$2,181.0 million, respectively, and receivables from customers of securities operations of \$1,250.5 million and \$1,046.9 million, respectively.

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

During the fourth quarter of 2014, Jefferies recognized a bad debt provision, which primarily relates to a receivable of \$52.3 million from a client to which Jefferies provided futures clearing and execution services, which declared bankruptcy.

#### *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, Jefferies borrows 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. Jefferies has an active securities borrowed and lending matched book business in which it borrows securities from one party and lends them to another party. When Jefferies borrows securities, it generally provides cash to the lender as collateral, which is reflected in the Consolidated Statements of Financial Condition as Securities borrowed. Jefferies earns interest revenues on this cash collateral. Similarly, when Jefferies lends securities to another party, that party provides cash to Jefferies as collateral, which is reflected in the Consolidated Statements of Financial Condition as Securities loaned. Jefferies pays 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. Jefferies monitors the fair value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns 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. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis-by counterparty, where permitted by GAAP. The fair value of the underlying securities is monitored 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.

#### *Property, Equipment and Leasehold Improvements*

Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the assets or, if less, the term of the underlying lease.

#### *Impairment of Long-Lived Assets*

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate, in management’s judgment, that the carrying value of such assets may not be recoverable. When testing for impairment, we group our long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (or asset group). The determination of whether an asset group is recoverable is based on management’s estimate of undiscounted future cash flows directly attributable to the asset group as compared to its carrying value. If the carrying amount of the asset group is greater than the undiscounted cash flows, an impairment loss would be recognized for the amount by which the carrying amount of the asset group exceeds its estimated fair value.

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

During the fourth quarter of 2013, after exhausting all opportunities to improve the operating performance of the Brawley beef processing facility, which had been adversely affected by the declining supply of fed cattle available to the plant and fixed cost inefficiencies inherent in a single shift plant, National Beef concluded that this facility would continue to generate losses for the foreseeable future. This resulted in a decision in December 2013 to close the facility in the second quarter of 2014. National Beef plans to hold the plant in “mothballed” status indefinitely. National Beef evaluated the recoverability of the long-lived assets at Brawley, which had an aggregate carrying amount of \$93.2 million at December 31, 2013, and based on its estimate of future undiscounted cash flows concluded that the carrying value was not recoverable and the facility was impaired. In performing this evaluation, National Beef determined that the Brawley facility was the asset group that represented the lowest level of cash flows that were largely independent of the cash flows of other assets and liabilities.

The management of National Beef engaged an independent valuation and appraisal firm to assist in estimating the fair value of the long-lived assets at Brawley. National Beef’s estimate of fair value was based on an orderly liquidation technique, which represents the amount that can be realized in a liquidation sale, given a reasonable period of time to find a purchaser, assuming an as-is where-is condition. In preparing its analysis, National Beef considered current market conditions, replacement cost, as well as the age, physical and functional characteristics of the long-lived assets.

As a result, National Beef concluded that the fair value of the long-lived assets at the Brawley facility was \$29.9 million at December 31, 2013, and recorded an impairment loss of \$63.3 million, which is reflected in Selling, general and other expenses in the Consolidated Statement of Operations for the year ended December 31, 2013. As with any estimate of fair value, future market, regulatory and general economic conditions as well as the obsolescence, future deterioration of, or inability to locate a purchaser should National Beef decide to sell the facility could have a significant effect on their future value.

In addition to the long-lived asset impairment charge, National Beef incurred additional costs relating to the closing of the facility during 2014 of \$6.9 million. These costs include employee separation and retention, systems decommissioning and various other expenses. Of these amounts, \$4.6 million related to employee separation, which is included in Compensation and benefits, and the various other costs are included in Selling, general and other expenses in the Consolidated Statement of Operations.

Excluding the National Beef impairment, we recorded impairment charges in Selling, general and other expenses of \$20.0 million in 2013 and \$4.2 million in 2012; all related to various real estate development projects. Prior to the impairment charges in 2013, these projects had a book value of \$32.3 million; after recognizing the impairment charges the carrying value of the real estate projects was reduced to their estimated fair value of \$12.3 million. Estimates of fair value were principally determined using discounted cash flow analyses and/or current and expected market conditions for the specific geographic area. For the year ended December 31, 2013, impairment charges related to real estate include an out of period adjustment of \$15.4 million to record charges related to prior periods. There were no significant impairment charges in 2014.

Substantially all of our operating businesses sell products or services that are impacted by general economic conditions in the U.S. and to a lesser extent internationally. In recent years general economic conditions reduced the demand for products or services sold by our operating subsidiaries and/or resulted in reduced pricing for products or services. A worsening of current economic conditions could cause a decline in estimated future cash flows expected to be generated by our operations and investments. If future undiscounted cash flows are estimated to be less than the carrying amounts of the asset groups used to generate those cash flows in subsequent reporting periods, particularly for those with large investments in intangible assets, property and equipment and other long-lived assets (for example, Jefferies, National Beef, manufacturing, oil and gas exploration and production and certain associated company investments), impairment charges would have to be recorded.

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

#### *Intangible Assets, Net and Goodwill*

*Intangible Assets.* Intangible assets deemed to have finite lives are generally amortized on a straight-line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. If future undiscounted cash flows are estimated to be less than the carrying amounts of the asset groups used to generate those cash flows in subsequent reporting periods, particularly for those with large investments in amortizable intangible assets, impairment charges would have to be recorded.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment 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. Fair value will be determined using valuation techniques consistent with what a market participant would use. All of our indefinite-lived intangible assets were recognized in connection with the Jefferies acquisition, and our annual impairment testing date is as of August 1.

*Goodwill.* At acquisition, we allocate the cost of a business acquisition to the specific tangible and intangible assets acquired and liabilities assumed based upon their fair values. Significant judgments and estimates are often made by management to determine these values, and may include the use of appraisals, consideration of market quotes for similar transactions, use of discounted cash flow techniques or consideration of other information we believe to be relevant. Any excess of the cost of a business acquisition over the fair values of the net assets and liabilities acquired is recorded as goodwill, which is not amortized to expense. Substantially all of our goodwill was recognized in connection with the Jefferies acquisition.

At least annually, and more frequently if warranted, we will assess whether goodwill has been impaired. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill. The fair values will be based on widely accepted valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating fair value include market capitalization, price-to-book multiples of comparable exchange traded companies, multiples of merger and acquisitions of similar businesses and/or projected cash flows. 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. Our annual goodwill impairment testing date related to Jefferies is as of August 1.

See Note 13 for further information with respect to our impairment charges related to intangible assets during 2014.

#### *Inventories and Cost of Sales*

National Beef's inventories consist primarily of beef products, beef by-products and supplies, and are stated at the lower of cost or market, with cost principally determined under the first-in-first-out method for beef products and average cost for supplies.

Manufacturing inventories are stated at the lower of cost or market, with cost principally determined under the first-in-first-out method. Manufacturing cost of sales principally includes product and manufacturing costs, inbound and outbound shipping costs and handling costs.



## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

#### *Payables, expense accruals and other liabilities*

At December 31, 2014 and 2013, Payables, expense accruals and other liabilities include payables to brokers, dealers and clearing organizations of \$2,280.1 million and \$1,379.2 million, respectively, and payables to customers of securities operations of \$6,242.0 million and \$5,208.8 million, respectively.

#### *Income Taxes*

We record a valuation allowance to reduce our net deferred tax asset to the net amount that is more likely than not to be realized. If in the future we determine that it is more likely than not that we will be able to realize our net deferred tax asset in excess of our net recorded amount, an adjustment to increase the net deferred tax asset would increase income in such period. If in the future we were to determine that we would not be able to realize all or part of our recorded net deferred tax asset, an adjustment to decrease the net deferred tax asset would be charged to income in such period. We are required to consider all available evidence, both positive and negative, and to weight the evidence when determining whether a valuation allowance is required and the amount of such valuation allowance. Generally, greater weight is required to be placed on objectively verifiable evidence when making this assessment, in particular on recent historical operating results.

Our estimate of future taxable income considers all available evidence, both positive and negative, about our operating businesses and investments, includes an aggregation of individual projections for each significant operating business and investment, estimated apportionment factors for state and local taxing jurisdictions and included all future years that we estimate we will have available net operating loss carryforwards (“NOLs”) (until 2029). We believe that our estimate of future taxable income is reasonable but inherently uncertain, and if our current or future operations and investments generate taxable income different than the projected amounts, further adjustments to the valuation allowance are possible. The current balance of the deferred tax valuation allowance principally reserves for NOLs of certain subsidiaries that are not available to offset income generated by other members of the consolidated tax return group.

We also record reserves for unrecognized tax benefits based on our assessment of the probability of successfully sustaining tax filing positions. Interest and penalties, if any, are recorded as components of income tax expense. Management exercises significant judgment when assessing the probability of successfully sustaining tax filing positions, and in determining whether a contingent tax liability should be recorded and if so estimating the amount. If our tax filing positions are successfully challenged, payments could be required that are in excess of reserved amounts or we may be required to reduce the carrying amount of our net deferred tax asset, either of which could be significant to our Consolidated Statement of Financial Condition or results of operations.

#### *Share-based Compensation*

Share-based awards are measured based on the fair value of the award as determined in accordance with GAAP and recognized over the required service or vesting period. The fair value of options and warrants are estimated at the date of grant using the Black-Scholes option pricing model. Expected forfeitures are included in determining share-based compensation expense.

#### *Foreign Currency Translation*

Assets and liabilities of foreign subsidiaries are translated to U.S. dollars using the currency exchange rates at the end of the relevant period. Revenues and expenses are translated at average exchange rates during the period. The effects of exchange rate changes on the translation of the balance sheets, net of hedging gains or losses and taxes, if any, are included in other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income (Loss) and

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

classified as Accumulated other comprehensive income in the Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Equity. Gains or losses resulting from Jefferies foreign currency transactions are included in Principal transactions in the Consolidated Statements of Operations; gains or losses from foreign currency transactions unrelated to Jefferies were not significant.

#### *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 shares and interest on convertible notes 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 earnings per share. Restricted stock and RSUs granted as part of share-based compensation 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*

Jefferies engages 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 Trading assets 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 in the Consolidated Statements of Operations.

When we transfer assets that do not meet the criteria of a sale, the transfer is accounted for as a secured borrowing and we continue to recognize the assets of a secured borrowing, and recognize the associated financing in Other secured financings.

#### *Contingencies*

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 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

## Notes to Consolidated Financial Statements, continued

### 2. Significant Accounting Policies, continued:

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, can be highly subjective and is subject to significant change with the passage of time as more information becomes available. Estimating the ultimate impact of litigation matters is inherently uncertain, in particular because the ultimate outcome will rest on events and decisions of others that may not be within our power to control. We do not believe that any of our current litigation will have a significant adverse effect on our consolidated financial position, results of operations or liquidity; however, if amounts paid at the resolution of litigation are in excess of recorded reserve amounts, the excess could be significant in relation to results of operations for that period. For further information, see Note 26.

### 3. Accounting Developments:

*Income Taxes.* In January 2014, we adopted new Financial Accounting Standards Board (“FASB”) guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or tax credit carryforward, unless such net operating loss carryforward, similar tax loss or tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes resulting from the disallowance of a tax position. In the event that the tax position is disallowed or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit shall be presented in the financial statements as a liability and shall not be combined with deferred tax assets. The adoption of this guidance did not have an impact on our consolidated financial statements.

*Discontinued Operations.* In April 2014, the FASB issued new guidance on the reporting of discontinued operations. The new guidance requires that disposal of a component of an entity or a group of components of an entity be reported as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results, and would require expanded disclosures. This guidance will be effective prospectively within annual periods beginning on or after December 15, 2014.

*Revenue Recognition.* In May 2014, the FASB issued new guidance that defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The core principle of this new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This guidance will be effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact this new guidance will have on our consolidated financial statements to the extent applicable.

*Repurchase Agreements.* In June 2014, the FASB issued new guidance that changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The guidance also requires new disclosures about transfers that are accounted for as sales in transactions that are economically similar to repurchase agreements and increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. This guidance will be effective prospectively for interim and annual periods beginning after December 15, 2014. We do not expect this guidance to significantly affect our consolidated results of operations, financial condition or cash flows and will provide the additional disclosures in our consolidated financial statements.

*Consolidation.* In February 2015, the FASB issued new guidance that amends current consolidation guidance including changes to both the variable and voting interest models used to evaluate whether an entity should be consolidated. This guidance will be effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. We are evaluating the impact this new guidance will have on our consolidated financial statements.

## Notes to Consolidated Financial Statements, continued

### 4. Acquisitions:

Jefferies became a wholly-owned subsidiary on March 1, 2013. Each share of Jefferies common stock was converted at the Exchange Ratio into our common shares, an aggregate of approximately 119,363,000 common shares, and we issued a new series of our 3.25% Cumulative Convertible Preferred Shares (\$125.0 million at mandatory redemption value) in exchange for Jefferies outstanding 3.25% Series A-1 Cumulative Convertible Preferred Stock. In addition, each restricted share of Jefferies common stock and each RSU of Jefferies common stock was converted at the Exchange Ratio into an award of restricted shares or RSUs of Leucadia, with all such awards subject to the same terms and conditions, including, without limitation, vesting and, in the case of performance-based RSUs, performance being measured at existing targets. We did not assume or guarantee any of Jefferies outstanding debt securities, but Jefferies 3.875% Convertible Senior Debentures due 2029 (\$345.0 million principal amount outstanding) are now convertible into our common shares. As specified in the indenture governing such debentures, the debentures are not currently convertible; if the debentures were currently convertible, the conversion price would be \$45.06 per common share.

The Jefferies acquisition was accounted for using the acquisition method of accounting. The aggregate purchase price (\$4,770.6 million) equaled the sum of the fair value of our common shares issued at closing, the fair value of employee stock based awards attributable to periods prior to closing, the fair value of the Jefferies common stock owned by us (\$1.3 billion) and the redemption value of the new series of preferred shares issued at closing, which represents its fair value. The fair values of the Jefferies common stock owned by us and the common shares and employee stock based awards issued were determined by using market prices at closing. Including our investment in Jefferies High Yield Holdings, LLC (“JHYH”), which was contributed to Jefferies capital after the acquisition, our aggregate investment in Jefferies is \$5.5 billion at December 31, 2014.

The following table reflects the allocation of the purchase price to the assets acquired and liabilities assumed at the acquisition date (in thousands):

<b>Assets</b>	
Cash and cash equivalents	\$ 3,017,958
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,728,742
Trading assets	16,413,535
Loans to and investments in associated companies	766,893
Securities borrowed	5,315,488
Securities purchased under agreements to resell	3,578,366
Intangible assets, net	282,852
Goodwill	1,722,591
Deferred tax asset, net	539,384
Other assets	4,386,419
Total assets	<u>39,752,228</u>
<b>Liabilities</b>	
Short-term borrowings	100,000
Trading liabilities	9,766,876
Securities loaned	1,902,687
Securities sold under agreements to repurchase	7,976,492
Payables to customers of securities operations	5,450,781
Trade payables, expense accruals and other liabilities	2,724,136
Mandatorily redeemable preferred interest in JHYH held by Leucadia	358,951
Long-term debt	<u>6,345,536</u>
Total liabilities	<u>34,625,459</u>
Noncontrolling interests	356,180
Net assets acquired	<u>\$ 4,770,589</u>

Notes to Consolidated Financial Statements, continued

4. Acquisitions, continued:

The fair value of Jefferies customer relationships and tradename were estimated using an income approach which calculates the present value of the estimated future net economic benefits of the assets over their estimated remaining life. Replacement cost was used to estimate the fair value of internally developed software and exchange and clearing organization memberships based on the premise that a prudent investor would not pay more for an asset than its replacement cost. The fair values of trading assets and trading liabilities were determined based upon the methodologies disclosed in Note 5 below. The fair value of long-term debt was principally based on prices observed for recently executed market transactions or based on valuations received from third party brokers. The fair value of noncontrolling interests, which principally represented third-party investors in JHYH, and the fair value of mandatorily redeemable preferred interests in JHYH held by us, was the estimated redemption value of those interests, which was based on their share of the underlying net assets in JHYH. JHYH net assets were valued using the methodologies disclosed in Note 5 below. The third-party interests in JHYH have been redeemed and our interest contributed to Jefferies capital. Approximately \$111.5 million of the goodwill recorded at acquisition is deductible for income tax purposes.

Amounts allocated to intangible assets, the amortization period and goodwill were as follows (dollars in thousands):

	Amount	Amortization Years
Customer relationships . . . . .	\$ 136,002	9 to 18 years
Tradenames and related trademarks . . . . .	131,299	35 years
Exchange and clearing organization membership interests and registrations . . . . .	<u>15,551</u>	Indefinite
Subtotal, intangible assets . . . . .	282,852	
Goodwill . . . . .	<u>1,722,591</u>	
Total . . . . .	<u>\$2,005,443</u>	

For the year ended December 31, 2013, we expensed costs related to the acquisition of Jefferies of \$18.5 million.

Presented below for the years ended December 31, 2013 and 2012, are unaudited pro forma operating results assuming the acquisition of Jefferies had occurred on January 1, 2012 (in thousands, except per share amounts):

	2013	2012
Net revenues . . . . .	\$11,083,248	\$12,252,511
Net income attributable to Leucadia National Corporation common shareholders . . . . .	\$ 267,160	\$ 900,044
Basic income per common share attributable to Leucadia National Corporation common shareholders . . . . .	\$.70	\$2.37
Diluted income per common share attributable to Leucadia National Corporation common shareholders . . . . .	\$.70	\$2.33

Pro forma adjustments for Jefferies principally reflect an increase to amortization expenses related to the fair value of amortizable intangible assets, a reduction to interest expense for the amortization of the premium recorded to reflect long-term debt at fair value and to reflect the costs related to the acquisition as if they had occurred in the period beginning January 1, 2012. In addition, the pro forma adjustments reflect the elimination from Net revenues amounts recognized from the application of the fair value option to our investment in Jefferies for periods prior to March 1, 2013, as more fully described in Note 5. For the year ended December 31, 2013, pro forma adjustments include the removal of the deferred tax liability reversal related to our investment in Jefferies for periods prior to March 1, 2013 (\$34.0 million). For the year ended December 31, 2012, pro forma adjustments include the write-off of the deferred tax asset related to our investment in Jefferies that was reflected in our Consolidated Statement of Financial Condition as of December 31, 2011 (\$64.8 million), and the write-off of a portion of our net deferred tax asset for state income taxes resulting from a change in our expected state filing positions (\$12.3 million). The unaudited pro forma data is not indicative of future results of operations or what would have resulted if the acquisitions had actually occurred as of January 1, 2012.

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures:

The following is a summary of our financial instruments, trading liabilities and investments in managed funds that are accounted for at fair value on a recurring basis by level within the fair value hierarchy at December 31, 2014 and 2013 (in thousands):

	December 31, 2014				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Trading assets, at fair value:					
Corporate equity securities . . . . .	\$3,130,892	\$ 226,441	\$ 20,964	\$ –	\$ 3,378,297
Corporate debt securities . . . . .	–	3,342,276	55,918	–	3,398,194
Collateralized debt obligations . . . . .	–	306,218	91,498	–	397,716
U.S. government and federal agency securities . . . . .	2,694,268	81,273	–	–	2,775,541
Municipal securities . . . . .	–	590,849	–	–	590,849
Sovereign obligations . . . . .	1,968,747	790,764	–	–	2,759,511
Residential mortgage-backed securities . . . . .	–	2,879,954	82,557	–	2,962,511
Commercial mortgage-backed securities . . . . .	–	966,651	26,655	–	993,306
Other asset-backed securities . . . . .	–	137,387	2,294	–	139,681
Loans and other receivables . . . . .	–	1,458,760	97,258	–	1,556,018
Derivatives . . . . .	65,145	5,046,278	54,190	(4,759,345)	406,268
Investments at fair value . . . . .	–	73,152	119,212	–	192,364
Physical commodities . . . . .	–	62,234	–	–	62,234
Total trading assets . . . . .	<u>\$7,859,052</u>	<u>\$15,962,237</u>	<u>\$550,546</u>	<u>\$(4,759,345)</u>	<u>\$19,612,490</u>
Available for sale securities:					
Corporate equity securities . . . . .	\$ 89,353	\$ –	\$ –	\$ –	\$ 89,353
Corporate debt securities . . . . .	–	30,403	–	–	30,403
U.S. government securities . . . . .	593,773	–	–	–	593,773
Residential mortgage-backed securities . . . . .	–	606,683	–	–	606,683
Commercial mortgage-backed securities . . . . .	–	43,401	–	–	43,401
Other asset-backed securities . . . . .	–	245,156	–	–	245,156
Total available for sale securities . . . . .	<u>\$ 683,126</u>	<u>\$ 925,643</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,608,769</u>
Cash and cash equivalents . . . . .	\$4,276,775	\$ –	\$ –	\$ –	\$ 4,276,775
Investments in managed funds . . . . .	–	\$ 226,488	\$ 54,982	\$ –	\$ 281,470
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (3) . . . . .	\$3,444,674	\$ –	\$ –	\$ –	\$ 3,444,674
Securities received as collateral . . . . .	\$ 5,418	\$ –	\$ –	\$ –	\$ 5,418

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

	December 31, 2014				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Liabilities:</b>					
Trading liabilities:					
Corporate equity securities . . . . .	\$1,934,469	\$ 74,681	\$ 38	\$ –	\$ 2,009,188
Corporate debt securities . . . . .	–	1,611,994	223	–	1,612,217
Collateralized debt obligations . . . . .	–	4,557	–	–	4,557
U.S. government and federal agency securities . . . . .	2,253,055	–	–	–	2,253,055
Sovereign obligations . . . . .	1,217,075	574,010	–	–	1,791,085
Loans . . . . .	–	856,525	14,450	–	870,975
Derivatives . . . . .	52,778	5,117,803	49,552	(4,856,618)	363,515
Total trading liabilities . . . . .	<u>\$5,457,377</u>	<u>\$ 8,239,570</u>	<u>\$ 64,263</u>	<u>\$(4,856,618)</u>	<u>\$ 8,904,592</u>
Other secured financings . . . . .	\$ –	\$ –	\$ 30,825	\$ –	\$ 30,825
Obligation to return securities received as collateral . . . . .	\$ 5,418	\$ –	\$ –	\$ –	\$ 5,418
	December 31, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
<b>Assets:</b>					
Trading assets, at fair value:					
Corporate equity securities . . . . .	\$1,957,963	\$ 175,493	\$ 9,884	\$ –	\$ 2,143,340
Corporate debt securities . . . . .	–	2,961,857	25,666	–	2,987,523
Collateralized debt obligations . . . . .	–	182,095	37,216	–	219,311
U.S. government and federal agency securities . . . . .	2,293,221	40,389	–	–	2,333,610
Municipal securities . . . . .	–	664,054	–	–	664,054
Sovereign obligations . . . . .	1,458,803	889,685	–	–	2,348,488
Residential mortgage-backed securities . . . . .	–	2,932,268	105,492	–	3,037,760
Commercial mortgage-backed securities . . . . .	–	1,130,410	17,568	–	1,147,978
Other asset-backed securities . . . . .	–	55,475	12,611	–	68,086
Loans and other receivables . . . . .	–	1,203,238	145,890	–	1,349,128
Derivatives . . . . .	40,952	2,472,238	1,493	(2,253,589)	261,094
Investments at fair value . . . . .	–	40	101,242	–	101,282
Physical commodities . . . . .	–	37,888	–	–	37,888
Total trading assets . . . . .	<u>\$5,750,939</u>	<u>\$12,745,130</u>	<u>\$457,062</u>	<u>\$(2,253,589)</u>	<u>\$16,699,542</u>

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

	December 31, 2013				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Available for sale securities:					
Corporate equity securities . . . . .	\$ 252,531	\$ –	\$ –	\$ –	\$ 252,531
Corporate debt securities . . . . .	–	51,163	–	–	51,163
U.S. government securities . . . . .	1,781,266	–	–	–	1,781,266
Residential mortgage-backed securities . . . . .	–	579,162	–	–	579,162
Commercial mortgage-backed securities . . . . .	–	17,985	–	–	17,985
Other asset-backed securities . . . . .	–	184,036	–	–	184,036
Total available for sale securities ..	<u>\$2,033,797</u>	<u>\$ 832,346</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 2,866,143</u>
Cash and cash equivalents . . . . .	\$3,907,595	\$ –	\$ –	\$ –	\$ 3,907,595
Investments in managed funds . . . . .	\$ –	\$ –	\$ 57,285	\$ –	\$ 57,285
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (3) . . . . .	\$3,616,602	\$ –	\$ –	\$ –	\$ 3,616,602
Securities received as collateral . . . . .	\$ 11,063	\$ –	\$ –	\$ –	\$ 11,063
<b>Liabilities:</b>					
Trading liabilities:					
Corporate equity securities . . . . .	\$1,804,392	\$ 40,358	\$ 38	\$ –	\$ 1,844,788
Corporate debt securities . . . . .	–	1,346,078	–	–	1,346,078
U.S. government and federal agency securities . . . . .	1,324,326	–	–	–	1,324,326
Sovereign obligations . . . . .	1,360,269	471,088	–	–	1,831,357
Residential mortgage-backed securities . . . . .	–	34,691	–	–	34,691
Loans . . . . .	–	672,838	22,462	–	695,300
Derivatives . . . . .	43,829	2,480,463	8,398	(2,352,611)	180,079
Physical commodities . . . . .	–	36,483	–	–	36,483
Total trading liabilities . . . . .	<u>\$4,532,816</u>	<u>\$ 5,081,999</u>	<u>\$ 30,898</u>	<u>\$(2,352,611)</u>	<u>\$ 7,293,102</u>
Other secured financings . . . . .	\$ –	\$ 31,000	\$ 8,711	\$ –	\$ 39,711
Obligation to return securities received as collateral . . . . .	\$ 11,063	\$ –	\$ –	\$ –	\$ 11,063

(1) During 2014, equity options presented within Trading assets and Trading liabilities of \$6.1 million and \$6.6 million, respectively, were transferred from Level 1 to Level 2 as adjustments were incorporated into the valuation approach for such contracts to estimate the point within the bid-ask range that meets the best estimate of fair value. During 2013, listed equity options with a fair value of \$403.0 million within Trading assets and \$423.0 million within Trading liabilities were transferred from Level 1 to Level 2 as adjustments to the exchange closing price are necessary to best reflect the fair value of the population at its exit price.

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

(3) Securities comprise U.S. government securities segregated for regulatory purposes with a fair value of \$453.7 million and \$304.2 million at December 31, 2014 and 2013, respectively, and, at December 31, 2014, Commodities Futures Trading Commission (“CFTC”) approved money market funds with a fair value of \$545.0 million.



## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

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

#### *Corporate Equity Securities*

- *Exchange Traded Equity Securities:* Exchange traded equity securities are measured based on quoted closing exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy, otherwise they are categorized within Level 2 or Level 3 of the fair value hierarchy.
- *Non-exchange Traded Equity Securities:* Non-exchange traded equity securities are measured primarily using broker quotations, pricing data from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange traded equity securities are categorized within Level 3 of the fair value hierarchy and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).
- *Equity warrants:* Non-exchange traded equity warrants are generally categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

#### *Corporate Debt Securities*

- *Corporate Bonds:* Corporate bonds are measured primarily using pricing data from external pricing services and broker quotations, where available, prices observed for recently executed market transactions 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.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

#### *Collateralized Debt Obligations*

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

#### *U.S. Government and Federal Agency Securities*

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

#### *Municipal Securities*

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

#### *Sovereign Obligations*

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

#### *Residential Mortgage-Backed Securities*

- *Agency Residential Mortgage-Backed Securities:* Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations and interest-only and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.
- *Agency Residential Interest-Only and Inverse Interest-Only Securities (“Agency Inverse IOs”):* The fair value of Agency Inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency Inverse IOs are categorized within Level 2 or Level 3 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

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

#### *Commercial Mortgage-Backed Securities*

- *Agency Commercial Mortgage-Backed Securities:* Government National Mortgage Association (“GNMA”) project loans are measured based on inputs corroborated from and benchmarked to observed prices of recent securitization transactions of similar securities with adjustments incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. Federal National Mortgage Association (“FNMA”) Delegated Underwriting and Servicing (“DUS”) mortgage-backed securities are generally measured by using prices observed for recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.
- *Non-Agency Commercial Mortgage-Backed Securities:* Non-agency commercial mortgage-backed securities are measured using pricing data obtained from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

#### *Other Asset-Backed Securities*

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

#### *Loans and Other Receivables*

- *Corporate Loans:* Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer’s capital structure.
- *Participation Certificates in Agency Residential Loans:* Valuations of participation certificates in agency residential loans are based on observed market prices of recently executed purchases and sales of similar loans. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions and availability of data provider pricing.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

- *Project Loans and Participation Certificates in GNMA Project and Construction Loans:* Valuations of participation certificates in GNMA project and construction loans are based on inputs corroborated from and benchmarked to observed prices of recent securitizations of assets with similar underlying loan collateral to derive an implied spread. Securitization prices are adjusted to estimate the fair value of the loans incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. The measurements are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.
- *Consumer Loans and Funding Facilities:* Consumer and small business whole loans and related funding facilities are valued based on observed market transactions incorporating additional valuation inputs including, but not limited to, delinquency and default rates, prepayment rates, borrower characteristics, loan risk grades and loan age. These assets are categorized within Level 2 or Level 3 of the fair value hierarchy.
- *Escrow and Trade Claim Receivables:* Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

### Derivatives

- *Listed Derivative Contracts:* Listed derivative contracts that are actively traded are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy. Listed derivatives for which there is limited trading activity are measured based on incorporating the closing auction price of the underlying equity security, use similar valuation approaches as those applied to over-the-counter derivative contracts and are categorized within Level 2 of the fair value hierarchy.
- *OTC Derivative Contracts:* Over-the-counter (“OTC”) derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily categorized within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

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

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

*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 revenues in the Consolidated Statements of Operations.

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

	December 31, 2014		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2) . . . . .	\$146,134	\$ –	Monthly/Quarterly
High Yield Hedge Funds (3) . . . . .	204	–	–
Fund of Funds (4) . . . . .	323	94	–
Equity Funds (5) . . . . .	65,216	26,023	–
Convertible Bond Funds (6) . . . . .	3,355	–	At Will
Multi-strategy Fund (7) . . . . .	105,954	–	–
Total (8) . . . . .	<u>\$321,186</u>	<u>\$26,117</u>	
	December 31, 2013		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2) . . . . .	\$20,927	\$ –	Monthly/Quarterly
High Yield Hedge Funds (3) . . . . .	244	–	–
Fund of Funds (4) . . . . .	494	94	–
Equity Funds (5) . . . . .	66,495	40,816	–
Convertible Bond Funds (6) . . . . .	3,473	–	At Will
Total (8) . . . . .	<u>\$91,633</u>	<u>\$40,910</u>	

- (1) Where fair value is calculated based on net asset value, fair value has been derived from each of the funds' capital statements.
- (2) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At December 31, 2014 and 2013, investments representing approximately 99% and 98%, respectively, of the fair value of investments in this category are

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

redeemable with 30 to 90 days prior written notice, and includes an investment in a private asset management fund managed by us with a fair value of \$117.2 million at December 31, 2014.

- (3) Includes investments in funds that invest in domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. The underlying assets of the funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.
- (4) Includes investments in fund of funds that invest in various private equity funds. At December 31, 2014 and 2013, approximately 95% and 98%, respectively, 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 approximately two years. For the remaining investments, we have requested redemption; however, we are unable to estimate when these funds will be received.
- (5) At December 31, 2014 and 2013, investments representing approximately 99% and 99%, respectively, of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed, instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years. The remaining investments are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.
- (6) 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 five days prior written notice.
- (7) Investment in private asset management fund managed by us that employs a variety of investment strategies and can invest in U.S. and non-U.S. equity and equity related securities, futures, exchange traded funds, fixed income securities, preferred securities, options, forward contracts and swaps. Withdrawals from the fund prior to the first year anniversary of the investment are subject to a 5% withdrawal fee and withdrawals during any calendar quarter are limited to 25% of the fund's net asset value. Both of these restrictions can be waived by us, in our sole discretion.
- (8) Investments at fair value in the Consolidated Statements of Financial Condition at December 31, 2014 and 2013, include \$152.6 million and \$66.9 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

#### *Other Secured Financings*

Other secured financings that are accounted for at fair value include notes issued by consolidated VIEs, which are classified as Level 2 or Level 3 within the fair value hierarchy. Fair value is based on recent transaction prices for similar assets. In addition, at December 31, 2014 and 2013, Other secured financings includes \$7.8 million and \$8.7 million, respectively, related to transfers of loans accounted for as secured financings rather than as sales and classified as Level 3 within the fair value hierarchy.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

#### Pricing Information

Our trading assets and trading liabilities are measured using different valuation bases as follows:

	December 31, 2014		December 31, 2013	
	Trading Assets	Trading Liabilities	Trading Assets	Trading Liabilities
Exchange closing prices . . . . .	16%	20%	12%	25%
Recently observed transaction prices . . .	4%	2%	5%	4%
External pricing services . . . . .	67%	69%	68%	66%
Broker quotes . . . . .	4%	3%	3%	3%
Valuation techniques . . . . .	9%	6%	12%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 year ended December 31, 2014 (in thousands):

	Balance December 31, 2013	Total gains (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances	Net transfers into (out of) Level 3	Balance December 31, 2014	Changes in unrealized gains (losses) relating to instruments still held at December 31, 2014 (1)
<b>Assets:</b>									
<b>Trading assets:</b>									
Corporate equity securities . . . . .	\$ 9,884	\$ 957	\$ 18,138	\$ (12,826)	\$ –	\$ –	\$ 4,811	\$20,964	\$ 2,324
Corporate debt securities . . . . .	25,666	2,546	62,933	(51,094)	–	–	15,867	55,918	16,000
Collateralized debt obligations . . . . .	37,216	(2,303)	179,720	(170,991)	(1,297)	–	49,153	91,498	8,159
U.S. government and federal agency securities . . . . .	–	13	2,505	(2,518)	–	–	–	–	–
Residential mortgage-backed securities . . . . .	105,492	(9,870)	42,632	(61,689)	(1,847)	–	7,839	82,557	(4,679)
Commercial mortgage-backed securities . . . . .	17,568	(4,237)	49,159	(51,360)	(782)	–	16,307	26,655	(2,384)
Other asset-backed securities . . . . .	12,611	1,784	4,987	(18,002)	–	–	914	2,294	1,484
Loans and other receivables . . . . .	145,890	(31,311)	130,169	(92,140)	(60,390)	–	5,040	97,258	(26,864)
Investments at fair value . . . . .	101,242	20,383	34,993	(26,353)	(1,243)	–	(9,810)	119,212	4,726
Investments in managed funds . . . . .	57,285	(13,541)	14,876	(315)	–	–	(3,323)	54,982	(13,541)
<b>Liabilities:</b>									
<b>Trading liabilities:</b>									
Corporate equity securities . . . . .	\$ 38	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 38	\$ –
Corporate debt securities . . . . .	–	(149)	(565)	960	–	–	(23)	223	(8)
Net derivatives (2) . . . . .	6,905	15,055	(24,682)	1,094	322	–	(3,332)	(4,638)	(15,615)
Loans . . . . .	22,462	–	(18,332)	11,338	–	–	(1,018)	14,450	–
Other secured financings . . . . .	8,711	–	–	–	(17,525)	39,639	–	30,825	–

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

(2) Net derivatives represent Trading assets – Derivatives and Trading liabilities – Derivatives.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

During the year ended December 31, 2014, transfers of assets of \$145.0 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of \$30.3 million and commercial mortgage-backed securities of \$16.6 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of \$8.5 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Collateralized debt obligations of \$49.6 million which have little to no transparency related to trade activity;
- Corporate debt securities of \$23.4 million, corporate equity securities of \$9.7 million and investments at fair value of \$5.8 million due to a lack of observable market transactions.

During the year ended December 31, 2014, transfers of assets of \$58.2 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of \$22.4 million for which market trades were observed in the period for either identical or similar securities;
- Loans and other receivables of \$3.5 million and investments at fair value of \$15.6 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate equity securities of \$4.9 million, corporate debt securities of \$7.5 million and investments in managed funds of \$3.5 million due to an increase in observable market transactions.

During the year ended December 31, 2014, there were transfers of loan liabilities of \$1.0 million from Level 3 to Level 2 and transfers of net derivative liabilities of \$3.3 million from Level 3 to Level 2 due to an increase in observable inputs in the valuation and an increase in observable inputs used in the valuing of derivative contracts, respectively.

Net losses on Level 3 assets were \$35.5 million and net losses on Level 3 liabilities were \$6.0 million for the year ended December 31, 2014. Net losses on Level 3 assets were primarily due to a decrease in valuation of certain loans and other receivables, residential and commercial mortgage-backed securities and investments in managed funds, partially offset by increased valuations of certain investments at fair value and corporate debt securities. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivatives.



Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

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 period from the Jefferies acquisition through December 31, 2013 (in thousands):

	Period from the Jefferies Acquisition through December 31, 2013 (3)							
	Beginning Balance	Total gains (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into (out of) Level 3	Ending Balance	Changes in unrealized gains (losses) relating to instruments still held at December 31, 2013 (1)
<b>Assets:</b>								
Trading assets:								
Corporate equity securities . . . . .	\$ 13,234	\$ 1,551	\$ 3,583	\$ (7,141)	\$ –	\$(1,343)	\$ 9,884	\$ (419)
Corporate debt securities . . . . .	31,820	(2,454)	31,014	(34,125)	–	(589)	25,666	(2,749)
Collateralized debt obligations . . . . .	24,736	(2,309)	45,437	(32,874)	–	2,226	37,216	(8,384)
Residential mortgage-backed securities . .	169,426	(4,897)	89,792	(150,807)	(11,007)	12,985	105,492	(6,932)
Commercial mortgage-backed securities . .	17,794	(4,469)	20,130	(13,538)	(100)	(2,249)	17,568	(3,794)
Other asset-backed securities . . . . .	1,292	(4,535)	105,291	(104,711)	–	15,274	12,611	(3,497)
Loans and other receivables . . . . .	170,986	15,008	287,757	(115,231)	(211,805)	(825)	145,890	13,402
Investments at fair value . . . . .	75,067	1,678	28,594	(102)	(5,012)	1,017	101,242	1,705
Investments in managed funds . . .	59,976	9,863	15,651	(17)	(28,188)	–	57,285	9,863
<b>Liabilities:</b>								
Trading liabilities:								
Corporate equity securities . . . . .	\$ 38	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 38	\$ –
Residential mortgage-backed securities . .	1,542	(1,542)	–	–	–	–	–	–
Net derivatives (2) . . .	11,185	4,408	–	(300)	(8,515)	127	6,905	1,609
Loans . . . . .	7,398	2,959	(16,027)	28,065	67	–	22,462	(2,970)

- (1) Realized and unrealized gains (losses) are reported in Principal transactions in the Consolidated Statements of Operations.
- (2) Net derivatives represent Trading assets – Derivatives and Trading liabilities – Derivatives.
- (3) In addition to the above changes in the fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy, during the period from the Jefferies acquisition through December 31, 2013, secured financings of \$8.7 million were issued.

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

#### *Analysis of Level 3 Assets and Liabilities for the Period from the Jefferies Acquisition through December 31, 2013*

During the period from the Jefferies acquisition through December 31, 2013, transfers of assets of \$82.4 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of \$58.8 million and other asset-backed securities of \$16.4 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of \$0.8 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Corporate equity securities of \$2.3 million, corporate debt securities of \$0.2 million and investments at fair value of \$1.0 million due to lack of observable market transactions;
- Collateralized debt obligations of \$2.8 million which have little to no transparency in trade activity.

During the period from the Jefferies acquisition through December 31, 2013, transfers of assets of \$55.9 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of \$45.9 million, commercial mortgage-backed securities of \$2.2 million and other asset-backed securities of \$1.1 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of \$0.6 million and loans and other receivables of \$1.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate equity securities of \$3.6 million and corporate debt securities of \$0.8 million due to an increase in observable market transactions.

During the period from the Jefferies acquisition through December 31, 2013, there were no transfers of liabilities from Level 2 to Level 3 and there were \$0.1 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable inputs used in the valuing of derivative contracts.

Net gains on Level 3 assets were \$9.4 million and net losses on Level 3 liabilities were \$5.8 million for the period from the Jefferies acquisition through December 31, 2013. Net gains on Level 3 assets were primarily due to increased valuations of certain corporate equity securities, loans and other receivables, investments at fair value and investments in managed funds, partially offset by a decrease in valuation of certain corporate debt securities, collateralized debt obligations, residential and commercial mortgage-backed securities and other asset-backed securities. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments and loan positions.

#### ***Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements***

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 ranges of inputs are reflective of the differences in the underlying characteristics of the financial instruments in each category.

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

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.

December 31, 2014

<u>Financial Instruments Owned</u>	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input(s)</u>	<u>Input/Range</u>	<u>Weighted Average</u>
<b>Corporate equity securities</b>	\$19,814				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.4 to 4.7	3.6
		Scenario analysis	Estimated recovery percentage	24%	–
<b>Corporate debt securities</b>	\$22,766	Convertible bond model	Discount rate/yield	32%	–
<b>Collateralized debt obligations</b>	\$41,784	Discounted cash flows	Constant prepayment rate	0% to 20%	13%
			Constant default rate	0% to 2%	2%
			Loss severity	0% to 70%	39%
			Yield	2% to 51%	16%
<b>Residential mortgage-backed securities</b>	\$82,557	Discounted cash flows	Constant prepayment rate	1% to 50%	13%
			Constant default rate	1% to 100%	14%
			Loss severity	20% to 80%	50%
			Yield	3% to 13%	7%
<b>Commercial mortgage-backed securities</b>	\$26,655	Discounted cash flows	Yield	8% to 12%	11%
			Cumulative loss rate	4% to 72%	15%
		Scenario analysis	Estimated recovery percentage	90%	–
<b>Other asset-backed securities</b>	\$2,294	Discounted cash flows	Constant prepayment rate	8%	–
			Constant default rate	3%	–
			Loss severity	70%	–
			Yield	7%	–
<b>Loans and other receivables</b>	\$88,154	Comparable pricing	Comparable loan price	\$100 to \$101	\$100.3
		Market approach	Yield	3% to 5%	4%
			EBITDA (a) multiple	3.4 to 8.2	7.6
		Scenario analysis	Estimated recovery percentage	10% to 41%	36%
<b>Derivatives</b>	\$54,190				
Foreign exchange options		Option model	Volatility	13% to 23%	17%
Commodity forwards		Discounted cash flows	Discount rate	17%	–
Loan commitments		Comparable pricing	Comparable loan price	\$100	–
<b>Investments at fair value</b>					
Private equity securities	\$32,323	Market approach	Transaction Level	\$50	–
		Market approach	Discount rate	15% to 30%	23%

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

December 31, 2014					
<u>Trading Liabilities</u>	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input(s)</u>	<u>Input/Range</u>	<u>Weighted Average</u>
<b>Derivatives</b>	\$49,552				
FX options		Option model	Volatility	13% to 23%	17%
Unfunded commitments		Comparable pricing	Comparable loan price	\$89 to \$100	\$92.0
			Credit spread	45 bps	–
		Market approach	Yield	5%	–
<b>Loans</b>	\$14,450	Comparable pricing	Comparable loan price	\$100	–
<b>Other secured financings</b>	\$30,825	Comparable pricing	Comparable loan price	\$81 to \$100	\$98.7
December 31, 2013					
<u>Financial Instruments Owned</u>	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input(s)</u>	<u>Input/Range</u>	<u>Weighted Average</u>
<b>Corporate equity securities</b>	\$8,034				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	4.0 to 5.5	4.53
Warrants		Option model	Volatility	36%	–
<b>Corporate debt securities</b>	\$17,699	Scenario analysis	Estimated recovery percentage	24%	–
		Comparable pricing	Comparable bond or loan price	\$69.10 to \$70.50	\$69.91
		Market approach	Yield	13%	–
<b>Collateralized debt obligations</b>	\$34,316	Discounted cash flows	Constant prepayment rate	0% to 20%	13%
			Constant default rate	2% to 3%	2%
			Loss severity	30% to 85%	38%
			Yield	3% to 91%	28%
<b>Residential mortgage-backed securities</b>	\$105,492	Discounted cash flows	Constant prepayment rate	2% to 50%	11%
			Constant default rate	1% to 100%	17%
			Loss severity	30% to 90%	48%
			Yield	0% to 20%	7%
<b>Commercial mortgage-backed securities</b>	\$17,568	Discounted cash flows	Yield	12% to 20%	14%
			Cumulative loss rate	5% to 28.2%	11%
<b>Other asset-backed securities</b>	\$12,611	Discounted cash flows	Constant prepayment rate	4% to 30%	17%
			Constant default rate	2% to 11%	7%
			Loss severity	40% to 92%	64%
			Yield	3% to 29%	18%
<b>Loans and other receivables</b>	\$101,931	Comparable pricing	Comparable bond or loan price	\$91 to \$101	\$98.90
		Market approach	Yield	8.75% to 13.5%	10%
			EBITDA (a) multiple	6.9	–
		Scenario analysis	Estimated recovery percentage	16.9% to 92%	74%
<b>Derivatives</b>					
Loan commitments	\$1,493	Comparable pricing	Comparable bond or loan price	\$100.875	–
<b>Investments at fair value</b>					
Private equity securities	\$30,203	Comparable pricing	Comparable share price	\$414	–
		Market approach	Discount rate	15% to 30%	23%

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

December 31, 2013					
<u>Trading Liabilities</u>	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input(s)</u>	<u>Input/Range</u>	<u>Weighted Average</u>
<b>Derivatives</b>					
Equity options	\$8,398	Option model	Volatility	36.25% to 41%	39%
<b>Loans</b>	\$8,106	Comparable pricing	Comparable bond or loan price	\$101.88	–

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

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above table. At December 31, 2014 and 2013, asset exclusions consisted of \$180.0 million and \$127.7 million, respectively, primarily comprised of investments in non-exchange traded securities, private equity securities, investments in reinsurance contracts and certain corporate loans. At December 31, 2014, liability exclusions consisted of \$0.3 million comprised of corporate equity and debt securities. At December 31, 2013, liability exclusions consisted of \$14.4 million of corporate loan commitments.

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

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

- Private equity securities, corporate debt securities, loans and other receivables and loan commitments using comparable pricing valuation techniques. A significant increase (decrease) in the comparable share, bond or loan price in isolation would result in a significant higher (lower) fair value measurement.
- Non-exchange traded securities, corporate debt securities, and loans and other receivables using a market approach valuation technique. A significant increase (decrease) in the EBITDA or other multiples in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the yield of a corporate debt security, loan and other receivable would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the discount rate of a private equity security would result in a significantly lower (higher) fair value measurement.
- Corporate debt securities, and loans and other receivables using scenario analysis. A significant increase (decrease) in the possible recovery rates of the cash flow outcomes underlying the investment would result in a significantly higher (lower) fair value measurement for the financial instrument.
- Collateralized debt obligations, residential and commercial mortgage-backed securities and other asset-backed securities using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, loss severities or cumulative loss rate and discount rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate would have differing impacts depending on the capital structure of the security. A significant increase (decrease) in the loan or bond yield would result in a significant lower (higher) fair value measurement.
- Derivative equity options and equity warrants using an option model. A significant increase (decrease) in volatility would result in a significant higher (lower) fair value measurement.
- Private equity securities using a net asset value technique. A significant increase (decrease) in the discount applied to net asset value would result in a significant (lower) higher fair value measurement.

Notes to Consolidated Financial Statements, continued

5. Fair Value Disclosures, continued:

*Fair Value Option Election*

We have elected the fair value option for all loans and loan commitments made by Jefferies capital markets businesses. These loans and loan commitments include loans entered into by Jefferies investment banking division in connection with client bridge financing and loan syndications, loans purchased by Jefferies 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 Jefferies leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Trading assets and loan commitments are included in Trading assets – Derivatives and Trading liabilities – Derivatives. 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 associated companies and are accounted for on an amortized cost basis. We have also elected the fair value option for certain financial instruments held by Jefferies subsidiaries as the investments are risk managed on a fair value basis. The fair value option has also been elected for certain secured financings that arise in connection with Jefferies securitization activities and other structured financings. Other secured financings, receivables from brokers, dealers and clearing organizations, receivables from customers of securities operations, payables to brokers, dealers and clearing organizations and payables to customers of securities operations, are accounted for at cost plus accrued interest rather than at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

The following is a summary of gains (losses) due to changes in instrument specific credit risk on loans and other receivables and loan commitments measured at fair value under the fair value option for the year ended December 31, 2014 and the period from the Jefferies acquisition through December 31, 2013 (in thousands):

	<u>For the year ended December 31, 2014</u>	<u>For the period from the Jefferies acquisition through December 31, 2013</u>
Financial Instruments Owned:		
Loans and other receivables . . . . .	\$(24,785)	\$15,327
Financial Instruments Sold:		
Loans . . . . .	\$ (585)	\$ (32)
Loan commitments . . . . .	\$(15,459)	\$(1,007)

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):

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Loans and other receivables (1) . . . . .	\$403,119	\$264,896
Loans and other receivables greater than 90 days past due (1)	\$ 5,594	\$ –
Loans and other receivables on nonaccrual status (1) (2) . . .	\$ (22,360)	\$ –

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

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

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

## Notes to Consolidated Financial Statements, continued

### 5. Fair Value Disclosures, continued:

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 or more days past due, was \$274.6 million at December 31, 2014. There were no loan receivables on nonaccrual status at December 31, 2013.

Prior to the completion of the Jefferies acquisition, we elected the fair value option for our investment in Jefferies, commencing on the date Jefferies became subject to the equity method of accounting. The increase in the fair value of our investment in Jefferies prior to the acquisition was \$182.7 million during 2013 and \$301.3 million during 2012. We also elected the fair value option for our investment in Mueller Industries, Inc., which was sold in September 2012. The increase in the fair value of our investment in Mueller was \$30.0 million during 2012. The increases in the fair value of our investments in Jefferies and Mueller are reflected as Principal transactions in the Consolidated Statements of Operations.

We have elected the fair value option for Jefferies investment in KCG Holdings, Inc. The change in the fair value of this investment was \$(14.7) million and \$19.5 million for 2014 and 2013, respectively.

As of December 31, 2014, we owned approximately 46.6 million common shares of Harbinger, representing approximately 23% of Harbinger's outstanding common shares, which are accounted for under the fair value option and included in our Consolidated Statement of Financial Condition at fair value of \$659.9 million. The shares were acquired at an aggregate cost of \$475.6 million. The increase in the fair value during 2014 of our investment in Harbinger aggregated \$119.2 million of which \$99.3 million is included in other merchant banking businesses and \$19.9 million is included in Jefferies results of operations for the period it owned certain of these shares. We currently have two directors on Harbinger's board. We have agreed not to increase our interest in Harbinger above 27.5% through March 17, 2016. The shares have the benefit of a registration rights agreement, and may be otherwise sold consistent with the securities laws; however, we have agreed not to sell the shares to a party if after such sale the party would own in excess of 4.9% of Harbinger common stock.

We believe accounting for these investments at fair value better reflected the economics of these investments, and quoted market prices for these investments provides an objectively determined fair value at each balance sheet date. Our investment in HomeFed is the only other investment accounted for under the equity method of accounting that is also a publicly traded company for which we did not elect the fair value option. HomeFed's common stock is not listed on any stock exchange, and price information for the common stock is not regularly quoted on any automated quotation system. It is traded in the over-the-counter market with high and low bid prices published by the National Association of Securities Dealers OTC Bulletin Board Service; however, trading volume is minimal. For these reasons we did not elect the fair value option for HomeFed.

### 6. Derivative Financial Instruments:

#### *Off-Balance Sheet Risk*

Jefferies has 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 significant effect upon our consolidated financial statements.

Notes to Consolidated Financial Statements, continued

6. Derivative Financial Instruments, continued:

*Derivative Financial Instruments*

Derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Trading assets – Derivatives and Trading liabilities – 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 recognized in Principal transactions in the Consolidated Statements of Operations 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, Jefferies may enter into derivative transactions to satisfy the needs of its clients and to manage its own exposure to market and credit risks resulting from trading activities. (See Notes 5 and 26 for additional disclosures about derivative financial instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with our other trading-related activities. Jefferies manages the risks associated with derivatives on an aggregate basis along with the risks associated with proprietary trading as part of its firm wide risk management policies. In connection with Jefferies derivative activities, Jefferies may enter into International Swaps and Derivative Association, Inc. (“ISDA”) master netting agreements and similar agreements with counterparties. These agreements provide Jefferies 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. See Note 12 for additional information with respect to financial statement offsetting.

The following tables present the fair value and related number of derivative contracts categorized by type of derivative contract as reflected in the Consolidated Statements of Financial Condition at December 31, 2014 and 2013. 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):

	December 31, 2014			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts . . . . .	\$ 2,299,807	71,505	\$ 2,292,691	89,861
Foreign exchange contracts . . . . .	1,514,881	12,861	1,519,349	12,752
Equity contracts . . . . .	1,050,990	2,271,507	1,058,015	2,051,469
Commodity contracts . . . . .	276,726	1,031,568	303,206	1,020,418
Credit contracts: centrally cleared swaps . . . . .	17,831	27	23,264	22
Credit contracts: other credit derivatives . . . . .	5,378	18	23,608	27
Total . . . . .	5,165,613		5,220,133	
Counterparty/cash-collateral netting . . . . .	<u>(4,759,345)</u>		<u>(4,856,618)</u>	
Total per Consolidated Statement of Financial Condition . . . . .	<u>\$ 406,268</u>		<u>\$ 363,515</u>	



Notes to Consolidated Financial Statements, continued

6. Derivative Financial Instruments, continued:

	December 31, 2013			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts . . . . .	\$ 1,165,977	63,967	\$ 1,131,166	77,338
Foreign exchange contracts . . . . .	653,772	118,707	693,658	112,417
Equity contracts . . . . .	501,784	1,742,343	474,985	1,800,603
Commodity contracts . . . . .	141,280	797,529	173,119	788,717
Credit contracts: centrally cleared swaps . . . . .	49,531	49	51,632	46
Credit contracts: other credit derivatives . . . . .	2,339	16	8,130	19
Total . . . . .	2,514,683		2,532,690	
Counterparty/cash-collateral netting . . . . .	(2,253,589)		(2,352,611)	
Total per Consolidated Statement of Financial Condition . . . . .	<u>\$ 261,094</u>		<u>\$ 180,079</u>	

The following table presents unrealized and realized gains (losses) on derivative contracts for the year ended December 31, 2014 and the period from the Jefferies acquisition through December 31, 2013; amounts for the 2012 period were not significant (in thousands):

	For the year ended December 31, 2014	For the period from the Jefferies acquisition through December 31, 2013
Interest rate contracts . . . . .	<u>\$(149,587)</u>	\$132,397
Foreign exchange contracts . . . . .	39,872	5,514
Equity contracts . . . . .	(327,978)	(21,216)
Commodity contracts . . . . .	58,746	45,546
Credit contracts . . . . .	(23,934)	(18,098)
Total . . . . .	<u>\$(402,881)</u>	<u>\$144,143</u>

*OTC Derivatives.* The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities as reflected in the Consolidated Statement of Financial Condition at December 31, 2014 (in thousands):

	OTC Derivative Assets(1)(2)(3)				
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross- Maturity Netting(4)	Total
Commodity swaps, options and forwards . . . . .	\$ 62,275	\$ 6,604	\$ 23,387	\$ (6,249)	\$ 86,017
Credit default swaps . . . . .	–	2,936	–	–	2,936
Equity swaps and options . . . . .	2,291	–	20,128	–	22,419
Total return swaps . . . . .	12,668	1	–	(44)	12,625
Foreign currency forwards, swaps and options . . . . .	277,134	34,344	81	(28,294)	283,265
Interest rate swaps, options and forwards . . . . .	74,804	111,810	158,530	(61,665)	283,479
Total . . . . .	<u>\$429,172</u>	<u>\$155,695</u>	<u>\$202,126</u>	<u>\$(96,252)</u>	690,741
Cross product counterparty netting . . . . .					(19,237)
Total OTC derivative assets included in Trading assets . . . . .					<u>\$671,504</u>

(1) At December 31, 2014, we held exchange traded derivative assets and other credit agreements with a fair value of \$44.5 million, which are not included in this table.

Notes to Consolidated Financial Statements, continued

6. Derivative Financial Instruments, continued:

- (2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received in the Consolidated Statements of Financial Condition. At December 31, 2014 cash collateral received was \$309.7 million.
- (3) Derivative fair values include counterparty netting within product category.
- (4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

	OTC Derivative Liabilities(1)(2)(3)				Total
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross- Maturity Netting(4)	
Commodity swaps, options and forwards . . . . .	\$120,863	\$ 3,105	\$ 5,722	\$ (6,249)	\$123,441
Credit default swaps . . . . .	—	1,220	6,709	—	7,929
Equity swaps and options . . . . .	5,438	38,076	10,414	—	53,928
Total return swaps . . . . .	10,179	277	—	(44)	10,412
Foreign currency forwards, swaps and options . . . .	275,902	40,126	—	(28,294)	287,734
Interest rate swaps, options and forwards . . . . .	58,328	77,487	210,161	(61,665)	284,311
Total . . . . .	<u>\$470,710</u>	<u>\$160,291</u>	<u>\$233,006</u>	<u>\$(96,252)</u>	<u>767,755</u>
Cross product counterparty netting . . . . .					<u>(19,237)</u>
Total OTC derivative liabilities included in Trading liabilities . . . . .					<u>\$748,518</u>

- (1) At December 31, 2014, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$21.9 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 in the Consolidated Statements of Financial Condition. At December 31, 2014, cash collateral pledged was \$406.9 million.
- (3) Derivative fair values include counterparty netting within product category.
- (4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

At December 31, 2014, the counterparty credit quality with respect to the fair value of our OTC derivative assets was as follows (in thousands):

Counterparty credit quality (1):	
A- or higher . . . . .	\$397,655
BBB- to BBB+ . . . . .	59,010
BB+ or lower . . . . .	127,332
Unrated . . . . .	87,507
Total . . . . .	<u>\$671,504</u>

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

## Notes to Consolidated Financial Statements, continued

### 6. Derivative Financial Instruments, continued:

#### *Contingent Features*

Certain of Jefferies derivative instruments contain provisions that require their debt to maintain an investment grade credit rating from each of the major credit rating agencies. If Jefferies 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 Jefferies 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 December 31, 2014 and 2013 is \$269.0 million and \$170.2 million, respectively, for which Jefferies has posted collateral of \$234.6 million and \$127.7 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2014 and 2013, Jefferies would have been required to post an additional \$55.1 million and \$49.4 million, respectively, of collateral to its counterparties.

### 7. Collateralized Transactions:

Jefferies enters into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance trading asset inventory positions, meet customer needs or re-lend as part of dealer operations. Jefferies monitors the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and requests additional collateral or returns excess collateral, as appropriate. Jefferies pledges financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Jefferies 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.

Jefferies receives securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. Jefferies also receives securities as collateral in connection with securities-for-securities transactions in which it is the lender of securities. In many instances, Jefferies is permitted by contract or custom to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending transactions, satisfy margin requirements on derivative transactions or cover short positions. At December 31, 2014 and 2013, the approximate fair value of securities received as collateral by Jefferies that may be sold or repledged was \$25.8 billion and \$21.9 billion, respectively. A substantial portion of these securities have been sold or repledged.

In instances where Jefferies receives securities as collateral in connection with securities-for-securities transactions in which Jefferies is the lender of securities and is permitted to sell or repledge the securities received as collateral, it reports the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At December 31, 2014 and 2013, \$5.4 million and \$11.1 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

### 8. Securitization Activities:

Jefferies engages in securitization activities related to corporate loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. In securitization transactions, Jefferies transfers assets to special purpose entities ("SPEs") and acts as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of the 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, the SPEs are generally not consolidated as Jefferies is not considered the primary beneficiary for these SPEs. Beginning in the third quarter of 2014, another of our subsidiaries utilized an SPE to securitize automobile loans receivable. This SPE is a variable interest entity and our subsidiary is the primary beneficiary; the related assets and the secured borrowings are recognized in the Consolidated Statement of Financial Condition. These secured borrowings do not have recourse to our subsidiary's general credit. See Note 10 for further information on variable interest entities.

Notes to Consolidated Financial Statements, continued

8. Securitization Activities, continued:

Jefferies accounts for securitization transactions as sales provided it has relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in the Consolidated Statements of Operations prior to the identification and isolation for securitization. Subsequently, revenues recognized upon securitization are reflected as net underwriting revenues. Jefferies generally receives cash proceeds in connection with the transfer of assets to an SPE. Jefferies may, however, have continuing involvement with the transferred assets, which is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities in the form of mortgage- and other asset-backed securities or collateralized loan obligations), which are included within Trading assets and are generally initially categorized as Level 2 within the fair value hierarchy. We apply fair value accounting to the securities. If Jefferies has not relinquished control over the transferred assets, the assets continue to be recognized in Trading assets and a corresponding liability is recognized in Other secured financings. The related liabilities do not have recourse to Jefferies general credit.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement during the year ended December 31, 2014 and the period from the Jefferies acquisition through December 31, 2013; there was no activity during 2012 (in millions):

	<u>For the year ended December 31, 2014</u>	<u>For the period from the Jefferies acquisition through December 31, 2013</u>
Transferred assets . . . . .	<b>\$6,112.6</b>	\$4,592.5
Proceeds on new securitizations . . . . .	<b>6,221.1</b>	4,609.0
Cash flows received on retained interests . . . . .	<b>46.3</b>	35.6

Jefferies has no explicit or implicit arrangements to provide additional financial support to these SPEs, has no liabilities related to these SPEs and has no outstanding derivative contracts executed in connection with these securitizations at December 31, 2014 and 2013.

The following table summarizes our retained interests in SPEs where Jefferies transferred assets and has continuing involvement and received sale accounting treatment (in millions):

<u>Securitization Type</u>	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Total Assets</u>	<u>Retained Interests</u>	<u>Total Assets</u>	<u>Retained Interests</u>
U.S. government agency residential mortgage-backed securities . . . . .	<b>\$19,196.9</b>	<b>\$226.9</b>	\$11,518.4	\$281.3
U.S. government agency commercial mortgage-backed securities . . . . .	<b>5,848.5</b>	<b>204.7</b>	5,385.6	96.8
Collateralized loan obligations . . . . .	<b>4,511.8</b>	<b>108.4</b>	728.5	9.0

Total assets represent the unpaid principal amount of assets in the SPEs in which Jefferies has continuing involvement and are presented solely to provide information regarding the size of the transaction and the size of the underlying assets supporting its 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. Jefferies risk of loss is limited to this fair value amount which is included within total Trading assets in our Consolidated Statements of Financial Condition.

Although not obligated, in connection with secondary market-making activities Jefferies may make a market in the securities issued by these SPEs. In these market-making transactions, Jefferies buys these securities from and sells 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 Trading assets. To the extent Jefferies purchased securities through these market-making activities and Jefferies is not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities section presented in Note 10.

Notes to Consolidated Financial Statements, continued

9. Available for Sale Securities:

The amortized cost, gross unrealized gains and losses and estimated fair value of investments classified as available for sale at December 31, 2014 and 2013 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>2014</b>				
Bonds and notes:				
U.S. government securities . . . . .	\$ 593,803	\$ 33	\$ 63	\$ 593,773
Residential mortgage-backed securities . . . .	597,402	10,959	1,678	606,683
Commercial mortgage-backed securities . . .	42,991	484	74	43,401
Other asset-backed securities . . . . .	245,533	619	996	245,156
All other corporates . . . . .	30,519	60	176	30,403
Total fixed maturities . . . . .	<u>1,510,248</u>	<u>12,155</u>	<u>2,987</u>	<u>1,519,416</u>
Equity securities:				
Common stocks:				
Banks, trusts and insurance companies . .	31,853	18,740	-	50,593
Industrial, miscellaneous and all other . . .	20,355	18,405	-	38,760
Total equity securities . . . . .	<u>52,208</u>	<u>37,145</u>	<u>-</u>	<u>89,353</u>
	<u>\$1,562,456</u>	<u>\$ 49,300</u>	<u>\$2,987</u>	<u>\$1,608,769</u>
<b>2013</b>				
Bonds and notes:				
U.S. government securities . . . . .	\$1,781,052	\$ 226	\$ 12	\$1,781,266
Residential mortgage-backed securities . . . .	570,642	9,946	1,426	579,162
Commercial mortgage-backed securities . . .	18,271	13	299	17,985
Other asset-backed securities . . . . .	183,593	627	184	184,036
All other corporates . . . . .	50,933	267	37	51,163
Total fixed maturities . . . . .	<u>2,604,491</u>	<u>11,079</u>	<u>1,958</u>	<u>2,613,612</u>
Equity securities:				
Common stocks:				
First Quantum Minerals Ltd. . . . .	154,281	-	5,616	148,665
Banks, trusts and insurance companies . .	22,980	27,562	-	50,542
Industrial, miscellaneous and all other . . .	21,012	32,312	-	53,324
Total equity securities . . . . .	<u>198,273</u>	<u>59,874</u>	<u>5,616</u>	<u>252,531</u>
	<u>\$2,802,764</u>	<u>\$ 70,953</u>	<u>\$7,574</u>	<u>\$2,866,143</u>

The amortized cost and estimated fair value of investments classified as available for sale at December 31, 2014, by contractual maturity, are shown below. Expected maturities are likely to differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
(In thousands)		
Due within one year . . . . .	\$ 607,208	\$ 607,070
Due after one year through five years . . . . .	17,114	17,106
Due after five years through ten years . . . . .	-	-
Due after ten years . . . . .	-	-
	<u>624,322</u>	<u>624,176</u>
Mortgage-backed and asset-backed securities . . . . .	<u>885,926</u>	<u>895,240</u>
	<u>\$1,510,248</u>	<u>\$1,519,416</u>

## Notes to Consolidated Financial Statements, continued

### 9. Available for Sale Securities, continued:

At December 31, 2014, the unrealized losses on investments which have been in a continuous unrealized loss position for less than 12 months and 12 months or longer were not significant.

During the first quarter of 2013, we exchanged our investment in Inmet Mining Corporation for 18,202,313 shares of First Quantum, valued at \$340.4 million on the date received, and \$391.2 million in cash. We recorded a gain on the transaction of \$227.6 million during 2013. During 2013 and 2014, we sold our interest in First Quantum.

### 10. Variable Interest Entities:

Variable interest entities (“VIEs”) are entities in which equity investors lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has both the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

Our variable interests in VIEs include debt and equity interests, an equity interest in an associated company, commitments, guarantees and certain fees. Our involvement with VIEs arises primarily from the following activities of Jefferies, but also includes other activities discussed below:

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

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

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the

Notes to Consolidated Financial Statements, continued

10. Variable Interest Entities, continued:

design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests.

*Consolidated VIEs*

The following tables present 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 December 31, 2014 and 2013.

<u>(In millions)</u>	<u>Securitization Vehicles</u>	
	<u>2014</u>	<u>2013</u>
Cash .....	\$ .5	\$ –
Financial instruments owned .....	62.7	97.5
Securities purchased under agreement to resell (1) .....	575.2	195.1
Other .....	107.1	2.3
Total assets .....	<u>\$745.5</u>	<u>\$294.9</u>
Other secured financings (2) .....	\$737.0	\$292.5
Other .....	8.5	2.1
Total liabilities .....	<u>\$745.5</u>	<u>\$294.6</u>

- (1) Securities purchased under agreement to resell represent an amount due under a collateralized transaction on a related consolidated entity, which is eliminated in consolidation.
- (2) Approximately \$39.7 million and \$66.5 million of the secured financing represents an amount held by Jefferies in inventory and eliminated in consolidation at December 31, 2014 and 2013, respectively.

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

Jefferies is the primary beneficiary of mortgage-backed financing vehicles to which Jefferies sells agency and non-agency residential and commercial mortgage-backed securities pursuant to the terms of a master repurchase agreement. Jefferies manages the assets within these vehicles. Jefferies variable interests in these vehicles consist of its collateral margin maintenance obligations under the master repurchase agreement. The assets of these VIEs consist of reverse repurchase agreements, which are available for the benefit of the vehicle’s debt holders. The creditors of these VIEs do not have recourse to Jefferies general credit and each such VIE’s assets are not available to satisfy any other debt.

At December 31, 2013, Jefferies was the primary beneficiary of a securitization vehicle to which it transferred a corporate loan and retained a portion of the securities issued by the securitization vehicle. During the second quarter of 2014, the loan was repaid, the securities issued by the securitization vehicle were redeemed and the securitization vehicle was terminated. As a result, the securitization vehicle is no longer consolidated by us at December 31, 2014 and no gain or loss was recognized upon deconsolidation.

At December 31, 2014, another of our subsidiaries is the primary beneficiary of an SPE it utilized to securitize automobile loans receivable. Our subsidiary acts as the servicer for which it receives a fee, and owns the equity interest

Notes to Consolidated Financial Statements, continued

10. Variable Interest Entities, continued:

in this SPE. The notes issued by the SPE are secured solely by the assets of the SPE and do not have recourse to our subsidiary's general credit and the assets of the VIE are not available to satisfy any other debt.

*Nonconsolidated VIEs*

The following tables present information about Jefferies variable interests in nonconsolidated VIEs.

	December 31, 2014		
	Variable Interests		
(In millions)	Financial Statement Carrying Amount (3) Assets	Maximum Exposure to Loss	VIE Assets
Collateralized loan obligations .....	\$134.0	\$ 926.9	\$7,737.1
Consumer loan financing vehicles .....	170.6	797.8	485.2
Asset management vehicles (1) .....	11.3	11.3	432.3
Private equity vehicles (2) .....	44.3	59.2	92.8
Total .....	<u>\$360.2</u>	<u>\$1,795.2</u>	<u>\$8,747.4</u>

	December 31, 2013		
	Variable Interests		
(In millions)	Financial Statement Carrying Amount (3) Assets	Maximum Exposure to Loss	VIE Assets
Collateralized loan obligations .....	\$ 11.9	\$ 88.8	\$1,122.3
Asset management vehicles (1) .....	5.1	5.1	454.2
Private equity vehicles (2) .....	40.8	68.8	89.4
Total .....	<u>\$ 57.8</u>	<u>\$ 162.7</u>	<u>\$1,665.9</u>

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

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

(3) There were no significant liabilities at December 31, 2014 or December 31, 2013.

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

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

- Forward sale agreements whereby we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to CLOs



## Notes to Consolidated Financial Statements, continued

### 10. Variable Interest Entities, continued:

- Warehouse funding arrangements in the form of participation interests in corporate loans held by CLOs and commitments to fund such participation interests
- Trading positions in securities issued in a CLO transaction
- Investments in variable funding notes issued by CLOs
- A guarantee to a CLO managed by Jefferies Finance, whereby we guarantee certain of the obligations of Jefferies Finance to the CLO

In addition, Jefferies owns variable interests in CLOs previously managed by Jefferies. These variable interests consist of debt securities and a right to a portion of the CLOs' management and incentive fees. Jefferies exposure to loss from these CLOs is limited to its investments in the debt securities held. Management and incentive fees are accrued as the amounts become realizable. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured loans and high yield bonds.

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

*Asset Management Vehicles.* Jefferies manages asset management vehicles that provide investors with exposure to investment strategies consistent with the investment objectives of each vehicle. The vehicles consist of an "umbrella structure" company that invests primarily in convertible bonds and a fund that invests in absolute return strategies. Accounting changes to consolidation standards under GAAP have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. These asset management vehicles are subject to the deferral guidance and Jefferies is not the primary beneficiary under the risk and reward model. Jefferies variable interests in these asset management vehicles consist of equity interests, management fees and performance fees.

*Private Equity Vehicles.* On July 26, 2010, Jefferies committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the "SBI USA Fund"). As of December 31, 2014 and 2013, Jefferies funded approximately \$60.1 million and \$47.0 million, respectively, of its commitment. The carrying amount of Jefferies equity investment was \$43.1 million and \$39.2 million at December 31, 2014 and 2013, respectively. Jefferies exposure to loss is limited to its equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

Jefferies has a variable interest in Jefferies Employees Partners IV, LLC ("JEP IV") consisting of an equity investment. The carrying amount of Jefferies equity investment was \$1.2 million and \$1.6 million at December 31, 2014 and 2013, respectively. Jefferies exposure to loss is limited to its equity investment. JEP IV has assets consisting primarily of private equity and equity related investments.

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

**Notes to Consolidated Financial Statements, continued**

**10. Variable Interest Entities, continued:**

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

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

At December 31, 2014 and 2013, Jefferies held \$3,186.9 million and \$3,476.2 million of agency mortgage-backed securities, respectively, and \$1,120.0 million and \$985.0 million of nonagency mortgage- and other asset-backed securities, respectively, as a result of its secondary trading and market-making activities, underwriting, placement and structuring activities and resecuritization activities. Jefferies maximum exposure to loss on these securities is limited to the carrying value of its investments in these securities. Mortgage- and other asset-backed securitization vehicles discussed within this section are not included in the above table containing information about Jefferies variable interests in nonconsolidated VIEs.

We also have a variable interest in a nonconsolidated VIE consisting of our equity interest in an associated company, Golden Queen Mining Company, LLC. See Note 11 for further discussion.

**11. Loans to and Investments in Associated Companies:**

A summary of loans to and investments in associated companies at December 31, 2014 and 2013 accounted for under the equity method of accounting is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Jefferies Finance, LLC . . . . .	\$ 508,891	\$ 470,537
Jefferies LoanCore LLC . . . . .	258,947	224,037
Berkadia . . . . .	208,511	182,573
Garcadia companies . . . . .	167,939	120,017
HomeFed . . . . .	271,782	52,923
Linkem S.p.A. . . . .	159,054	173,577
Golden Queen Mining Company, LLC (1) . . . . .	103,598	-
Other . . . . .	33,846	34,677
Total . . . . .	<u>\$1,712,568</u>	<u>\$1,258,341</u>

(1) As discussed below, at December 31, 2014, the balance reflects \$34.1 million from a noncontrolling interest.

Notes to Consolidated Financial Statements, continued

11. Loans to and Investments in Associated Companies, continued:

Income (losses) related to associated companies includes the following for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Berkadia . . . . .	<b>\$101,187</b>	\$ 84,678	\$ 38,026
Garcadia companies . . . . .	<b>49,416</b>	39,399	31,738
Linkem . . . . .	<b>(14,633)</b>	(22,719)	(18,890)
HomeFed . . . . .	<b>3,150</b>	3,539	1,891
JHYH . . . . .	-	7,178	33,938
Other . . . . .	<b>(593)</b>	6,966	1,946
Total . . . . .	<b><u>\$138,527</u></b>	<u>\$119,041</u>	<u>\$ 88,649</u>

For the year ended December 31, 2013, our share of Berkadia’s income includes an out of period adjustment of \$16.4 million to record income related to prior periods.

Income (losses) related to associated companies classified as Other revenues includes the following for the years ended December 31, 2014 and 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Jefferies Finance . . . . .	<b>\$72,701</b>	\$57,795
Jefferies LoanCore . . . . .	<b>18,793</b>	35,300
Other . . . . .	<b>(1,252)</b>	(915)
Total . . . . .	<b><u>\$90,242</u></b>	<u>\$92,180</u>

*Jefferies Finance*

In October 2004, Jefferies 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 also originates 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.

Jefferies and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million. At December 31, 2014, approximately \$496.0 million of Jefferies commitment was funded. The investment commitment is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party.

In addition, Jefferies and MassMutual have entered into a 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 total committed Secured Revolving Credit Facility is \$1.0 billion, comprised of committed and discretionary advances totaling \$700.0 million and \$300.0 million, respectively, at December 31, 2014. Committed advances are shared equally between Jefferies and MassMutual but discretionary advances may be funded in unequal amounts if agreed between MassMutual and Jefferies. The facility is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party. At December 31, 2014 and 2013, \$0 million and \$123.8 million, respectively, of Jefferies \$350.0 million commitment was funded.

## Notes to Consolidated Financial Statements, continued

### 11. Loans to and Investments in Associated Companies, continued:

Jefferies engages in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, Jefferies earned net underwriting fees of \$199.5 million and \$125.8 million during 2014 and 2013, respectively, which are recognized in Investment banking revenues in the Consolidated Statements of Operations. In addition, Jefferies paid fees to Jefferies Finance regarding certain loans originated by Jefferies Finance of \$10.6 million and \$12.0 million during 2014 and 2013, respectively, which are recognized within Selling, general and other expenses in the Consolidated Statements of Operations.

During the years ended December 31, 2014 and 2013, Jefferies acted as placement agent in connection with CLOs managed by Jefferies Finance, for which Jefferies recognized fees of \$4.6 million and \$1.9 million, respectively, which are included in Investment banking revenues in the Consolidated Statements of Operations. As part of the transaction, Jefferies purchased securities issued by the CLOs, which are included within Trading assets, and provided a guarantee, whereby Jefferies is required to make payments to a CLO in the event Jefferies Finance is unable to meet its obligation to the CLO. Additionally, Jefferies has entered into a derivative contract with Jefferies Finance whose underlying is based on certain securities issued by the CLO. There were no significant revenues recognized by Jefferies in connection with its roles related to the execution of the CLO.

During 2014 and the 2013 period, Jefferies acted as underwriter in connection with senior notes issued by Jefferies Finance, for which Jefferies recognized net underwriting fees of \$7.7 million and \$6.0 million, respectively, which are included in Investment banking revenues in the Consolidated Statements of operations.

Under a service agreement, Jefferies charged Jefferies Finance \$41.6 million and \$14.2 million for services provided during 2014 and 2013, respectively. Receivables from Jefferies Finance, included within Other assets in the Consolidated Statements of Financial Condition, were \$41.5 million and \$31.1 million at December 31, 2014 and 2013, respectively.

#### *Jefferies LoanCore*

In February 2011, Jefferies entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. Jefferies LoanCore originates and purchases commercial real estate loans throughout the United States with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$600.0 million. At December 31, 2014 and 2013, Jefferies has funded \$200.9 million and \$175.5 million, respectively, of its \$291.0 million equity commitment and has a 48.5% voting interest in Jefferies LoanCore.

#### *Berkadia*

Berkadia Commercial Mortgage LLC is a commercial mortgage banking and servicing joint venture formed in 2009 with Berkshire Hathaway. We and Berkshire Hathaway each contributed \$217.2 million of equity capital to the joint venture and each have a 50% equity interest in Berkadia. Through December 31, 2014, cumulative cash distributions received from this investment aggregated \$303.8 million. Berkadia originates commercial/multifamily real estate loans that are sold to U.S. government agencies, and originates and brokers commercial mortgage loans which are not part of government agency programs. Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other financial institutions.

Berkadia uses all of the proceeds from the commercial paper sales of an affiliate of Berkadia to fund new mortgage loans, servicer advances, investments and other working capital requirements. Repayment of the commercial paper is supported by a \$2.5 billion surety policy issued by a Berkshire Hathaway insurance subsidiary and corporate guaranty,

## Notes to Consolidated Financial Statements, continued

### 11. Loans to and Investments in Associated Companies, continued:

and we have agreed to reimburse Berkshire Hathaway for one-half of any losses incurred thereunder. As of December 31, 2014, the aggregate amount of commercial paper outstanding was \$2.47 billion.

#### *Linkem*

We have acquired approximately 42% of the common shares of Linkem, a fixed wireless broadband services provider in Italy, for aggregate cash consideration of \$142.9 million. In addition, we have purchased 5% convertible notes issued by Linkem for \$95.2 million (€72.7 million principal amount, including interest in kind) which if converted, would increase our ownership to approximately 55% of Linkem's common equity. The excess of our investment in Linkem's common shares over our share of underlying book value is being amortized to expense over 12 years.

#### *HomeFed*

At December 31, 2014, we own 9,974,226 shares of HomeFed's common stock, representing approximately 65% of HomeFed's outstanding common shares; however, we have agreed to limit our voting rights such that we will not be able to vote more than 45% of HomeFed's total voting securities voting on any matter, assuming all HomeFed shares not owned by us are voted. HomeFed is engaged, directly and through subsidiaries, in the investment in and development of real estate projects. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD). As a result of a 1998 distribution to all of our shareholders, approximately 4.8% of HomeFed is beneficially owned by our Chairman at December 31, 2014. Our Chairman also serves as HomeFed's Chairman, and our President is a Director of HomeFed.

During 2014, we sold to HomeFed substantially all of our real estate properties and operations, our interest in Brooklyn Renaissance Plaza ("BRP") and cash of approximately \$14.0 million, in exchange for 7,500,000 newly issued unregistered HomeFed common shares.

Since we do not control HomeFed, our investment in HomeFed is accounted for as an investment in an associated company. We have also entered into a stockholders agreement that will limit our ability to increase our interest in HomeFed or dispose of our interest in HomeFed. We have a registration rights agreement with HomeFed that covers all of our HomeFed shares. See Note 30 for more information about the assets sold to HomeFed.

Under GAAP, we are not permitted to immediately recognize any gain on real estate sale transactions in which the seller does not receive cash; accordingly the gain on sale of approximately \$36.1 million was deferred and is being recognized into income over time. The new HomeFed shares received were recorded at fair value, which we estimated to be \$28.76 per share, based on projections of future cash flows for HomeFed's underlying projects, discounted at a risk adjusted rate.

#### *Golden Queen Mining Company*

During 2014, we invested \$70.9 million, net in cash in a limited liability company (Gauss LLC) to partner with the Clay family and Golden Queen Mining Co. Ltd., to jointly fund, develop and operate the Soledad Mountain gold and silver mine project. Previously 100% owned by Golden Queen Mining Co. Ltd., the project is a fully-permitted, open pit, heap leach gold and silver project located in Kern County, California. Construction has started on site and commissioning is planned for late 2015. In exchange for a noncontrolling ownership interest in Gauss LLC, the Clay family contributed \$34.1 million, net in cash. Gauss LLC invested both our and the Clay family's net contributions totaling \$105 million to the joint venture, Golden Queen Mining Company, LLC, in exchange for a 50% ownership interest. Golden Queen Mining Co. Ltd. contributed the Soledad Mountain project to the joint venture in exchange for the other 50% interest.

**Notes to Consolidated Financial Statements, continued**

**11. Loans to and Investments in Associated Companies, continued:**

As a result of our consolidating Gauss LLC, our Loans to and investments in associated companies reflects Gauss LLC's net investment of \$105 million in the joint venture, which includes both the amount we contributed and the amount contributed by the Clay family. The joint venture, Golden Queen Mining Company, LLC, is considered a VIE as the voting rights of the investors are not proportional to their obligations to absorb the expected losses and their rights to receive the expected residual returns, given the provision of services to the joint venture by Golden Queen Mining Co. Ltd. Golden Queen Mining Co. Ltd. has entered into an agreement with the joint venture for the provision of executive officers, financial, managerial, administrative and other services, and office space and equipment. We have determined that we are not the primary beneficiary of the joint venture and are therefore not consolidating its results.

We have committed to invest during the nine months after our initial investment up to an additional approximately \$27 million to fully develop the project.

Our maximum exposure to loss as a result of our involvement with the joint venture is limited to our investment and the commitment discussed above.

*JHYH*

Under GAAP, JHYH was considered a variable interest entity that was consolidated by Jefferies, since Jefferies was the primary beneficiary. In connection with the Jefferies acquisition, we contributed our investment in JHYH to Jefferies, other third-party investors were redeemed and JHYH was effectively dissolved.

The following table provides summarized data for associated companies as of December 31, 2014 and 2013 and for the three years ended December 31, 2014 (in thousands):

	<u>2014</u>	<u>2013</u>	
Assets . . . . .	<b>\$12,683,212</b>	\$8,852,807	
Liabilities . . . . .	<b>9,350,034</b>	6,292,252	
Noncontrolling interest . . . . .	<b>12,718</b>	11,491	
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues . . . . .	<b>\$3,201,823</b>	\$2,710,205	\$1,995,858
Income from continuing operations before extraordinary items . . . . .	<b>\$ 431,654</b>	\$ 428,509	\$ 255,038
Net income . . . . .	<b>\$ 431,654</b>	\$ 434,969	\$ 255,038
The Company's income related to associated companies . . . . .	<b>\$ 228,769</b>	\$ 211,221	\$ 88,649

Except for our investment in Berkadia, we have not provided any guarantees, nor are we contingently liable for any of the liabilities reflected in the above table. All such liabilities are non-recourse to us. Our exposure to adverse events at the investee companies is limited to the book value of our investment.

Included in consolidated retained earnings at December 31, 2014 is approximately \$123.4 million of undistributed earnings of the associated companies accounted for under the equity method of accounting.

**12. Financial Statement Offsetting:**

In connection with Jefferies derivative activities and securities financing activities, Jefferies may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to: derivative transactions – ISDA master netting agreements; securities lending transactions – master securities lending agreements; and repurchase transactions – master repurchase

Notes to Consolidated Financial Statements, continued

12. Financial Statement Offsetting, continued:

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

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

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

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

The following table provides information regarding derivative contracts, repurchase agreements and securities borrowing and lending arrangements that are recognized in the Consolidated Statements of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our consolidated financial position.

(In thousands)	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
<b>Assets at December 31, 2014</b>						
Derivative contracts . . . . .	\$ 5,165,613	\$ (4,759,345)	\$ 406,268	\$ -	\$ -	\$ 406,268
Securities borrowing arrangements . . .	\$ 6,853,103	\$ -	\$ 6,853,103	\$(680,222)	\$(1,274,196)	\$4,898,685
Reverse repurchase agreements . . . . .	\$14,059,133	\$(10,132,275)	\$ 3,926,858	\$(634,568)	\$(3,248,817)	\$ 43,473
<b>Liabilities at December 31, 2014</b>						
Derivative contracts . . . . .	\$ 5,220,133	\$ (4,856,618)	\$ 363,515	\$ -	\$ -	\$ 363,515
Securities lending arrangements . . . . .	\$ 2,598,487	\$ -	\$ 2,598,487	\$(680,222)	\$(1,883,140)	\$ 35,125
Repurchase agreements . . . . .	\$20,804,432	\$(10,132,275)	\$10,672,157	\$(634,568)	\$(8,810,770)	\$1,226,819

Notes to Consolidated Financial Statements, continued

12. Financial Statement Offsetting, continued:

<u>(In thousands)</u>	<u>Gross Amounts</u>	<u>Netting in Consolidated Statement of Financial Condition</u>	<u>Net Amounts in Consolidated Statement of Financial Condition</u>	<u>Additional Amounts Available for Setoff (1)</u>	<u>Available Collateral (2)</u>	<u>Net Amount (3)</u>
<b>Assets at December 31, 2013</b>						
Derivative contracts . . . . .	\$ 2,514,683	\$(2,253,589)	\$ 261,094	\$ –	\$ –	\$ 261,094
Securities borrowing arrangements . . .	\$ 5,359,846	\$ –	\$ 5,359,846	\$(530,293)	\$(957,140)	\$3,872,413
Reverse repurchase agreements . . . . .	\$12,715,449	\$(8,968,529)	\$ 3,746,920	\$(590,754)	\$(3,074,540)	\$ 81,626
<b>Liabilities at December 31, 2013</b>						
Derivative contracts . . . . .	\$ 2,532,690	\$(2,352,611)	\$ 180,079	\$ –	\$ –	\$ 180,079
Securities lending arrangements . . . . .	\$ 2,506,122	\$ –	\$ 2,506,122	\$(530,293)	\$(1,942,271)	\$ 33,558
Repurchase agreements . . . . .	\$19,748,374	\$(8,968,529)	\$10,779,845	\$(590,754)	\$(8,748,641)	\$1,440,450

- (1) Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other provisions of U.S. GAAP are not met. Further, for derivative assets and liabilities, amounts netted include cash collateral paid or received.
- (2) Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.
- (3) At December 31, 2014, amounts include \$4,847.4 million of securities borrowing arrangements, for which we have received securities collateral of \$4,694.0 million, and \$1,201.9 million of repurchase agreements, for which we have pledged securities collateral of \$1,238.4 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable. At December 31, 2013, amounts include \$3,818.4 million of securities borrowing arrangements, for which we have received securities collateral of \$3,721.8 million, and \$1,410.0 million of repurchase agreements, for which we have pledged securities collateral of \$1,438.9 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable.



## Notes to Consolidated Financial Statements, continued

### 13. Intangible Assets, Net and Goodwill:

A summary of intangible assets, net and goodwill at December 31, 2014 and 2013 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Indefinite-lived intangibles:		
Exchange and clearing organization membership interests and registrations	\$ 14,528	\$ 14,916
Amortizable intangibles:		
Customer and other relationships, net of accumulated amortization of \$155,548 and \$117,139	493,501	502,409
Trademarks and tradename, net of accumulated amortization of \$47,101 and \$30,213	347,883	364,779
Supply contracts, net of accumulated amortization of \$30,433 and \$20,162	119,562	129,833
Licenses, net of accumulated amortization of \$110 and \$4,100	–	7,928
Other, net of accumulated amortization of \$4,703 and \$4,500	2,900	664
Total intangible assets, net	<u>978,374</u>	<u>1,020,529</u>
Goodwill:		
National Beef	14,991	14,991
Jefferies	1,718,847	1,724,557
Other operations	8,551	8,551
Total goodwill	<u>1,742,389</u>	<u>1,748,099</u>
Total intangible assets, net and goodwill	<u>\$2,720,763</u>	<u>\$2,768,628</u>

In connection with Conwed's acquisitions during 2014 for an aggregate purchase price of \$47.2 million, subject to working capital adjustment, intangibles increased by \$41.7 million, which was primarily allocated to customer relationships (\$38.4 million), and which will be amortized over a weighted-average life of 14 years.

Amortization expense on intangible assets was \$66.2 million, \$74.8 million and \$53.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2015 – \$64.5 million; 2016 – \$63.0 million; 2017 – \$63.1 million; 2018 – \$63.3 million; and 2019 – \$63.1 million.

#### *Goodwill Impairment Testing*

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

#### *Intangible Assets Impairment Testing*

We performed our annual impairment testing of Jefferies indefinite-life intangible assets, which consists of exchange and clearing organization membership interests and registrations, as of August 1, 2014. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices, and a qualitative assessment of the remainder of Jefferies intangible assets. Our quantitative assessment resulted in an insignificant impairment loss on certain exchange memberships based on quoted sales prices. With regard to our qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions,

Notes to Consolidated Financial Statements, continued

**13. Intangible Assets, Net and Goodwill, continued:**

the utilization of the assets and the replacement costs associated with the assets, we concluded that it is not more likely than not that the intangible assets are impaired.

As a result of Jefferies management's decisions during the fourth quarter of 2014 to pursue strategic alternatives for Jefferies Futures business and to liquidate Jefferies International Asset Management business, Jefferies performed additional impairment testing of indefinite- and finite-life intangible assets that are associated with those reporting units. Estimating the fair value of customer relationship intangible assets using a discounted cash flow methodology, Jefferies recognized impairment losses at November 30, 2014 of \$7.5 million and \$0.1 million in the Futures business and the International Asset Management business, respectively, which are recognized in Selling, general and other expenses in the Consolidated Statements of Operations.

**14. Inventory:**

A summary of inventory at December 31, 2014 and 2013 which is classified as Other assets is as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Finished goods . . . . .	<b>\$343,959</b>	\$273,291
Work in process . . . . .	<b>40,951</b>	34,701
Raw materials, supplies and other . . . . .	<b>37,993</b>	56,334
	<u><b>\$422,903</b></u>	<u>\$364,326</u>

**15. Property, Equipment and Leasehold Improvements, Net:**

A summary of property, equipment and leasehold improvements, net at December 31, 2014 and 2013 is as follows (in thousands):

	Depreciable Lives (in years)	<u>2014</u>	<u>2013</u>
Land, buildings and leasehold improvements . . . . .	1-45	<b>\$ 321,098</b>	\$ 510,717
Beef processing machinery and equipment . . . . .	2-15	<b>283,360</b>	243,026
Other machinery and equipment . . . . .	3-15	<b>110,075</b>	157,164
Corporate aircraft . . . . .	10	<b>104,780</b>	104,780
Furniture, fixtures and office equipment . . . . .	2-10	<b>283,436</b>	210,916
Construction in progress . . . . .	N/A	<b>40,788</b>	69,717
Other . . . . .	3-10	<b>4,598</b>	3,316
		<u><b>1,148,135</b></u>	<u>1,299,636</u>
Accumulated depreciation and amortization . . . . .		<u><b>(421,759)</b></u>	<u>(413,777)</u>
		<u><b>\$ 726,376</b></u>	<u>\$ 885,859</u>

Property, equipment and leasehold improvements, net related to Premier were \$229.0 million at December 31, 2013. In July 2014, Premier was sold.

**16. Short-Term Borrowings:**

Short-term borrowings represent Jefferies bank loans 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 trading assets or clearing related balances, but are not part of Jefferies systemic funding model. At December 31, 2014 and 2013, \$12.0 million and \$12.0 million, respectively, was outstanding, all of which was secured financing.

Notes to Consolidated Financial Statements, continued

17. Long-Term Debt:

The principal amount (net of unamortized discounts and premiums), stated interest rate and maturity date of outstanding debt at December 31, 2014 and 2013 are as follows (dollars in thousands):

	<u>2014</u>	<u>2013</u>
Parent Company Debt:		
Senior Notes:		
8.125% Senior Notes due September 15, 2015, \$458,641 principal .....	\$ 457,723	\$ 456,515
5.50% Senior Notes due October 18, 2023, \$750,000 principal .....	740,748	739,960
6.625% Senior Notes due October 23, 2043, \$250,000 principal .....	246,991	246,958
Subordinated Notes:		
3.75% Convertible Senior Subordinated Notes due April 15, 2014, \$97,581 principal .....	—	97,581
Total long-term debt – Parent Company .....	<u>1,445,462</u>	<u>1,541,014</u>
Subsidiary Debt (non-recourse to Parent Company):		
Jefferies:		
5.875% Senior Notes, due June 8, 2014, \$250,000 principal .....	—	255,676
3.875% Senior Notes, due November 9, 2015, \$500,000 principal .....	507,944	516,204
5.5% Senior Notes, due March 15, 2016, \$350,000 principal .....	363,229	373,178
5.125% Senior Notes, due April 13, 2018, \$800,000 principal .....	842,359	854,011
8.5% Senior Notes, due July 15, 2019, \$700,000 principal .....	832,797	858,425
2.375% Euro Senior Notes, due May 20, 2020, \$622,175 principal .....	620,725	—
6.875% Senior Notes, due April 15, 2021, \$750,000 principal .....	853,091	866,801
2.25% Euro Medium Term Notes, due July 13, 2022, \$4,977 principal ....	4,379	4,792
5.125% Senior Notes, due January 20, 2023, \$600,000 principal .....	623,311	625,626
6.45% Senior Debentures, due June 8, 2027, \$350,000 principal .....	381,515	383,224
3.875% Convertible Senior Debentures, due November 1, 2029, \$345,000 principal .....	348,568	349,707
6.25% Senior Debentures, due January 15, 2036, \$500,000 principal .....	513,046	513,343
6.50% Senior Notes, due January 20, 2043, \$400,000 principal .....	421,960	422,245
Secured credit facility, due June 26, 2017 .....	170,000	200,000
National Beef Term Loan .....	345,000	375,000
National Beef Revolving Credit Facility .....	135,144	—
Other .....	119,399	41,619
Total long-term debt – subsidiaries .....	<u>7,082,467</u>	<u>6,639,851</u>
Long-term debt .....	<u>\$8,527,929</u>	<u>\$8,180,865</u>

At December 31, 2014, \$1.7 billion of consolidated assets (primarily inventory, receivables and property and equipment) are pledged for indebtedness aggregating \$769.5 million, principally for amounts due under National Beef's term loan and credit facility and Jefferies secured credit facility.

The aggregate annual mandatory redemptions of all long-term debt during the five year period ending December 31, 2019 are as follows: 2015 – \$1,032.2 million; 2016 – \$408.0 million; 2017 – \$202.3 million; 2018 – \$1,182.5 million; and 2019 – \$702.4 million.

*Parent Company Debt:*

From time to time we have purchased our outstanding debt securities depending upon prevailing market conditions, our liquidity requirements and other factors; such purchases may be commenced or suspended at any time without

## Notes to Consolidated Financial Statements, continued

### 17. Long-Term Debt, continued:

notice. No such purchases were made during 2014 and 2013; principal amounts of parent company debt purchased during 2012 are as follows (dollars in thousands):

7% Senior Notes . . . . .	\$ 4,836
7.125% Senior Notes . . . . .	423,140
8.65% Junior Subordinated Deferrable Interest Debentures . . . . .	<u>88,204</u>
Total . . . . .	<u>\$516,180</u>

As a result of the purchases, we recognized pre-tax losses of \$24.2 million for the year ended December 31, 2012, which are reflected in Selling, general and other expenses.

The 3.75% Convertible Senior Subordinated Notes due 2014 were converted primarily in April 2014 into 4,606,109 common shares prior to maturity and are no longer outstanding.

Our senior note indentures contain covenants that restrict our ability to incur more Indebtedness or issue Preferred Stock of Subsidiaries unless, at the time of such incurrence or issuance, the Company meets a specified ratio of Consolidated Debt to Consolidated Tangible Net Worth, limit the ability of the Company and Material Subsidiaries to incur, in certain circumstances, Liens, limit the ability of Material Subsidiaries to incur Funded Debt in certain circumstances, and contain other terms and restrictions all as defined in the senior note indentures. We have the ability to incur substantial additional indebtedness or make distributions to our shareholders and still remain in compliance with these restrictions. If we are unable to meet the specified ratio, we would not be able to issue additional Indebtedness or Preferred Stock, but our inability to meet the applicable ratio would not result in a default under our senior note indentures. The senior note indentures do not restrict the payment of dividends.

#### *Subsidiary Debt:*

Jefferies 3.875% Convertible Senior Debentures due 2029 are convertible into our common shares; each \$1,000 are convertible into 22.1925 common shares (equivalent to a conversion price of approximately \$45.06). The debentures are convertible at the holders' option any time beginning on August 1, 2029 and convertible at any time if: 1) our common stock price is greater than or equal to 130% of the conversion price for at least 20 trading days in a period of 30 consecutive trading days; 2) if the trading price per debenture is less than 95% of the price of our 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 our common stock is greater than 130% of the conversion price for at least 20 days in a period of 30 consecutive trading days and we may redeem the debentures for par, plus accrued interest, at our election any time on or after November 1, 2017. Holders may require us to repurchase the debentures for par, plus accrued interest, on November 1, 2017, 2019 and 2024. In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for 5 trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceeds \$1,200 per \$1,000 debenture.

On August 26, 2011, Jefferies entered into a committed senior secured revolving credit facility ("Jefferies Credit Facility") with a group of commercial banks in U.S. dollars, Euros and Sterling, in an aggregate committed amount of \$950.0 million with availability subject to one or more borrowing bases and of which \$250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. On June 26, 2014, Jefferies amended and restated the Credit Facility for three years and reduced the committed amount to \$750.0 million. The borrowers under the Jefferies Credit Facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, with a guarantee from Jefferies Group LLC. On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies LLC, (a U.S. broker-dealer). Jefferies LLC is the surviving entity, and therefore, a borrower under the Credit Facility.

## Notes to Consolidated Financial Statements, continued

### 17. Long-Term Debt, continued:

The Jefferies Credit Facility contains certain financial covenants, including, but not limited to, restrictions on future indebtedness of Jefferies subsidiaries, minimum tangible net worth and liquidity requirements amounts and minimum capital requirements. Interest is based on, in the case of U.S. dollar borrowings, the Federal funds rate or the London Interbank Offered Rate or, in the case of non-U.S. dollar borrowings, is based on the London Interbank Offered Rate. The obligations of each borrower under the Credit Facility are secured by substantially all the assets of such borrower, but none of the borrowers is responsible for any obligations of any other borrower. At December 31, 2014, borrowings under the Jefferies Credit Facility were denominated in U.S. dollars and Jefferies is in compliance with debt covenants under the Jefferies Credit Facility.

At December 31, 2014, National Beef's credit facility consisted of a \$375.0 million term loan and a revolving credit facility of \$300.0 million, which matures in October 2018. The term loan and the revolving credit facility bear interest at the Base Rate or the LIBOR Rate (as defined in the credit facility), plus a margin ranging from .75% to 2.75% depending upon certain financial ratios and the rate selected. At December 31, 2014, the interest rate on the outstanding term loan was 2.9% and the interest rate on the outstanding revolving credit facility was 3.4%. The credit facility contains a minimum tangible net worth covenant; at December 31, 2014, National Beef met this covenant. The credit facility is secured by a first priority lien on substantially all of the assets of National Beef and its subsidiaries.

Borrowings under the revolving credit facility are available for National Beef's working capital requirements, capital expenditures and other general corporate purposes. Unused capacity under the facility can also be used to issue letters of credit; letters of credit aggregating \$23.6 million were outstanding at December 31, 2014. Amounts available under the revolver are subject to a borrowing base calculation primarily comprised of receivable and inventory balances. At December 31, 2014, after deducting outstanding amounts and issued letters of credit, \$141.2 million of the unused revolver was available to National Beef.

### 18. Mezzanine Equity:

#### *Redeemable Noncontrolling Interests*

Redeemable noncontrolling interests primarily relate to National Beef and are held by its minority owners, principally USPB, NBPCo Holdings and the chief executive officer of National Beef. The holders of these interests share in the profits and losses of National Beef on a pro rata basis with us. However, the minority owners have the right to require us to purchase their interests under certain specified circumstances at fair value (put rights), and we also have the right to purchase their interests under certain specified circumstances at fair value (call rights). Each of the holders of the put rights has the right to make an election that requires us to purchase up to one-third of their interests on December 30, 2016, one-third on December 30, 2018, and the remainder on December 30, 2021. In addition, USPB may elect to exercise their put rights following the termination of the cattle supply agreement, and the chief executive officer following the termination of his employment.

Our call rights with respect to USPB may be exercised following the termination of the cattle supply agreement or after USPB's ownership interest is less than 20% of their interest held at the time we acquired National Beef. Our call rights with respect to other members may be exercised after the ten year anniversary of our acquisition of National Beef if such member's ownership interest is less than 50% of the interest held at the time we acquired National Beef. Additionally, we may acquire the chief executive officer's interest following the termination of his employment.

Redeemable noncontrolling interests in National Beef are reflected in the Consolidated Statements of Financial Condition at fair value. The following table reconciles National Beef's redeemable noncontrolling interests activity during the years ended December 31, 2014 and 2013 (in thousands):

## Notes to Consolidated Financial Statements, continued

### 18. Mezzanine Equity, continued:

	<u>2014</u>	<u>2013</u>
As of January 1, .....	<b>\$241,075</b>	\$241,649
Loss allocated to redeemable noncontrolling interests .....	<b>(8,576)</b>	(9,282)
Net distributions to redeemable noncontrolling interests .....	<b>(2,765)</b>	(8,073)
Increase (decrease) in fair value of redeemable noncontrolling interests charged to additional paid-in capital .....	<b>(45,401)</b>	16,781
Balance, December 31, .....	<b><u>\$184,333</u></b>	<u>\$241,075</u>

At acquisition, we prepared a projection of future cash flows of National Beef, which was used along with other information to allocate the purchase price to National Beef's individual assets and liabilities. At December 31, 2014, we calculated the fair value of the redeemable noncontrolling interests by updating our estimate of future cash flows, as well as considering other market comparable information deemed appropriate. The projected future cash flows consider estimated revenue growth, cost of sales changes, capital expenditures and other unobservable inputs. However, the most significant unobservable inputs affecting the estimate of fair value are the discount rate (12.5%) and the terminal growth rate (2.0%) used to calculate the capitalization rate of the terminal value.

The table below is a sensitivity analysis which shows the fair value of the redeemable noncontrolling interests using the assumed discount and the terminal growth rates and fair values under different rate assumptions as of December 31, 2014 (dollars in millions):

<u>Terminal Growth Rates</u>	<u>Discount Rates</u>		
	<u>12.25%</u>	<u>12.50%</u>	<u>12.75%</u>
1.75% .....	\$186.4	\$183.2	\$180.1
2.00% .....	\$187.6	\$184.3	\$181.2
2.25% .....	\$188.9	\$185.6	\$182.3

The projection of future cash flows is updated with input from National Beef personnel. The estimate is reviewed by personnel at our corporate office as part of the normal process for the preparation of our quarterly and annual financial statements.

At December 31, 2014, redeemable noncontrolling interests also include the noncontrolling interest in a business acquired by Conwed during the first quarter of 2014 of \$2.4 million.

#### *Mandatorily Redeemable Convertible Preferred Shares*

As mentioned above, in connection with the Jefferies acquisition we issued a new series of 3.25% Cumulative Convertible Preferred Shares ("Preferred Shares") (\$125.0 million at mandatory redemption value) in exchange for Jefferies outstanding 3.25% Series A-1 Cumulative Convertible Preferred Stock. The Preferred Shares have a 3.25% annual, cumulative cash dividend and are currently convertible into 4,162,200 common shares, an effective conversion price of \$30.03 per share. The Preferred Shares are callable beginning in 2023 at a price of \$1,000 per share plus accrued interest and are mandatorily redeemable in 2038.

### 19. Common Shares and Compensation Plans:

The Board of Directors from time to time has authorized the repurchase of our common shares. At December 31, 2014, we are authorized to repurchase 24,295,194 common shares.

Prior to the acquisition of Jefferies, we had two share-based compensation plans: a fixed stock option plan and a senior executive warrant plan. The fixed stock option plan provides for the issuance of stock options and stock appreciation

## Notes to Consolidated Financial Statements, continued

### 19. Common Shares and Compensation Plans, continued:

rights to non-employee directors and certain employees at not less than the fair market value of the underlying stock at the date of grant. Options granted to employees under this plan are intended to qualify as incentive stock options to the extent permitted under the Internal Revenue Code and become exercisable in five equal annual instalments starting one year from date of grant. Options granted to non-employee directors become exercisable in four equal annual instalments starting one year from date of grant. No stock appreciation rights have been granted. At December 31, 2014 and 2013, 7,088,893 and 7,124,429, respectively, of our common shares were reserved for stock options and warrants.

Compensation and benefits expense included \$109.8 million, \$87.2 million and \$14.3 million for the years ended December 31, 2014, 2013 and 2012, respectively, for share-based compensation expense relating to grants made under our share-based compensation plans. Total compensation cost includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. The total tax benefit recognized in results of operations related to share-based compensation expenses was \$39.9 million, \$33.2 million and \$4.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, total unrecognized compensation cost related to nonvested share-based compensation plans was \$117.4 million; this cost is expected to be recognized over a weighted-average period of 1.8 years.

The net tax benefit related to share-based compensation plans recognized in additional paid-in capital was \$1.3 million and \$2.9 million during the years ended December 31, 2014 and 2013, respectively, and was not significant during 2012. 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 related to share-based compensation in cash flows from financing activities. Such amounts for the years ended December 31, 2014, 2013 and 2012 were not significant.

At December 31, 2014, there were 3,383,000 shares of restricted stock outstanding with future service required, 4,238,000 RSUs outstanding with future service required, 8,467,000 RSUs outstanding with no future service required and 952,000 shares issuable under other plans. Excluding shares issuable pursuant to outstanding stock options and warrants, the maximum potential increase to common shares outstanding resulting from these outstanding awards is 13,657,000.

*Senior Executive Warrant Plan.* On March 7, 2011, the Compensation Committee of our Board of Directors granted warrants to purchase 2,000,000 common shares to each of our then Chairman and President at an exercise price of \$33.33 per share (105% of the closing price per share of a common share on the grant date), subject to shareholder approval. In May 2011, the required shareholder approval was received and the warrants were issued. The warrants expire in 2016 and vest in five equal tranches with 20% vesting on the date shareholder approval was received and an additional 20% vesting in each subsequent year. Compensation cost was determined as of the approval date and will be recognized in the financial statements over the vesting period of the warrants. We have recorded share-based compensation expense related to this grant of warrants of \$5.3 million, \$4.9 million and \$11.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Notes to Consolidated Financial Statements, continued

19. Common Shares and Compensation Plans, continued:

*Fixed Stock Option Plan.* A summary of activity with respect to our stock options for the three years ended December 31, 2014 is as follows:

	Common Shares Subject to Option	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2011	2,251,455	\$27.62		
Granted	919,500	\$23.20		
Exercised	—	\$ —		\$ —
Cancelled	(593,455)	\$27.42		
Balance at December 31, 2012	2,577,500	\$26.10		
Granted	51,432	\$26.06		
Exercised	(184,276)	\$24.65		\$603,000
Cancelled	(27,408)	\$38.68		
Balance at December 31, 2013	2,417,248	\$25.64		
Granted	—	\$ —		
Exercised	(35,536)	\$22.87		\$ 58,000
Cancelled	(741,678)	\$27.39		
Balance at December 31, 2014	<u>1,640,034</u>	\$24.91	<u>2.9 years</u>	<u>\$ 9,000</u>
Exercisable at December 31, 2014	<u>946,193</u>	\$25.42	<u>2.6 years</u>	<u>\$ 8,000</u>

The following summary presents the weighted-average assumptions used for grants made during 2013 and 2012. There were no grants during 2014.

	2013 Options	2012 Options
Risk free interest rate	1.26%	.53%
Expected volatility	39.17%	37.66%
Expected dividend yield	.85%	1.08%
Expected life	4.0 years	4.0 years
Weighted-average fair value per grant	\$7.67	\$5.97

The expected life assumptions were based on historical behavior and incorporated post-vesting forfeitures for each type of award and population identified. The expected volatility was based on the historical behavior of our stock price.

*Incentive Plan.* The Incentive Plan allows awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, RSUs, dividend equivalents or other share-based awards.

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 the underlying common shares as cash amounts or as deemed reinvestments in additional RSUs.

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



Notes to Consolidated Financial Statements, continued

19. Common Shares and Compensation Plans, continued:

The Deferred Compensation Plan (the “DCP”) has been implemented under the Incentive Plan. The DCP permits eligible executive officers and other employees to defer cash compensation, some or all of which may be deemed invested in stock units. A portion of the deferrals may also be directed to notional investments in a money market fund or certain of the employee investment opportunities. Stock units generally have been acquired at a discounted price, which encourages employee participation in the DCP and enhances long-term retention of equity interests by participants and aligns executive interests with those of shareholders. Amounts recognized as compensation cost have not been significant. The shares to be delivered in connection with DCP stock units and options are drawn from the Incentive Plan.

The Incentive Plan’s “evergreen” share reservation was terminated on March 21, 2014; the number of equity awards available under the Incentive Plan was set at 20,000,000. At December 31, 2014, 19,679,686 common shares remained available for new grants under the Incentive Plan. The Incentive Plan no longer contains a separate reservation of common shares for awards issued upon the elective deferral of cash compensation by employees under the DCP. Shares issued pursuant to the DCP reduce the shares available under the Incentive Plan.

The following table details the activity in restricted stock during the years ended December 31, 2014 and 2013 (in thousands, except per share amounts):

		<b>Weighted Average Grant Date Fair Value</b>
Balance at January 1, 2013	–	\$ –
Converted in connection with the Jefferies acquisition	6,895	\$26.90
Grants	462	\$27.38
Forfeited	(144)	\$26.90
Fulfillment of service requirement	<u>(1,971)</u>	\$26.90
Balance at December 31, 2013	5,242	\$26.94
Grants	864	\$27.03
Forfeited	(202)	\$26.90
Fulfillment of service requirement	<u>(2,521)</u>	\$26.89
Balance at December 31, 2014	<u>3,383</u>	\$27.00

The following table details the activity in restricted stock units during the years ended December 31, 2014 and 2013 (in thousands, except per share amounts):

	<b>Future Service Required</b>	<b>No Future Service Required</b>	<b>Future Service Required</b>	<b>No Future Service Required</b>
Balance at January 1, 2013	–	–	\$ –	\$ –
Converted in connection with the Jefferies acquisition	5,167	9,527	\$26.90	\$26.90
Grants	–	145	\$ –	\$24.32
Distributions of underlying shares	–	(1,603)	\$ –	\$26.90
Forfeited	(106)	(21)	\$26.90	\$26.83
Fulfillment of service requirement	<u>(268)</u>	<u>268</u>	\$26.90	\$26.90
Balance at December 31, 2013	4,793	8,316	\$26.90	\$26.86
Grants	–	97	\$ –	\$20.89
Distributions of underlying shares	–	(366)	\$ –	\$26.85
Forfeited	(135)	–	\$26.90	\$ –
Fulfillment of service requirement	<u>(420)</u>	<u>420</u>	\$26.90	\$26.90
Balance at December 31, 2014	<u>4,238</u>	<u>8,467</u>	\$26.90	\$26.79

## Notes to Consolidated Financial Statements, continued

### 19. Common Shares and Compensation Plans, continued:

At December 31, 2014 and 2013, respectively, grants include approximately 88,000 and 82,000 dividend equivalents declared on RSUs with no future service requirement; the weighted average grant date fair values of the dividend equivalents were approximately \$20.41 and \$22.34, respectively.

*Directors' Plan.* Under our Directors' Plan, we will issue each nonemployee director of Leucadia \$120,000 of restricted stock. These grants will be made on the date directors are elected or reelected at our annual shareholders' meeting. These shares vest over three years from the date of grant and are expensed over the requisite service period. At December 31, 2014, 274,929 common shares were issuable upon settlement of deferred shares granted in previous years and 439,988 shares are available for future grants.

*Other Stock-Based Plans.* Historically, Jefferies also sponsored an Employee Stock Purchase Plan and an Employee Stock Ownership Plan, both of which were assumed by us in connection with the Jefferies acquisition. Amounts related to these plans have not been significant.

*Restricted Cash Awards.* Jefferies provides 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. These awards are amortized to compensation expense over the relevant service period. At December 31, 2014, the remaining unamortized amount of these awards was \$223.7 million and is included within Other assets in the Consolidated Statements of Financial Condition.

### 20. Accumulated Other Comprehensive Income:

Activity in accumulated other comprehensive income is reflected in the Consolidated Statements of Comprehensive Income (Loss) and Consolidated Statements of Changes in Equity but not in the Consolidated Statements of Operations. A summary of accumulated other comprehensive income, net of taxes at December 31, 2014, 2013 and 2012 is as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net unrealized gains on available for sale securities . . . . .	<b>\$ 577,588</b>	\$589,393	\$803,430
Net unrealized foreign exchange gains (losses) . . . . .	<b>(26,771)</b>	16,803	(6,097)
Net unrealized losses on derivative instruments . . . . .	-	(169)	(154)
Net minimum pension liability . . . . .	<b>(103,735)</b>	(67,977)	(92,050)
	<u><b>\$ 447,082</b></u>	<u>\$538,050</u>	<u>\$705,129</u>

For the years ended December 31, 2014 and 2013, significant amounts reclassified out of accumulated other comprehensive income to net income (loss) are as follows (in thousands):

Notes to Consolidated Financial Statements, continued

20. Accumulated Other Comprehensive Income, continued:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statement of Operations
	2014	2013	
Net unrealized gains (losses) on available for sale securities, net of income tax provision of \$1,631 and \$118,292 . . . . .	\$ 2,939	\$213,058	Net realized securities gains
Net unrealized foreign exchange gains, net of income tax provision of \$149 and \$0 . . . . .	267	—	Loss from discontinued operations, net of income tax (benefit)
Net unrealized losses on derivatives, net of income tax benefit of \$(95) and \$0 . . . . .	(169)	—	Income related to associated companies
Amortization of defined benefit pension plan actuarial gains (losses), net of income tax benefit of \$(1,676) and \$(2,665) . . . . .	(3,201)	(4,799)	Compensation and benefits, which includes pension expense. See the pension footnote for information on this component.
Total reclassifications for the period, net of tax . . . . .	\$ (164)	\$208,259	

21. Pension Plans and Postretirement Benefits:

*U.S. Pension Plans*

Pursuant to the agreement to sell one of our former subsidiaries, WilTel Communications Group, Inc. the responsibility for WilTel's defined benefit pension plan was retained by us. All benefits under this plan were frozen as of the date of sale. Prior to the acquisition of Jefferies, Jefferies sponsored a defined benefit pension plan covering certain employees; benefits under that plan were frozen as of December 31, 2005.

A summary of activity with respect to both plans is as follows (in thousands):

	2014	2013
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year . . . . .	\$ 295,044	\$275,858
Projected benefit obligation of Jefferies plan at date of acquisition . . . . .	—	51,599
Interest cost . . . . .	14,239	12,286
Actuarial (gains) losses . . . . .	52,125	(36,197)
Benefits paid . . . . .	(9,282)	(8,502)
Projected benefit obligation, end of year . . . . .	\$ 352,126	\$295,044
Change in plan assets:		
Fair value of plan assets, beginning of year . . . . .	\$ 239,080	\$194,314
Jefferies plan assets at date of acquisition . . . . .	—	41,290
Actual return on plan assets . . . . .	11,175	6,454
Employer contributions . . . . .	—	6,475
Benefits paid . . . . .	(9,282)	(8,502)
Administrative expenses . . . . .	(963)	(951)
Fair value of plan assets, end of year . . . . .	\$ 240,010	\$239,080
Funded status at end of year . . . . .	\$ (112,116)	\$ (55,964)

Notes to Consolidated Financial Statements, continued

**21. Pension Plans and Postretirement Benefits, continued:**

As of December 31, 2014 and 2013, \$126.2 million and \$78.8 million, respectively, of the net amount recognized in the consolidated balance sheet was reflected as a charge to accumulated other comprehensive income (loss) (substantially all of which were cumulative losses) and \$112.1 million and \$56.0 million, respectively, was reflected as accrued pension cost.

The following table summarizes the components of net periodic pension cost and other amounts recognized in other comprehensive income (loss) excluding taxes (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Components of net periodic pension cost:			
Interest cost . . . . .	<b>\$ 14,239</b>	\$ 12,286	\$10,886
Expected return on plan assets . . . . .	<b>(10,115)</b>	(9,746)	(8,292)
Actuarial losses . . . . .	<b>4,634</b>	7,464	5,852
Net periodic pension cost . . . . .	<b><u>\$ 8,758</u></b>	<u>\$ 10,004</u>	<u>\$ 8,446</u>
Amounts recognized in other comprehensive income (loss):			
Net (gain) loss arising during the period . . . . .	<b>\$ 52,027</b>	\$(31,952)	\$19,604
Amortization of net loss . . . . .	<b>(4,634)</b>	(7,464)	(5,852)
Total recognized in other comprehensive income (loss) . .	<b><u>\$ 47,393</u></b>	<u>\$(39,416)</u>	<u>\$13,752</u>
Net amount recognized in net periodic benefit cost and other comprehensive income (loss) . . . . .	<b><u>\$ 56,151</u></b>	<u>\$(29,412)</u>	<u>\$22,198</u>

The amounts in accumulated other comprehensive income (loss) at the end of each year have not yet been recognized as components of net periodic pension cost in the Consolidated Statements of Operations. The estimated net loss that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2015 is \$7.8 million.

No employer contributions are expected to be paid in 2015.

We use a December 31 measurement date for the WilTel plan and a November 30 date for the Jefferies plan. The assumptions used are as follows:

	<u>2014</u>	<u>2013</u>
<b><i>WilTel Plan</i></b>		
Discount rate used to determine benefit obligation . . . . .	<b>3.76%</b>	4.71%
Weighted-average assumptions used to determine net pension cost:		
Discount rate . . . . .	<b>4.71%</b>	3.85%
Expected long-term return on plan assets . . . . .	<b>4.00%</b>	4.00%
<b><i>Jefferies Plan</i></b>		
Discount rate used to determine benefit obligation . . . . .	<b>4.30%</b>	5.10%
Weighted-average assumptions used to determine net pension cost:		
Discount rate . . . . .	<b>5.10%</b>	4.40%
Expected long-term return on plan assets . . . . .	<b>6.75%</b>	6.75%

The following pension benefit payments are expected to be paid (in thousands):

2015 . . . . .	\$ 8,252
2016 . . . . .	10,493
2017 . . . . .	10,815
2018 . . . . .	10,786
2019 . . . . .	12,367
2020 – 2024 . . . . .	99,516

Notes to Consolidated Financial Statements, continued

21. Pension Plans and Postretirement Benefits, continued:

U.S. Plan Assets

The information below on the plan assets for the WilTel plan and the Jefferies plan is presented separately for the plans as the investments are managed independently. Cash equivalents are valued at cost, which approximates fair value and are categorized in Level 1 of the fair value hierarchy. The estimated fair values for securities measured using Level 1 inputs are determined using publicly quoted market prices in active markets for identical assets. Certain fixed income securities are measured using Level 2 inputs. Although these securities trade in brokered markets, the market for certain securities is sometimes inactive. Valuation inputs include benchmark yields, reported trades, broker dealer quotes, issuer spreads, two sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. Neither plan had any assets classified within Level 3 of the fair value hierarchy.

WilTel Plan Assets. At December 31, 2014 and 2013, the WilTel plan assets at fair value consisted of the following (in thousands):

	Total	Fair Value Measurements Using	
		Level 1	Level 2
<b>2014</b>			
Cash and cash equivalents	\$ 14,669	\$14,669	\$ –
Fixed income securities:			
U.S. Government and agencies	3,719	3,719	–
Public utilities	15,669	–	15,669
All other corporates	154,868	–	154,868
Total	<u>\$188,925</u>	<u>\$18,388</u>	<u>\$170,537</u>
<b>2013</b>			
Cash and cash equivalents	\$ 20,075	\$20,075	\$ –
Fixed income securities:			
U.S. Government and agencies	4,860	4,860	–
Public utilities	13,243	–	13,243
All other corporates	153,486	–	153,486
Total	<u>\$191,664</u>	<u>\$24,935</u>	<u>\$166,729</u>

The current investment objectives are designed to minimize investment losses due to rising interest rates while providing a stable and predictable stream of investment income. To further mitigate investment losses, we have placed certain investment restrictions and limitations over plan assets. The restrictions and limitations include the following:

- Plan assets are split into three separate portfolios, each with different duration and asset mixes. The Investment Grade (“IG”) portfolio consists of investment grade fixed income corporate bonds with a maximum portfolio duration of 5 years. The Fixed Income (“FI”) portfolio consists of short and medium term investment grade bonds, government instruments, and cash and cash equivalents with a maximum portfolio duration of 2 years. The High Yield (“HY”) portfolio consists of below investment grade corporate bonds with a maximum portfolio duration of 5 years.
- Fixed income securities held within the IG and FI portfolios will all be rated BBB- or better at the time of purchase, there will be no more than 5% at market in any one security (U.S. government and agency positions excluded), no more than a 30-year maturity in any one security and investments in standard collateralized mortgage obligations are limited to securities that are currently paying interest, receiving principal, do not contain leverage and are limited to 10% of the market value of the portfolio. Securities purchased or held within the HY portfolio will all be rated B- or higher. However, the portfolio can hold up to 10% in CCC rated bonds that may result from credit downgrades.

Notes to Consolidated Financial Statements, continued

**21. Pension Plans and Postretirement Benefits, continued:**

The FI portfolio is managed to maximize the value of plan assets by minimizing exposure to changes in market interest rates while the IG and HY portfolios are managed to enhance investment income with a focus on minimizing credit losses and changes in market interest rates. This investment strategy provides us with more flexibility in managing the plan should interest rates rise and result in a decrease in the discounted value of benefit obligations.

To develop the assumption for the expected long-term rate of return on plan assets, we considered the following underlying assumptions: 2.25% current expected inflation, 1.5% to 2.5% real rate of return for short duration risk-free investments, 0.2% inflation risk premium and 0.75% default risk premium for the portion of the portfolio invested in corporate bonds. We then weighted these assumptions based on invested assets and assumed that investment expenses were offset by expected returns in excess of benchmarks, which resulted in the selection of the 4.0% expected long-term rate of return assumption for 2014.

*Jefferies Plan Assets.* At December 31, 2014 and 2013, the Jefferies plan assets at fair value consisted of the following (in thousands):

	Total	Fair Value Measurements Using	
		Level 1	Level 2
<b>2014</b>			
Cash and cash equivalents	\$ 373	\$ 373	\$ –
Listed equity securities	31,327	31,327	–
Fixed income securities:			
Corporate debt securities	6,482	–	6,482
Foreign corporate debt securities	1,321	–	1,321
U.S. Government securities	5,929	5,929	–
Agency mortgage-backed securities	3,883	–	3,883
Commercial mortgage-backed securities	1,080	–	1,080
Asset-backed securities	690	–	690
Total	<u>\$51,085</u>	<u>\$37,629</u>	<u>\$13,456</u>
<b>2013</b>			
Cash and cash equivalents	\$ 931	\$ 931	\$ –
Listed equity securities	27,663	27,663	–
Fixed income securities:			
Corporate debt securities	7,743	–	7,743
Foreign corporate debt securities	1,140	–	1,140
U.S. Government securities	4,055	4,055	–
Agency mortgage-backed securities	3,949	–	3,949
Commercial mortgage-backed securities	1,280	–	1,280
Asset-backed securities	461	–	461
Other	194	–	194
Total	<u>\$47,416</u>	<u>\$32,649</u>	<u>\$14,767</u>

Assets in the plan are invested under guidelines adopted by the plan's administrative committee. Because the plan exists to provide a vehicle for funding future benefit obligations, the investment objectives of the portfolio take into account the nature and timing of future plan liabilities. The policy recognizes that the portfolio's long-term investment performance and its ability to meet the plan's overall objectives are dependent on the strategic asset allocation which includes adequate diversification among assets classes.

The target allocation of plan assets for 2015 is approximately 50% equities and 50% fixed income securities. The target asset allocation was determined based on the risk tolerance characteristics of the plan and, at times, may be adjusted to achieve the plan's investment objective and to minimize any concentration of investment risk. The plan's

Notes to Consolidated Financial Statements, continued

21. Pension Plans and Postretirement Benefits, continued:

administrative committee evaluates the asset allocation strategy and adjusts the allocation if warranted based upon market conditions and the impact of the investment strategy on future contribution requirements. The expected long-term rate of return assumption is based on an analysis of historical experience of the portfolio and the summation of prospective returns for each asset class in proportion to the fund's current asset allocation.

The equity portfolio may invest up to 5% of the market value of the portfolio in any one company and may invest up to 10% of the market value of the portfolio in any one sector or up to two times the percentage weighting of any one sector as defined by the S&P 500 or the Russell 1000 Value indices, whichever is higher. Permissible investments specified under the equity portfolio of the plan include equity securities of U.S. and non-U.S. incorporated entities and private placement securities issued pursuant to Rule 144A. At least 75% of the market value of the fixed income portfolio must be invested in investment grade securities rated BBB-/Baa3, including cash and cash equivalents. Permissible investments specified under the fixed income portfolio of the plan include: public or private debt obligations issued or guaranteed by U.S. or foreign issuers; preferred, hybrid, mortgage- or asset-backed securities; senior loans; and derivatives and foreign currency exchange contracts.

*German Pension Plan*

In connection with the acquisition of Jefferies Bache from Prudential in 2011, Jefferies acquired a defined benefits pension plan located in Germany for the benefit of eligible employees of Jefferies Bache in that territory. The German pension plan has no plan assets and is therefore unfunded; however, Jefferies has purchased insurance contracts from 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—Trading assets in the Consolidated Statement of Financial Condition in the amounts of \$18.1 million and \$19.7 million at December 31, 2014 and 2013, respectively. Jefferies expects to pay the pension liability from the cash flows available to it under the insurance contracts. All costs relating to the plan (including insurance premiums and other costs as computed by the insurers) are paid by Jefferies. In connection with the acquisition, Prudential agreed that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to Jefferies by Prudential.

The provisions and assumptions used in the German pension plan are based on local conditions in Germany. Jefferies did not contribute to the plan during the year ended December 31, 2014.

The following tables summarize the changes in the projected benefit obligation and the components of net periodic pension cost for the year ended December 31, 2014 and for the period from the acquisition of Jefferies to December 31, 2013 (in thousands):

	<u>2014</u>	<u>2013</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$26,368	\$ —
Projected benefit obligation at date of acquisition	—	24,494
Service cost	40	51
Interest cost	801	685
Actuarial losses	4,630	1,002
Currency adjustment	(2,212)	1,053
Benefits paid	(1,193)	(917)
Projected benefit obligation, end of year	<u>\$28,434</u>	<u>\$26,368</u>
Components of net periodic pension cost:		
Service cost	\$ 40	\$ 51
Interest cost	801	685
Net amortization	244	179
Net periodic pension cost	<u>\$ 1,085</u>	<u>\$ 915</u>

Notes to Consolidated Financial Statements, continued

**21. Pension Plans and Postretirement Benefits, continued:**

The amounts in accumulated other comprehensive income at December 31, 2014 and 2013 are charges of \$5.3 million and \$1.0 million, respectively. The following are assumptions used to determine the actuarial present value of the projected benefit obligation and net periodic pension benefit cost for the year ended December 31, 2014 and for the period from the acquisition of Jefferies to December 31, 2013:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation		
Discount rate .....	<b>2.10%</b>	3.40%
Rate of compensation increase .....	<b>3.00%</b>	3.00%
Net periodic pension benefit cost		
Discount rate .....	<b>3.40%</b>	3.60%
Rate of compensation increase .....	<b>3.00%</b>	3.00%

The following pension benefit payments are expected to be paid (in thousands):

2015 .....	\$1,308
2016 .....	1,324
2017 .....	1,304
2018 .....	1,300
2019 .....	1,275
2020 – 2024 .....	6,776

*Other*

We have defined contribution pension plans covering certain employees. Contributions and costs are a percent of each covered employee's salary. Amounts charged to expense related to such plans were \$9.3 million, \$6.3 million and \$2.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

We provide certain health care and other benefits to certain retired employees under plans which are currently unfunded. We pay the cost of postretirement benefits as they are incurred. Accumulated postretirement benefit obligations and amounts recognized in the consolidated statements of operations and in accumulated other comprehensive income (loss) were not significant.



## Notes to Consolidated Financial Statements, continued

### 22. Income Taxes:

The principal components of deferred taxes at December 31, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Deferred Tax Asset:		
NOL carryover .....	<b>\$1,266,972</b>	\$1,283,947
Compensation .....	<b>334,576</b>	400,002
Long-term debt .....	<b>134,079</b>	184,669
Other assets .....	<b>160,586</b>	118,914
Securities valuation reserves .....	<b>25,499</b>	51,597
Intangible assets, net and goodwill .....	<b>13,842</b>	17,349
Other liabilities .....	<b>57,006</b>	49,074
	<b><u>1,992,560</u></b>	<u>2,105,552</u>
Valuation allowance .....	<b>(110,404)</b>	(132,607)
	<b><u>1,882,156</u></b>	<u>1,972,945</u>
Deferred Tax Liability:		
Unrealized gains on investments .....	<b>(10,406)</b>	(23,851)
Amortization of intangible assets .....	<b>(97,268)</b>	(98,798)
Property and equipment .....	<b>(866)</b>	(3,822)
Other .....	<b>(61,081)</b>	(36,531)
	<b><u>(169,621)</u></b>	<u>(163,002)</u>
Net deferred tax asset .....	<b><u>\$1,712,535</u></b>	<u>\$1,809,943</u>

As of December 31, 2014, we have consolidated U.S. federal NOLs of \$1.2 billion that may be used to offset the taxable income of any member of our consolidated tax group. In addition, we have \$2.2 billion of U.S. federal NOLs that are only available to offset the taxable income of certain subsidiaries. Unused federal NOLs do not begin to expire until 2017. Approximately \$611.9 million of our NOLs can be used to fully offset federal minimum taxable income, and no federal regular or minimum income tax would be payable on such income. We have various state NOLs that expire at different times, which are reflected in the above table to the extent our estimate of future taxable income will be apportioned to those states. We have gross foreign net operating loss carryforwards of approximately \$85.9 million. There is a valuation allowance with respect to \$40.6 million of these foreign net operating loss carryforwards. Uncertainties that may affect the utilization of our tax attributes include future operating results, tax law changes, rulings by taxing authorities regarding whether certain transactions are taxable or deductible and expiration of carryforward periods.

Under certain circumstances, the ability to use the NOLs and future deductions could be substantially reduced if certain changes in ownership were to occur. In order to reduce this possibility, our certificate of incorporation includes a charter restriction that prohibits transfers of our common stock under certain circumstances.

At December 31, 2014, we had approximately \$171.0 million of earnings attributable to foreign subsidiaries for which no U.S. federal income tax provision has been recorded because, except to the extent such earnings can be repatriated tax efficiently, these earnings are permanently invested abroad. Accordingly, a deferred tax liability of approximately \$46.0 million has not been recorded with respect to these earnings.

Notes to Consolidated Financial Statements, continued

22. Income Taxes, continued:

The provision for income taxes for continuing operations for each of the three years in the period ended December 31, 2014 was as follows (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
State income taxes . . . . .	\$ 47,939	\$ 32,917	\$ 35,489
Federal income taxes:			
Current . . . . .	746	2,900	1,001
Deferred . . . . .	119,393	82,173	490,474
Increase (decrease) in valuation allowance . . . . .	(22,203)	12,287	–
Foreign income taxes . . . . .	20,096	6,204	12,500
	<u>\$165,971</u>	<u>\$136,481</u>	<u>\$539,464</u>

For the year ended December 31, 2014, we decreased our valuation allowance with respect to certain NOLs which we now believe are more likely than not to be utilized before they expire. For the year ended December 31, 2013, we increased our valuation allowance to reserve for a portion of our net deferred tax asset for state income taxes, resulting from the change in our expected state tax filings as a result of the Jefferies acquisition. In addition, the valuation allowance increased by \$11.1 million as a result of the valuation allowance required for Jefferies net deferred tax assets at the date of acquisition.

The table below reconciles the expected statutory federal income tax to the actual income tax provision (benefit) (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expected federal income tax . . . . .	\$133,428	\$190,955	\$504,710
State income taxes, net of federal income tax benefit . . . . .	31,160	21,396	24,120
Increase (decrease) in valuation allowance . . . . .	(22,203)	12,287	–
Tax expense not provided on income recorded on the Jefferies investment prior to the acquisition . . . . .	–	(63,952)	–
Reversal of prior years' deferred tax liability related to Jefferies investment . . . . .	–	(33,972)	–
Foreign rate differential . . . . .	(14,305)	(4,750)	–
Permanent differences . . . . .	2,639	12,832	2,921
Nondeductible settlements . . . . .	24,500	–	–
Foreign taxes . . . . .	2,542	4,033	8,125
Other . . . . .	8,210	(2,348)	(412)
Actual income tax provision . . . . .	<u>\$165,971</u>	<u>\$136,481</u>	<u>\$539,464</u>

As discussed above, we elected the fair value option for our investment in Jefferies for periods prior to the Jefferies acquisition in March 2013. As of December 31, 2012, we had recorded a deferred tax liability related to our investment in Jefferies; as reflected in the table above, the income tax provision includes the reversal of that deferred tax liability for the year ended December 31, 2013. Since there was no net income tax provision recorded for income related to the fair value option for Jefferies for the year ended December 31, 2013, our effective tax rate was lower as a result of the acquisition, and the impact on the tax provision is reflected in the table above.

Notes to Consolidated Financial Statements, continued

22. Income Taxes, continued:

The following table reconciles the total amount of unrecognized tax benefits as of the beginning and end of the periods presented (in thousands):

	Unrecognized Tax Benefits	Interest	Total
As of January 1, 2012 . . . . .	\$ 6,340	\$ 3,480	\$ 9,820
Increases based on tax positions related to current period . .	5,250	–	5,250
Interest expense recognized . . . . .	–	700	700
Audit payments . . . . .	–	–	–
Reductions as a result of the lapse of the statute of limitations . . . . .	–	–	–
Balance, December 31, 2012 . . . . .	11,590	4,180	15,770
Jefferies amounts at date of acquisition . . . . .	129,010	17,100	146,110
Increases based on tax positions related to current period . .	8,750	–	8,750
Increases based on tax positions related to prior periods . .	14,780	–	14,780
Decreases based on tax positions related to prior periods . .	(18,300)	–	(18,300)
Interest expense recognized . . . . .	–	7,000	7,000
Audit payments . . . . .	(310)	(110)	(420)
Reductions as a result of the lapse of the statute of limitations . . . . .	–	–	–
Balance, December 31, 2013 . . . . .	145,520	28,170	173,690
Increases based on tax positions related to current period . .	5,630	–	5,630
Increases based on tax positions related to prior periods . .	4,340	–	4,340
Decreases based on tax positions related to prior periods . .	(3,940)	–	(3,940)
Interest expense recognized . . . . .	–	9,200	9,200
Audit payments . . . . .	(2,960)	(100)	(3,060)
Reductions as a result of the lapse of the statute of limitations . . . . .	–	–	–
Balance, December 31, 2014 . . . . .	<u>\$148,590</u>	<u>\$37,270</u>	<u>\$185,860</u>

The statute of limitations with respect to our federal income tax returns has expired for all years through 2010. Our New York State and New York City income tax returns are currently being audited for the 2009 to 2011 period. Prior to becoming a wholly-owned subsidiary, Jefferies filed a consolidated U.S. federal income tax return with its qualifying subsidiaries and was subject to income tax in various states, municipalities and foreign jurisdictions. Jefferies is currently under examination by the Internal Revenue Service and other major tax jurisdictions. The statute of limitations with respect to Jefferies federal income tax returns has expired for all years through 2005.

We do not expect that resolution of these examinations will have a significant effect on our consolidated financial position, but could have a significant impact on the consolidated results of operations for the period in which resolution occurs. Over the next twelve months, we believe it is reasonably possible that various tax examinations will be concluded and statutes of limitation will expire which would have the effect of reducing the balance of unrecognized tax benefits by \$6.2 million. If recognized, the total amount of unrecognized tax benefits reflected in the table above would lower our effective income tax rate.

## Notes to Consolidated Financial Statements, continued

### 23. Net Realized Securities Gains (Losses):

The following summarizes net realized securities gains (losses) for each of the three years in the period ended December 31, 2014 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net realized gains on securities .....	<b>\$30,686</b>	\$245,262	\$592,978
Write-down of investments (a) .....	<b>(111)</b>	(1,621)	(2,461)
Other .....	<b>(181)</b>	316	64
	<u><b>\$30,394</b></u>	<u>\$243,957</u>	<u>\$590,581</u>

(a) Consists of provisions to write down investments resulting from declines in fair values believed to be other than temporary.

During 2006 and 2007, we invested an aggregate of \$452.2 million in Fortescue Metals Group Ltd's Pilbara iron ore and infrastructure project in Western Australia. In exchange for our cash investment, we received 278 million common shares of Fortescue and a \$100.0 million unsecured note issued by Fortescue's subsidiary, Chichester Metals Pty Ltd, that accrued interest at 4% of the revenue, net of government royalties, invoiced from the iron ore produced from certain project areas (the "FMG Note"). We sold our Fortescue common shares during 2010 to 2012, recognizing net realized security gains on the sales of \$543.7 million for the year ended December 31, 2012.

During the fourth quarter of 2012, Chichester redeemed the FMG Note for aggregate cash consideration of \$715.0 million, resulting in the recognition in investment and other income of a pre-tax gain of \$526.2 million, and the parties agreed to settle all pending litigation and disputes without any additional payment. As a result, we no longer receive interest payments on the FMG Note.

Net realized gains on securities during 2013 include a gain of \$227.6 million related to our exchange of Inmet shares for First Quantum shares and cash as discussed above.

Proceeds from sales of investments classified as available for sale were \$1.9 billion, \$1.8 billion and \$1.4 billion during 2014, 2013 and 2012, respectively. Gross gains of \$12.6 million, \$240.4 million and \$546.4 million were realized on these sales during 2014, 2013 and 2012, respectively; gross losses were not significant during these three years.

### 24. Other Results of Operations Information:

Other income for each of the three years in the period ended December 31, 2014 consists of the following (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Manufacturing revenues .....	<b>\$379,274</b>	\$310,624	\$252,752
Dividend income .....	<b>7,379</b>	5,553	5,954
Income from associated companies classified as other revenues .....	<b>90,242</b>	92,180	—
Revenues of oil and gas exploration and production businesses .....	<b>19,373</b>	—	—
Gain on sale of equity interest .....	<b>22,714</b>	—	—
Income from FMG Note including gain recognized on redemption .....	—	—	642,993
Rental income .....	<b>5,877</b>	13,158	11,725
Winery revenues .....	—	8,301	47,801
Other .....	<b>45,606</b>	55,676	21,676
	<u><b>\$570,465</b></u>	<u>\$485,492</u>	<u>\$982,901</u>

Notes to Consolidated Financial Statements, continued

**24. Other Results of Operations Information, continued:**

Taxes, other than income or payroll, amounted to \$17.0 million, \$17.0 million and \$10.7 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Advertising costs amounted to \$14.5 million, \$14.6 million and \$12.4 million for the years ended December 31, 2014, 2013 and 2012, respectively.

**25. Earnings (Loss) Per Common Share:**

Basic and diluted earnings (loss) per share amounts were calculated by dividing net income (loss) by the weighted average number of common shares outstanding. The numerators and denominators used to calculate basic and diluted earnings (loss) per share are as follows for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Numerator for earnings (loss) per share:			
Net income attributable to Leucadia National Corporation common shareholders . . . . .	<b>\$204,306</b>	\$369,240	\$854,466
Less: Allocation of earnings to participating securities (1) . . . . .	<b>(4,761)</b>	(4,919)	—
Net income attributable to Leucadia National Corporation common shareholders for basic earnings (loss) per share	<b>199,545</b>	364,321	854,466
Less: Adjustment to allocation of earnings to participating securities related to diluted shares (1) . . . . .	<b>(75)</b>	(110)	—
Mandatorily redeemable convertible preferred share dividends . . . . .	—	3,397	—
Interest on 3.75% Convertible Notes . . . . .	<b>739</b>	2,635	2,626
Net income attributable to Leucadia National Corporation common shareholders for diluted earnings (loss) per share . . . . .	<b><u>\$200,209</u></b>	<b><u>\$370,243</u></b>	<b><u>\$857,092</u></b>
Denominator for earnings (loss) per share:			
Denominator for basic earnings (loss) per share – weighted average shares . . . . .	<b>371,889</b>	339,673	244,583
Stock options . . . . .	<b>29</b>	55	—
Warrants . . . . .	—	—	—
Mandatorily redeemable convertible preferred shares . . . . .	—	3,468	—
3.875% Convertible Senior Debentures . . . . .	—	—	—
3.75% Convertible Notes . . . . .	<b>1,415</b>	4,538	4,331
Denominator for diluted earnings (loss) per share . . . . .	<b><u>373,333</u></b>	<b><u>347,734</u></b>	<b><u>248,914</u></b>

(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 RSUs for which requisite service has not yet been rendered and amounted to weighted average shares of 9,040,900 and 9,353,400 for the years ended December 31, 2014 and 2013, respectively. Dividends declared on participating securities during the years ended December 31, 2014 and 2013 were \$2.2 million and \$2.8 million, respectively. Undistributed earnings are allocated to participating securities based upon their right to share in earnings if all earnings for the period had been distributed.

Options to purchase 1,572,777, 1,711,096 and 2,280,711 weighted-average shares of common stock were outstanding during the years ended December 31, 2014, 2013 and 2012, respectively, but were not included in the computation of diluted per share amounts as the effect was antidilutive.

**Notes to Consolidated Financial Statements, continued**

**25. Earnings (Loss) Per Common Share, continued:**

For each year in the table above, the denominator for diluted earnings (loss) per share does not include weighted-average common shares of 4,000,000 related to outstanding warrants to purchase common shares at \$33.33 per share, as the effect was antidilutive.

For the years ended December 31, 2014 and 2013, shares related to the 3.875% Convertible Senior Debentures were not included in the computation of diluted per share amounts as the conversion price exceeded the average market price. For the year ended December 31, 2014, 4,162,200 shares related to the mandatorily redeemable convertible preferred shares were not included in the computation of diluted per share amounts as the effect was antidilutive.

**26. Commitments, Contingencies and Guarantees:**

*Commitments*

We and our subsidiaries rent office space and office equipment under noncancellable operating leases with terms varying principally from one to thirty years. Rental expense (net of sublease rental income) was \$79.6 million, \$63.9 million and \$18.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Future minimum annual rentals (exclusive of month-to-month leases, real estate taxes, maintenance and certain other charges) under these leases at December 31, 2014 are as follows (in thousands):

2015 .....	\$ 67,549
2016 .....	70,453
2017 .....	67,300
2018 .....	62,641
2019 .....	59,434
Thereafter .....	<u>453,842</u>
	781,219
Less: sublease income .....	<u>(8,308)</u>
	<u>\$772,911</u>

Effective December 30, 2004, National Beef finalized an agreement with the City of Dodge City, Kansas, whereby in consideration of certain improvements made to the city water and wastewater systems, National Beef committed to make a series of service charge payments totaling \$19.3 million over a 20 year period, of which \$7.4 million remains as of December 31, 2014. Payments under the commitment will be approximately \$0.8 million in each of the years 2015 through 2017, with the remaining balance of \$5.0 million to be paid in subsequent years.

National Beef makes verbal commitments to cattle producers to purchase cattle approximately one week in advance of delivery of those cattle to its plants. The actual value paid for these cattle is determined after the cattle are delivered, weighed and inspected at National Beef's facilities. The total value of verbal commitments to purchase cattle as of December 31, 2014 was \$121.6 million.

Notes to Consolidated Financial Statements, continued

26. Commitments, Contingencies and Guarantees, continued:

The following table summarizes Jefferies commitments associated with certain business activities (in millions):

	Expected Maturity Date					Maximum Payout
	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	
Equity commitments (1)	\$ —	\$ 9.3	\$ .8	\$ —	\$216.3	\$ 226.4
Loan commitments (1)	50.7	440.2	283.1	20.7	.2	794.9
Mortgage-related and other purchase commitments	1,058.5	1,165.8	117.6	—	—	2,341.9
Forward starting reverse repos and repos	5,127.2	—	—	—	—	5,127.2
Other unfunded commitments (1)	6.3	—	—	—	23.0	29.3
	<u>\$6,242.7</u>	<u>\$1,615.3</u>	<u>\$401.5</u>	<u>\$20.7</u>	<u>\$239.5</u>	<u>\$8,519.7</u>

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

The table below presents Jefferies credit exposure from loan commitments, including funded amounts, summarized by period of expiration as of December 31, 2014. Credit exposure is based on the external credit ratings of the underlying or referenced assets of the loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	0 - 12 Months	1 - 5 Years	Greater Than 5 Years	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Investment grade	\$ —	\$ 55.1	\$—	\$ 55.1	\$ —	\$ 55.1
Non-investment grade	—	191.3	—	191.3	18.9	172.4
Unrated	129.3	620.9	2.2	752.4	185.0	567.4
Total	<u>\$129.3</u>	<u>\$867.3</u>	<u>\$2.2</u>	<u>\$998.8</u>	<u>\$203.9</u>	<u>\$794.9</u>

(1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.

(2) The corporate lending exposure at fair value includes \$22.6 million of funded loans included in Trading assets and a \$18.7 million net liability related to lending commitments recorded in Trading liabilities in the Consolidated Statement of Financial Condition as of December 31, 2014.

(3) Amounts represent the notional amount of unfunded lending commitments.

*Equity Commitments.* Equity commitments include commitments to invest in Jefferies joint ventures, Jefferies Finance and Jefferies LoanCore, and commitments to invest in private equity funds and in Jefferies Capital Partners, LLC, the manager of the private equity funds, which are managed by a team led by Brian P. Friedman, our President and a Director. As of December 31, 2014, Jefferies outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$30.5 million.

See Note 11 for additional information regarding Jefferies investments in Jefferies Finance and Jefferies LoanCore.

In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC (“Folger Hill”), which has registered as an investment adviser with the SEC, and expects to launch a multi-manager investment partnership. We have committed to invest \$400 million in Folger Hill’s investment partnership, which we expect to fund in the first quarter of 2015. We also committed to provide Folger Hill with a 3-year, \$20 million revolving credit facility to fund

## Notes to Consolidated Financial Statements, continued

### 26. Commitments, Contingencies and Guarantees, continued:

its start-up and initial operating expenses. As of December 31, 2014, \$3.2 million has been provided to Folger Hill under the revolving credit facility.

Additionally, as of December 31, 2014, Jefferies had other equity commitments to invest up to \$1.8 million in various other investments.

*Loan Commitments.* From time to time Jefferies makes commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions and to SPE sponsors in connection with the funding of CLO and other asset-backed transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. As of December 31, 2014, Jefferies has \$444.9 million of outstanding loan commitments to clients.

Loan commitments outstanding as of December 31, 2014, also include Jefferies portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance. The unfunded loan commitments to Jefferies Finance of \$104.0 million is unrated and included in the total unrated lending commitments of \$567.4 million presented in the table above.

*Mortgage-Related and Other Purchase Commitments.* Jefferies enters into forward contracts to purchase mortgage participation certificates, mortgage-backed securities and consumer loans. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the FNMA (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the GNMA (Ginnie Mae). Jefferies frequently securitizes the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related and other purchase commitments recorded in the Consolidated Statement of Financial Condition at December 31, 2014 was \$99.6 million.

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

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

#### *Contingencies*

Seven class-action lawsuits had been filed in New York and Delaware on behalf of a class consisting of Jefferies Group's stockholders concerning the transaction through which Jefferies Group LLC became our wholly-owned subsidiary. The class actions named as defendants the Company, Jefferies Group, certain members of our board of directors, certain members of Jefferies board of directors and, in certain of the actions, certain transaction-related subsidiaries. On October 31, 2014, the remaining defendants in the Delaware litigation entered into a settlement agreement with the plaintiffs in the Delaware litigation. The terms of that agreement, which are subject to court approval, provide for an aggregate payment of \$70.0 million to certain former equity holders of Jefferies Group, other than the defendants and certain of their affiliates, along with attorneys' fees to be determined and approved by the court; we have accrued for this aggregate payment and attorneys' fees. The agreement further provides that the settlement will be paid, at the Company's option, in either cash or the Company's common shares. If approved by the court, the settlement will resolve all of the class-action claims in Delaware, and release the claims brought in New York. While the defendants continue to deny each of the plaintiffs' claims and deny any liability, the defendants have entered into the agreement solely to settle and resolve their disputes, to avoid the costs and risks of further litigation and to avoid further distractions to our management. A hearing has been scheduled for March 25, 2015 to consider final approval of the settlement as



## Notes to Consolidated Financial Statements, continued

### 26. Commitments, Contingencies and Guarantees, continued:

well as an award of legal fees and reimbursement to plaintiffs' counsel in an aggregate amount not to exceed \$27.5 million in fees and \$1.1 million in expenses.

We and certain of our subsidiaries and officers are named as defendants in a consumer class action captioned *Sykes v. Mel Harris & Associates, LLC, et al.*, 09 Civ. 8486 (DC), in the United States District Court for the Southern District of New York. The named defendants also include the Mel Harris law firm, certain individuals and members associated with the law firm, and a process server, Samserv, Inc. and certain of its employees. The complaint alleges that default judgments obtained by the law firm against approximately 124,000 individuals in New York City Civil Court with respect to consumer debt purchased by our subsidiaries violated the Fair Debt Collection Practices Act, the Racketeer Influenced and Corrupt Organizations Act, the New York General Business Law and the New York Judiciary Law (alleged only as to the law firm). The complaint seeks injunctive relief, declaratory relief and damages on behalf of the named plaintiffs and others similarly situated. We asserted that we were an investor with respect to the subject purchased consumer debt and were regularly informed of the amounts received from debt collections, but otherwise had no involvement in any alleged illegal debt collection activities.

On December 29, 2010, the District Court denied defendants' motions to dismiss in part (including as to the claims made against us and our subsidiaries) and granted them in part (including as to certain of the claims made against our officers). On March 28, 2013, the Court certified a Rule 23(b)(2) class and a Rule 23(b)(3) class. Neither of the decisions issued by the Court addresses the ultimate merits of the case.

The United States Court of Appeals for the Second Circuit permitted us to appeal the District Court's March 28, 2013 class certification and the District Court granted a stay of the proceedings pending the Court of Appeals' decision. On February 10, 2015, the Second Circuit affirmed the certification of the class.

On December 14, 2014, we and plaintiffs executed a binding term sheet to settle the matter pursuant to which we expensed \$3.2 million in the fourth quarter, which is in addition to the \$20.0 million previously accrued for this matter and the \$22.8 million in deferred revenue. The parties are in the process of drafting a formal settlement agreement consistent with the term sheet. The settlement is subject to the District Court's approval.

On May 2, 2014, plaintiff Haverhill Retirement System ("Haverhill") filed an amended putative class action and derivative lawsuit (the "Complaint") entitled *Haverhill Retirement System v. Asali, et al.* in the Court of Chancery of the State of Delaware (the "Court of Chancery") against Harbinger Capital Partners LLC, Harbinger Capital Partners Master Fund I, Ltd., Global Opportunities Breakaway Ltd., Harbinger Capital Partners Special Situations Fund, L.P. (collectively, the "Harbinger Funds"), the members of the board of directors of Harbinger Group, Inc. ("Harbinger"), nominal defendant Harbinger, as well as Leucadia. The Complaint alleges, among other things, that the directors of Harbinger breached their fiduciary duties in connection with Leucadia's March 2014 purchase of preferred securities of subsidiaries of the Harbinger Funds that were exchangeable into Harbinger common stock owned by the Harbinger Funds, certain flaws in the process employed by the special committee of directors appointed by the Harbinger board in connection therewith, and that Leucadia aided and abetted the Harbinger board's breaches of fiduciary, as well as a claim of unjust enrichment against Leucadia. On April 1, 2014, the Chancery Court denied Haverhill's motion for expedited proceedings associated with the complaint originally filed by Haverhill on March 26, 2014. Haverhill filed an amended complaint on May 2, 2014. On July 2, 2014, the defendants moved to dismiss the amended complaint. On August 12, 2014, Plaintiffs filed another amended complaint. The amended complaint dropped Plaintiff's unjust enrichment claim against Leucadia. With respect to remedies sought, the amended complaint no longer sought an injunction against installing Leucadia designees as Board members and no longer sought rescission of Leucadia's right to select the director class to which one of its designees would be appointed. A settlement has been agreed by the parties that does not provide for any payment by the Company and includes, among other things, additional disclosures by Harbinger. A term sheet reflecting the settlement was signed on October 15, 2014. On December 19, 2014, final settlement papers were submitted to the Court. A settlement hearing is scheduled for April 6, 2015.

Notes to Consolidated Financial Statements, continued

26. Commitments, Contingencies and Guarantees, continued:

During the first quarter of 2014, Jefferies reached a non-prosecution agreement (“NPA”) with the United States Attorney for the District of Connecticut and a settlement agreement with the SEC relating to an investigation of purchases and sales of mortgage-backed securities. That NPA expired on January 29, 2015. That investigation arose from a matter that came to light in late 2011, at which time Jefferies terminated a mortgage-backed securities trader who was then indicted by the United States Attorney for the District of Connecticut in January 2013 and separately charged in a civil complaint by the SEC. Those settlement agreements included an aggregate \$25.0 million in payments, of which approximately \$11.0 million were payments to trading counterparties impacted by those activities, approximately \$10.0 million of which is a fine payable to the U.S. Attorney’s Office, and approximately \$4.0 million of which is a fine payable to the SEC. All such amounts were recognized in our consolidated financial statements for the year ended December 31, 2013. At December 31, 2014, Jefferies outstanding reserve with respect to remaining payments to be made under the agreements was approximately \$1.9 million. Additionally, pursuant to an undertaking required by the SEC settlement, Jefferies has retained an Independent Compliance Consultant, whose work was completed in January 2015.

We and our subsidiaries are parties to other legal and regulatory proceedings that are considered to be either ordinary, routine litigation incidental to their business or not significant to our consolidated financial position. We and our subsidiaries 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 do not believe that any of these actions will have a significant adverse effect on our consolidated financial position or liquidity, but any amounts paid could be significant to results of operations for the period.

*Guarantees*

*Derivative Contracts.* Jefferies dealer activities cause it to make markets and trade in a variety of derivative instruments. Certain derivative contracts that Jefferies has entered into meet the accounting definition of a guarantee under 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 Jefferies maximum potential payout under these contracts.

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under GAAP (in millions):

Guarantee Type	Expected Maturity Date					Notional/ Maximum Payout
	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	
Derivative contracts – non-credit related . . . . .	\$59,875.6	\$229.6	\$252.1	\$721.8	\$487.7	\$61,566.8
Written derivative contracts – credit related . . . . .	–	–	–	485.0	–	485.0
Total derivative contracts . . . . .	<u>\$59,875.6</u>	<u>\$229.6</u>	<u>\$252.1</u>	<u>\$1,206.8</u>	<u>\$487.7</u>	<u>\$62,051.8</u>

The external credit ratings of the underlying or referenced assets for our credit related derivatives contracts (in millions):

Credit related derivative contracts:	External Credit Rating						Notional/ Maximum Payout
	AAA/ Aaa	AA/ Aa	A	BBB/Baa	Below Investment Grade	Unrated	
Index credit default swaps . . . . .	\$480.0	\$ –	\$ –	\$ –	\$ –	\$ –	\$480.0
Single name credit default swaps . . . . .	–	–	–	5.0	–	–	5.0

## Notes to Consolidated Financial Statements, continued

### 26. Commitments, Contingencies and Guarantees, continued:

The derivative contracts deemed to meet the definition of a guarantee under 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). Jefferies substantially mitigates its exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments and Jefferies manages the risk associated with these contracts in the context of its overall risk management framework. Jefferies believes notional amounts overstate its expected payout and that fair value of these contracts is a more relevant measure of its obligations. The fair value of derivative contracts meeting the definition of a guarantee is approximately \$851.7 million.

*Berkadia.* We have agreed to reimburse Berkshire Hathaway for up to one-half of any losses incurred under a \$2.5 billion surety policy securing outstanding commercial paper issued by an affiliate of Berkadia. As of December 31, 2014, the aggregate amount of commercial paper outstanding was \$2.47 billion.

*Other Guarantees.* Jefferies is a member of various exchanges and clearing houses. In the normal course of business Jefferies provides 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. Jefferies obligations under such guarantees could exceed the collateral amounts posted. Jefferies maximum potential liability under these arrangements cannot be quantified; however, the potential for Jefferies to be required to make payments under such guarantees is deemed remote. Accordingly, no liability has been recognized for these arrangements.

*Indemnification.* In connection with the 2013 sale of Empire Insurance Company, we agreed to indemnify the buyer for certain of Empire’s lease obligations that were assumed by another subsidiary of ours as part of the sale of Empire. Our subsidiary was subsequently sold in 2014 to HomeFed as part of the real estate transaction with HomeFed. Although HomeFed has agreed to indemnify us for these lease obligations, our indemnification obligation under the Empire transaction remains. The primary lease expires in 2018 and the aggregate amount of lease obligation as of December 31, 2014 was approximately \$41.2 million. Substantially all of the space under the primary lease has been sublet to various third-party tenants for the full length of the lease term in amounts in excess of the obligations under the primary lease.

*Standby Letters of Credit.* At December 31, 2014, Jefferies provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$47.8 million, which expire within one year. Standby letters of credit commit Jefferies to make payment to the beneficiary if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary. Since commitments associated with these collateral instruments may expire unused, the amount shown does not necessarily reflect the actual future cash funding requirement.

Other subsidiaries of ours have outstanding letters of credit aggregating \$26.2 million at December 31, 2014.

### 27. Net Capital Requirements:

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority (“FINRA”), Jefferies LLC and Jefferies Execution Services, Inc. (“Jefferies Execution”), are subject to the SEC Net Capital Rule (“Rule 15c3-1”), which requires the maintenance of minimum net capital. Jefferies LLC and Jefferies Execution have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1.

On September 1, 2014, Jefferies Bache, LLC (an FCM) merged with and into Jefferies LLC, with Jefferies LLC as the surviving entity, registered as an FCM and is subject to Rule 1.17 of the CFTC, which sets forth minimum financial

**Notes to Consolidated Financial Statements, continued**

**27. Net Capital Requirements, continued:**

requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17.

Jefferies LLC and Jefferies Execution's net capital and excess net capital are as follows (in thousands):

	<u>Net Capital</u>	<u>Excess Net Capital</u>
Jefferies LLC . . . . .	\$1,025,113	\$913,465
Jefferies Execution . . . . .	6,150	5,900

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

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

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

**28. Other Fair Value Information:**

The carrying amounts and estimated fair values of our principal financial instruments that are not recognized at fair value on a recurring basis are as follows (in thousands):

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Other Assets:				
Notes and loans receivable (a) . . . . .	\$ 213,174	\$ 217,171	\$ 95,042	\$ 95,606
Financial Liabilities:				
Short-term borrowings (b) . . . . .	12,000	12,000	12,000	12,000
Long-term debt (b) . . . . .	8,527,929	8,806,700	8,180,865	8,230,191

(a) Notes and loans receivable: The fair values are primarily measured using Level 2 and 3 inputs principally based on discounted future cash flows using market interest rates for similar instruments.

(b) Short-term borrowings and long-term debt: The fair values of short-term borrowings are estimated to be the carrying amount. The fair values of non-variable rate debt are estimated using quoted prices and estimated rates that would be available for debt with similar terms. The fair value of variable rate debt is estimated to be the carrying amount.

**29. Related Party Transactions:**

*Jefferies Capital Partners and JEP IV Related Funds.* Jefferies has loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager of the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, our President and a Director ("Private Equity Related Funds"). Reflected in our Consolidated Statements of Financial Condition at December 31, 2014 and 2013 are loans to and/or equity investments in Private Equity Related Funds of \$60.7 million and \$61.7 million, respectively. Net losses aggregating \$14.9 million were recorded related to the Private Equity Related Funds for the year ended December 31, 2014 and net income aggregating \$10.1 million was recorded related to the Private Equity Related Funds for the period from the acquisition

## Notes to Consolidated Financial Statements, continued

### 29. Related Party Transactions, continued:

of Jefferies through December 31, 2013. For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 26.

*Berkadia Commercial Mortgage, LLC.* At December 31, 2014 and 2013, Jefferies has commitments to purchase \$344.8 million and \$300.0 million, respectively, in agency commercial mortgage-backed securities from Berkadia.

*Harbinger Group Inc.* As part of Jefferies loan secondary trading activities, it has unsettled purchases and sales of loans pertaining to portfolio companies within funds managed by Harbinger of \$232.0 million at December 31, 2014. Our Chairman also serves as Harbinger's Chairman.

*Officers, Directors and Employees.* We have \$20.1 million and \$13.9 million of loans outstanding to certain employees (none of whom are an executive officer or director of the Company) that are included in Other assets in the Consolidated Statements of Financial Condition at December 31, 2014 and 2013, respectively. Receivables from and payables to customers includes balances arising from officers, directors and employees individual security transactions. These transactions are subject to the same regulations as all customer transactions and are provided on substantially the same terms. During 2014, Jefferies sold private equity interests with a fair value of \$4.0 million at their then fair value to a private equity fund owned by Jefferies employees and has also provided a guarantee of the fund's credit agreement.

*National Beef.* National Beef participates in a cattle supply agreement with a minority owner and holder of a redeemable noncontrolling interest in National Beef. Under this agreement National Beef has agreed to purchase 735,385 head of cattle each year (subject to adjustment), from the members of the minority owner, with prices based on those published by the U.S. Department of Agriculture, subject to adjustments for cattle performance. National Beef obtained approximately 23% and 20% of its cattle requirements under this agreement during 2014 and 2013, respectively.

National Beef also enters into transactions with an affiliate of another minority owner and holder of a redeemable noncontrolling interest in National Beef to buy and sell a limited number of beef products. During the year ended December 31, 2014, sales to this affiliate were \$43.2 million and purchases were \$12.7 million. During the year ended December 31, 2013, sales to this affiliate were \$25.6 million and purchases were \$9.4 million. At December 31, 2014 and 2013, amounts due from and payable to these related parties were not significant. Both of these arrangements are based on what we believe to be competitive market prices.

*HomeFed.* As more fully described in Note 11, during 2014 we sold to HomeFed substantially all of our real estate properties and operations, our interest in BRP and cash of approximately \$14.0 million, in exchange for 7,500,000 newly issued unregistered HomeFed common shares. As discussed in Note 11, as a result of a 1998 distribution to all of our shareholders, approximately 4.8% of HomeFed is beneficially owned by our Chairman at December 31, 2014. Our Chairman also serves as HomeFed's Chairman and our President is a Director of HomeFed.

See Note 11 for information on transactions with Jefferies Finance and Jefferies LoanCore.

### 30. Discontinued Operations and Assets Held for Sale:

In September 2014, we decided not to proceed with further development of the Lake Charles clean energy project that would have used gasification technology to convert low-grade fuel fossils into clean-energy products. Our decision was based on final estimates of the likely ultimate cost of completion of the project. Project development costs to date have been expensed as incurred. As a result, we have classified the clean energy project as a discontinued operation.

In July 2014, we sold Premier, through which we had conducted our gaming operations, for aggregate cash consideration of \$250.0 million, subject to working capital adjustment. We recorded a pre-tax gain on sale of discontinued operations of \$12.1 million in the third quarter of 2014.

Notes to Consolidated Financial Statements, continued

**30. Discontinued Operations and Assets Held for Sale, continued:**

During the third quarter of 2013, we sold a small power production business and recorded a pre-tax gain on sale of discontinued operations of \$6.4 million.

In October 2013, we concluded that we would no longer continue to fund Sangart's research and development operations, through which we had conducted our medical product development operations. We commenced and completed an orderly shut-down of Sangart's operations during 2013; as a result, our medical product development operations have been classified as a discontinued operation.

In October 2012, we sold Keen Energy Services, LLC for cash consideration of \$100.0 million and a four-year interest bearing promissory note issued by the purchaser which was valued at \$37.5 million. We also retained Keen's net working capital, principally customer receivables and trade payables. We recorded a pre-tax loss on sale of discontinued operations of \$18.0 million for the year ended December 31, 2012.

A summary of the results of discontinued operations for the clean energy project, Premier, Sangart, Keen and the small power production business is as follows for the three years ended December 31, 2014 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues and other income:			
Oil and gas drilling services . . . . .	\$ —	\$ —	\$ 95,674
Gaming entertainment . . . . .	<b>67,739</b>	114,844	119,330
Investment and other income . . . . .	<b>4,700</b>	4,691	5,716
	<u><b>72,439</b></u>	<u>119,535</u>	<u>220,720</u>
Expenses:			
Direct operating expenses:			
Oil and gas drilling services . . . . .	—	—	79,143
Gaming entertainment . . . . .	<b>48,877</b>	85,233	88,127
Compensation and benefits . . . . .	<b>4,503</b>	19,534	24,409
Depreciation and amortization . . . . .	<b>5,208</b>	8,919	28,475
Selling, general and other expenses . . . . .	<b>41,378</b>	98,178	60,997
	<u><b>99,966</b></u>	<u>211,864</u>	<u>281,151</u>
Loss from discontinued operations before income taxes . . . . .	<u><b>(27,527)</b></u>	<u>(92,329)</u>	<u>(60,431)</u>
Income tax (benefit) . . . . .	<u><b>(9,634)</b></u>	<u>(32,303)</u>	<u>(20,971)</u>
Loss from discontinued operations after income taxes . . . . .	<u><b>\$(17,893)</b></u>	<u>\$(60,026)</u>	<u>\$(39,460)</u>

Income from discontinued operations also reflects distributions of \$5.7 million for 2012 from our subsidiary, Empire Insurance Company, which has been undergoing a voluntary liquidation, was classified as a discontinued operation in 2001 and was written-off based on its expected future cash flows at that time. During 2013, we sold Empire for cash consideration of \$3.2 million, subject to certain post-closing working capital adjustments, and the sale resulted in the recognition of a tax benefit of \$5.4 million. Gain on disposal of discontinued operations for 2013 reflects an after tax gain of \$8.6 million for this sale.

During 2012, we sold our small Caribbean-based telecommunications provider for aggregate consideration of \$27.5 million, net of working capital adjustments, and recognized a pre-tax gain on sale of discontinued operations of \$11.7 million. We have not classified this business' historical results of operations or its assets and liabilities as discontinued operations because such amounts were not significant.

In February 2014 we agreed to sell substantially all of our real estate properties and operations and BRP to HomeFed for HomeFed common shares. Results of operations for our real estate properties and operations are reflected in other merchant banking businesses. Assets included in the transaction with HomeFed have been included with Other assets

Notes to Consolidated Financial Statements, continued

**30. Discontinued Operations and Assets Held for Sale, continued:**

as Assets held for sale in the Consolidated Statement of Financial Condition at December 31, 2013 and include the following components (in thousands):

	<u>2013</u>
Real estate .....	\$112,016
Investment in associated company .....	30,793
Other, net .....	<u>17,310</u>
	<u>\$160,119</u>

**31. Segment Information:**

Our operating segments consist of our consolidated businesses, which offer different products and services and are managed separately. Our reportable segments, based on qualitative and quantitative requirements, are Jefferies, National Beef, and Corporate and other. Jefferies is a global full-service, integrated securities and investment banking firm. National Beef processes and markets fresh boxed beef, case-ready beef, beef by-products and wet blue leather for domestic and international markets. All other consists of our other financial services businesses and our other merchant banking businesses. Our other financial services businesses include the Leucadia asset management platform, specialty finance companies, the commercial mortgage banking investment and the investment in HomeFed. Our other merchant banking businesses primarily include manufacturing, oil and gas exploration and production, real estate, and our investments in fixed wireless broadband services, automobile dealerships, and our gold and silver mining project.

Corporate and other assets primarily consist of financial instruments owned, the deferred tax asset (exclusive of Jefferies deferred tax asset), cash and cash equivalents and corporate and other revenues primarily consist of interest, other income and net realized securities gains and losses. We do not allocate Corporate and other revenues or overhead expenses to the operating units.

Certain information concerning our segments for the years ended December 31, 2014, 2013 and 2012 is presented in the following table. Consolidated subsidiaries are reflected as of the date a majority controlling interest was acquired. As discussed above, Jefferies became our wholly-owned subsidiary on March 1, 2013 and is reflected in our consolidated financial statements utilizing a one month lag. We have made changes to the corporate segment to reflect the way we currently manage our business, and have reclassified the prior years to conform to the current year's presentation.

Notes to Consolidated Financial Statements, continued

31. Segment Information, continued:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
		(In thousands)	
Net Revenues:			
Reportable Segments:			
Jefferies	\$ 2,986,325	\$ 2,134,002	\$ —
National Beef	7,832,424	7,487,724	7,480,934
Corporate and other	60,720	50,190	67,039
Total net revenues related to reportable segments	<u>10,879,469</u>	<u>9,671,916</u>	<u>7,547,973</u>
All other	607,016	753,830	1,856,611
Total consolidated net revenues	<u>\$11,486,485</u>	<u>\$10,425,746</u>	<u>\$9,404,584</u>
Pre-tax income (loss) from continuing operations:			
Reportable Segments:			
Jefferies	\$ 358,396	\$ 260,984	\$ —
National Beef	(40,303)	(42,358)	59,048
Corporate and other	(144,508)	(91,917)	(122,476)
Pre-tax income (loss) from continuing operations related to reportable segments	<u>173,585</u>	<u>126,709</u>	<u>(63,428)</u>
All other	305,752	491,093	1,585,607
Parent Company interest	(98,115)	(72,217)	(80,150)
Total consolidated pre-tax income from continuing operations	<u>\$ 381,222</u>	<u>\$ 545,585</u>	<u>\$1,442,029</u>
Depreciation and amortization expenses:			
Reportable Segments:			
Jefferies	\$ 78,566	\$ 59,631	\$ —
National Beef	85,305	88,483	83,063
Corporate and other	5,627	9,924	12,785
Total depreciation and amortization expenses related to reportable segments	<u>169,498</u>	<u>158,038</u>	<u>95,848</u>
All other	16,495	9,387	20,540
Total consolidated depreciation and amortization expenses	<u>\$ 185,993</u>	<u>\$ 167,425</u>	<u>\$ 116,388</u>
Identifiable assets employed:			
Reportable Segments:			
Jefferies (1)	\$44,563,808	\$40,168,572	\$ —
National Beef	1,718,521	1,703,662	1,797,152
Corporate and other	3,192,877	4,495,819	3,958,327
Identifiable assets employed related to reportable segments	<u>49,475,206</u>	<u>46,368,053</u>	<u>5,755,479</u>
All other	2,209,275	942,260	2,786,165
Loans to and investments in associated companies	939,427	556,468	807,474
Total consolidated assets	<u>\$52,623,908</u>	<u>\$47,866,781</u>	<u>\$9,349,118</u>



Notes to Consolidated Financial Statements, continued

31. Segment Information, continued:

Net revenues for Jefferies are recorded in the geographic region in which the position was risk-managed, in the case of investment banking, in which the senior coverage banker is located, or for asset management, according to the location of the investment advisor. Net revenues by geographic region for Jefferies for the year ended December 31, 2014 and for the period from the Jefferies acquisition through December 31, 2013 were as follows (in thousands):

	Year Ended December 31, 2014	For the Period From the Jefferies Acquisition Through December 31, 2013
Americas (2) .....	<b>\$2,257,870</b>	\$1,645,110
Europe (3) .....	<b>634,358</b>	441,795
Asia .....	<b>94,097</b>	47,097
	<u><b>\$2,986,325</b></u>	<u>\$2,134,002</u>

- (1) At December 31, 2014 and 2013, includes \$773.1 million and \$701.9 million, respectively, of Jefferies loans to and investments in associated companies and \$399.6 million and \$524.8 million, respectively, of Jefferies deferred tax asset, net.
- (2) Substantially all relates to United States results.
- (3) Substantially all relates to United Kingdom results.

Consolidated net revenues exclusive of Jefferies principally relate to the United States for 2014, 2013 and 2012.

Net realized securities gains for Corporate and other aggregated \$30.4 million, \$16.0 million and \$46.9 million during 2014, 2013 and 2012, respectively. In 2013, All other includes realized security gains of \$227.6 million related to the sale of Inmet. In 2012, All other includes realized securities gains of \$543.7 million from the sale of our common shares of Fortescue and other income from the gain on the redemption of the FMG Note of \$526.2 million.

Interest expense classified as a component of Net revenues relates to Jefferies. For the years ended December 31, 2014, 2013 and 2012, interest expense classified as a component of Expenses was primarily comprised of National Beef (\$14.5 million, \$12.3 million and \$12.4 million, respectively) and parent company interest (\$98.1 million, \$72.2 million and \$80.2 million, respectively).

Notes to Consolidated Financial Statements, continued

32. Selected Quarterly Financial Data (Unaudited):

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(In thousands, except per share amounts)			
<b>2014</b>				
Net revenues . . . . .	<u>\$2,942,524</u>	<u>\$2,851,963</u>	<u>\$3,003,643</u>	<u>\$2,688,355</u>
Income (loss) from continuing operations . . . . .	<u>\$ 100,846</u>	<u>\$ 70,190</u>	<u>\$ 58,253</u>	<u>\$ (14,038)</u>
Income (loss) from discontinued operations, net of taxes . . . . .	<u>\$ (8,909)</u>	<u>\$ (4,240)</u>	<u>\$ (5,676)</u>	<u>\$ 932</u>
Gain (loss) on disposal of discontinued operations, net of taxes . . . . .	<u>\$ –</u>	<u>\$ 500</u>	<u>\$ 7,685</u>	<u>\$ (6,518)</u>
Net (income) loss attributable to the noncontrolling interest . . . . .	<u>\$ (2,537)</u>	<u>\$ 912</u>	<u>\$ 1,058</u>	<u>\$ 1,294</u>
Net (income) loss attributable to the redeemable noncontrolling interests . . . . .	<u>\$ 5,932</u>	<u>\$ (1,273)</u>	<u>\$ (5,625)</u>	<u>\$ 9,582</u>
Preferred stock dividends . . . . .	<u>\$ (1,016)</u>	<u>\$ (1,015)</u>	<u>\$ (1,016)</u>	<u>\$ (1,015)</u>
Net income (loss) attributable to Leucadia National Corporation common shareholders . . . . .	<u>\$ 94,316</u>	<u>\$ 65,074</u>	<u>\$ 54,679</u>	<u>\$ (9,763)</u>
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations . . . . .	<u>\$ .27</u>	<u>\$ .18</u>	<u>\$ .14</u>	<u>\$(.01)</u>
Income (loss) from discontinued operations . . . . .	<u>(.02)</u>	<u>(.01)</u>	<u>(.02)</u>	<u>–</u>
Gain (loss) on disposal of discontinued operations . . . . .	<u>–</u>	<u>–</u>	<u>.02</u>	<u>(.02)</u>
Net income (loss) . . . . .	<u>\$ .25</u>	<u>\$ .17</u>	<u>\$ .14</u>	<u>\$(.03)</u>
Number of shares used in calculation . . . . .	<u>368,487</u>	<u>371,979</u>	<u>373,347</u>	<u>373,617</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations . . . . .	<u>\$ .27</u>	<u>\$ .18</u>	<u>\$ .14</u>	<u>\$(.01)</u>
Income (loss) from discontinued operations . . . . .	<u>(.02)</u>	<u>(.01)</u>	<u>(.02)</u>	<u>–</u>
Gain (loss) on disposal of discontinued operations . . . . .	<u>–</u>	<u>–</u>	<u>.02</u>	<u>(.02)</u>
Net income (loss) . . . . .	<u>\$ .25</u>	<u>\$ .17</u>	<u>\$ .14</u>	<u>\$(.03)</u>
Number of shares used in calculation . . . . .	<u>377,348</u>	<u>373,179</u>	<u>373,375</u>	<u>373,617</u>

Notes to Consolidated Financial Statements, continued

32. Selected Quarterly Financial Data (Unaudited), continued:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
<u>2013</u>				
Net revenues . . . . .	<u>\$2,297,421</u>	<u>\$2,675,449</u>	<u>\$2,532,052</u>	<u>\$2,920,824</u>
Income from continuing operations . . . . .	<u>\$ 310,037</u>	<u>\$ 67,918</u>	<u>\$ 29,974</u>	<u>\$ 1,175</u>
Loss from discontinued operations, net of taxes . . . . .	<u>\$ (9,423)</u>	<u>\$ (9,767)</u>	<u>\$ (19,751)</u>	<u>\$ (21,085)</u>
Gain (loss) on disposal of discontinued operations, net of taxes . . . . .	<u>\$ (325)</u>	<u>\$ 385</u>	<u>\$ 4,160</u>	<u>\$ 8,895</u>
Net (income) loss attributable to the noncontrolling interest . . . . .	<u>\$ 622</u>	<u>\$ 729</u>	<u>\$ (253)</u>	<u>\$ 64</u>
Net (income) loss attributable to the redeemable noncontrolling interests . . . . .	<u>\$ 4,531</u>	<u>\$ (5,638)</u>	<u>\$ (10,132)</u>	<u>\$ 20,521</u>
Preferred stock dividends . . . . .	<u>\$ (339)</u>	<u>\$ (1,015)</u>	<u>\$ (1,027)</u>	<u>\$ (1,016)</u>
Net income attributable to Leucadia National Corporation common shareholders . . . . .	<u>\$ 305,103</u>	<u>\$ 52,612</u>	<u>\$ 2,971</u>	<u>\$ 8,554</u>
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income from continuing operations . . . . .	\$1.13	\$.16	\$.05	\$.05
Loss from discontinued operations . . . . .	(.03)	(.02)	(.05)	(.05)
Gain (loss) on disposal of discontinued operations . . . . .	—	—	.01	.02
Net income . . . . .	<u>\$1.10</u>	<u>\$.14</u>	<u>\$.01</u>	<u>\$.02</u>
Number of shares used in calculation . . . . .	<u>275,735</u>	<u>367,752</u>	<u>367,641</u>	<u>368,146</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income from continuing operations . . . . .	\$1.11	\$.16	\$.05	\$.05
Loss from discontinued operations . . . . .	(.03)	(.02)	(.05)	(.05)
Gain (loss) on disposal of discontinued operations . . . . .	—	—	.01	.02
Net income . . . . .	<u>\$1.08</u>	<u>\$.14</u>	<u>\$.01</u>	<u>\$.02</u>
Number of shares used in calculation . . . . .	<u>281,587</u>	<u>367,837</u>	<u>367,687</u>	<u>368,262</u>

The second quarter of 2013 includes an out of period adjustment of \$16.4 million to record Berkadia income related to prior periods. The fourth quarter of 2013 includes an out of period adjustment of \$15.4 million to record real estate impairment charges related to prior periods.

In 2014 and 2013, the totals of quarterly per share amounts do not equal annual per share amounts because of changes in outstanding shares during the year.

# Leucadia National Corporation

## Directors

Joseph S. Steinberg  
*Chairman*

Richard B. Handler  
*Chief Executive Officer*

Brian P. Friedman  
*President*

Linda L. Adamany<sup>1 3</sup>  
*Retired Group Vice President of BP plc and  
Current Non-Executive Director of  
AMEC Foster Wheeler plc and Coeur Mining, Inc.*

Robert D. Beyer<sup>2 3</sup>  
*Chairman of Chaparral Investments LLC*

Francisco L. Borges<sup>1 3</sup>  
*Chairman of Landmark Partners*

W. Patrick Campbell<sup>1</sup>  
*Independent Consultant, Former Chairman  
and CEO of Magex Limited*

Robert E. Joyal<sup>2 3</sup>  
*Retired President of Babson Capital  
Management LLC*

Jeffrey C. Keil<sup>1 3</sup>  
*Retired President of Republic  
New York Corporation*

Michael T. O'Kane<sup>1 2</sup>  
*Retired Senior Managing Director  
of TIAA-CREF*

Stuart H. Reese<sup>1</sup>  
*Retired CEO, Chairman and President  
of MassMutual*

## Registrar and Transfer Agent

American Stock Transfer &  
Trust Company, LLC  
6201 15th Avenue  
Brooklyn, New York 11219-9821  
(800) 937-5449  
www.amstock.com

## Officers

Richard B. Handler  
*Chief Executive Officer*

Brian P. Friedman  
*President*

Joseph S. Steinberg  
*Chairman*

Michael J. Sharp  
*Executive Vice President and General Counsel*

Teresa S. Gendron  
*Vice President and Chief Financial Officer*

Barbara L. Lowenthal  
*Vice President and Comptroller*

Rocco J. Nittoli  
*Vice President and Treasurer*

## Auditors

PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, New York 10017-6204

The Common Stock is listed for  
trading on the New York Stock Exchange  
under the symbol "LUK."

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<sup>1</sup> Audit Committee

<sup>2</sup> Compensation Committee

<sup>3</sup> Nominating and Corporate Governance Committee





Leucadia National Corporation

520 Madison Avenue  
New York, New York 10022