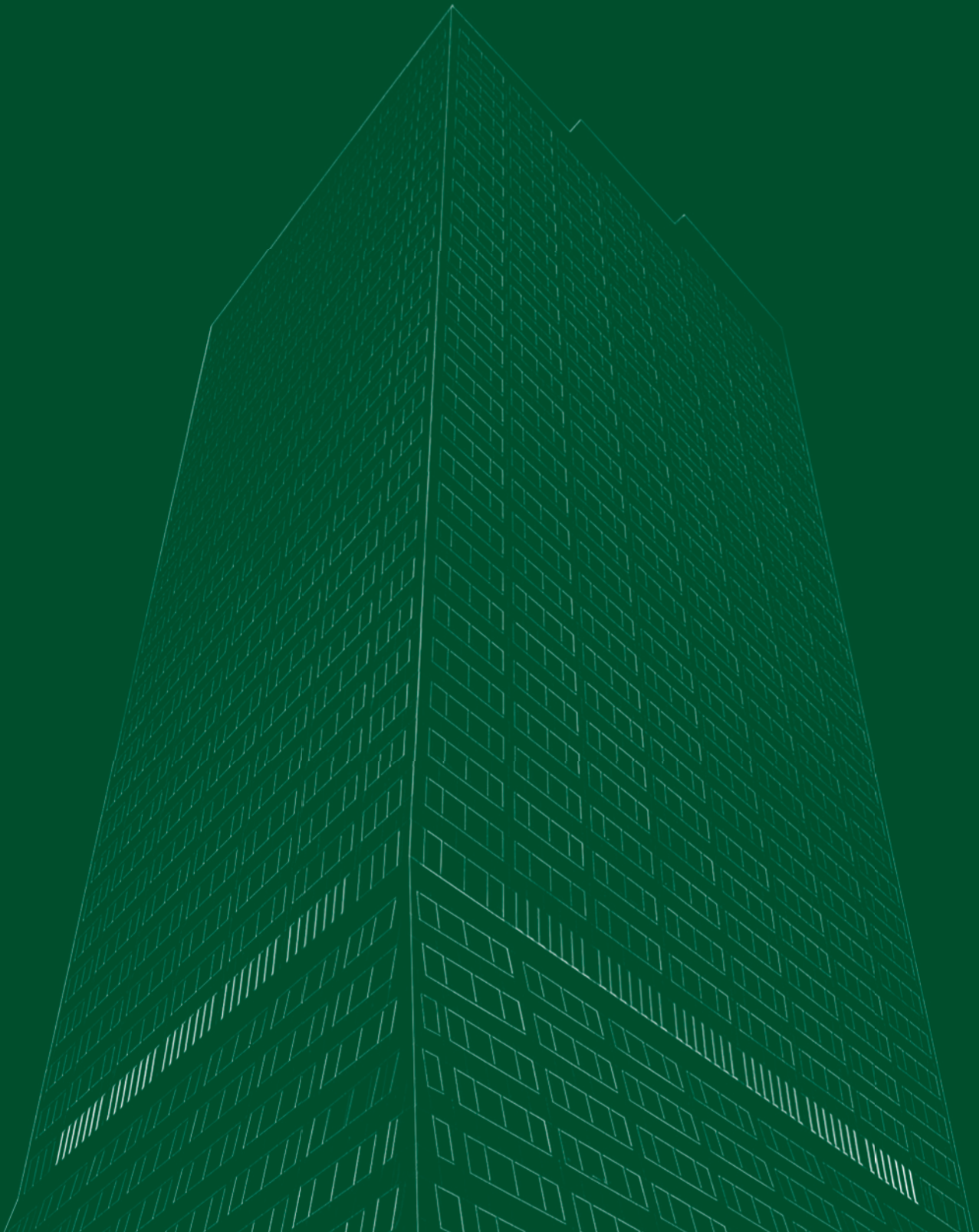




LEUCADIA NATIONAL CORPORATION

ANNUAL REPORT 2015



February 22, 2016

Dear Fellow Shareholders,

We thought 2015 would be a pretty good year for Leucadia, but beginning in August, a tsunami of market volatility struck land and damaged the results of Jefferies' Fixed Income businesses and, more recently, Jefferies' Equities and Investment Banking efforts, as well as our Leucadia Asset Management platform. We were not unprepared, having decided last year to exit the Bache futures and commodities business, and later in 2015, determined to reduce the size of Jefferies' balance sheet, debt and risk appetite, as well as make some other targeted changes in its business model. Notwithstanding these actions, we did not escape unscathed and the year ended in disappointment, with Leucadia earning \$369.2 million, which excludes the operating results of Jefferies' Bache business.

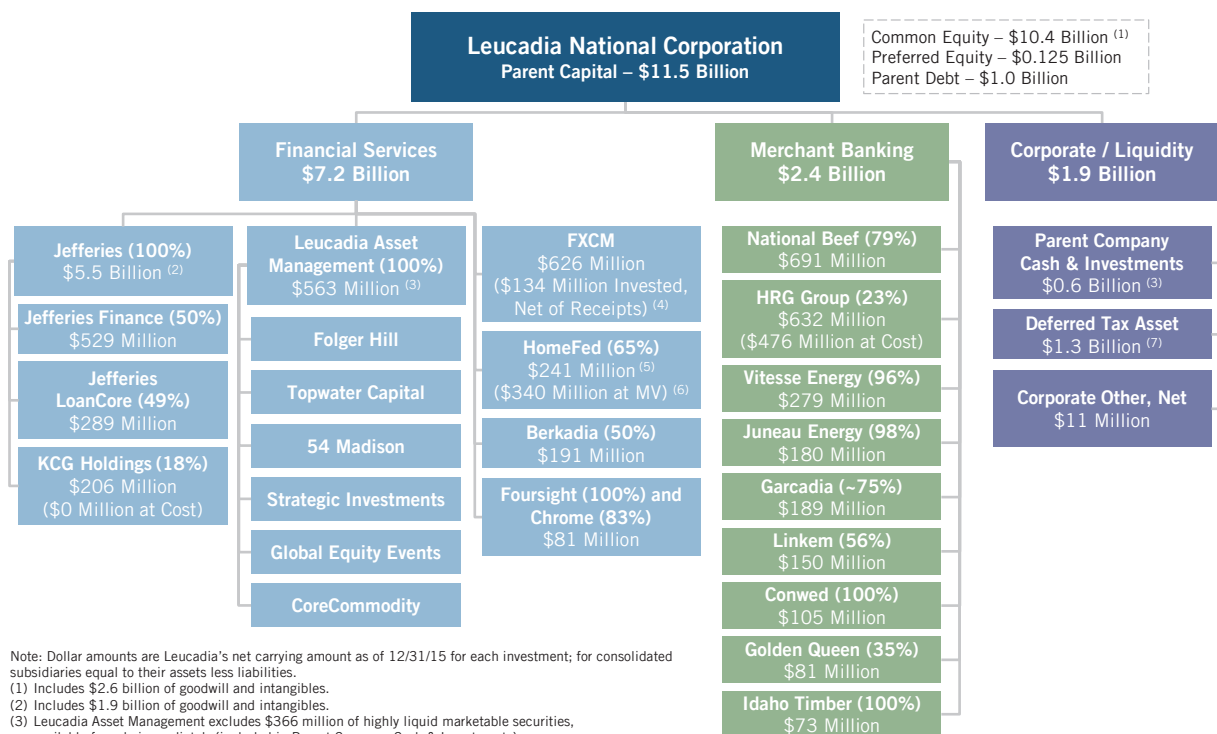
There are bright spots. Our investment in FXCM has proven to be an exceptional opportunity and investment. At National Beef, Mother Nature is doing her work, cows are having calves and ranchers are retaining the females to produce more cattle. This is good news for National Beef and consumers, with more steaks and hamburgers, and more profitable operations. We are just beginning to see the fruits of the virtuous part of the beef cycle.

There remains significant long-term upside in the value of Leucadia, which exists in the intrinsic value of our businesses and is not fully reflected in our current dismal stock price. We will discuss all of our businesses later in this letter.

As we write, there is continuing volatility in the fixed income and equity trading markets, as well as in energy prices. Scratches and dents seem inevitable and we won't dare make predictions for the rest of the year, but based on the actions we have taken to date, our businesses are prepared to weather the storm, and several are doing quite well. We are both aligned long-term investors in Leucadia stock and will continue to work our hardest to deliver good results in the coming years.

In the current first quarter, the share prices of our three investments that get marked to fair value, KCG (held at Jefferies), FXCM and HRG, are all taking their lumps, as is the market, but our investment thesis for each is intact and the outlook is positive. Berkadia, Garcadia, Conwed and Idaho Timber continue to generate solid results and return on equity, and we expect that Jefferies, National Beef and Leucadia Asset Management will get there too. Our oil and gas investments are faring reasonably, even in this low energy price environment. Later in this letter, we write a bit about these companies and several other of our businesses that are not yet generating profits, but that we like very much and have very attractive long-term value creation prospects, including HomeFed, Linkem, Golden Queen and our vehicle finance businesses. Historically, Leucadia has had lumpy results (we have the lumps to show for it), and our transition from the past to the future has had more headwinds than we would like, but rest assured our focus is on enhancing the value of all of our shares.

We classify our businesses into two groups, the first with current earning power and the second with potential for the future. For reference, we include below updated versions of two slides from our October Investor Day, which provide a detailed overview of our businesses.



Note: Dollar amounts are Leucadia's net carrying amount as of 12/31/15 for each investment; for consolidated subsidiaries equal to their assets less liabilities.

(1) Includes \$2.6 billion of goodwill and intangibles.

(2) Includes \$1.9 billion of goodwill and intangibles.

(3) Leucadia Asset Management excludes \$366 million of highly liquid marketable securities, available for sale immediately (included in Parent Company Cash & Investments).

(4) Represents the initial cash outlay of \$279 million reduced by cash receipts of \$145 million as of 12/31/15.

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

(6) Market value as of 12/31/15.

(7) Represents the Leucadia net deferred tax asset; the Jefferies net deferred tax asset is reflected within the Jefferies book value presented.

	Opportunity	Leucadia Tangible Capital (\$ Millions)	%
Jefferies	Grow Investment Banking and Equities; Refocus Fixed Income	\$3,593	40.5%
Berkadia	Leveraging Our Momentum and the Growing Market Opportunity	\$191	2.2%
National Beef	Cyclical Return to Potential	\$46	0.5%
Garcadia	Continued Operating Improvement	\$189	2.1%
Conwed	Grow Recent Acquisitions; Drive Organic Growth with New Applications and Market Expansion	\$43	0.5%
Idaho Timber	Continue Strong Management Across Cycle; Drive Volume and Production Efficiency	\$73	0.8%
	Sub-total	\$4,135	46.6%
Leucadia Asset Management	Performance Drives Growth in AUM and Value Creation	\$560	6.3%
FXCM	Repayment and Recapitalization; Growth Opportunity	\$626	7.1%
HomeFed	Inventory Sales to Lead Monetization	\$241	2.7%
Foursight & Chrome	Growth to Scale and Operating Leverage	\$81	0.9%
HRG	Drive Value Through Simplification	\$632	7.1%
Vitesse & Juneau	Upside in Operations and Commodity Price	\$459	5.2%
Linkem	Execute to Deliver on Open-Ended Opportunity	\$150	1.7%
Golden Queen	Ramp-up Mine Production	\$81	0.9%
	Sub-total	\$2,830	31.9%
Deferred Tax Asset	Monetize DTA	\$1,255	14.2%
Cash & Investments	Buffer	\$614	6.9%
	Plus: Corporate Other Assets, Net	\$11	0.1%
	Plus: Other	\$22	0.2%
	Gross Tangible Capital	\$8,867	100%
	Less: Debt and Preferred Equity	(\$1,114)	
	Tangible Common Equity	\$7,753	

OUR BUSINESSES

Jefferies

Jefferies' full year results did not meet expectations. We have made significant changes and are committed to improving performance in 2016. On the positive side, diversification and expertise came through in the form of solid full year results for Investment Banking and Equities. We reported strong Investment Banking Net Revenues for the year of \$1.4 billion, partially overcoming a market-driven slowdown in our Leveraged Finance and Energy investment banking businesses in which we have leading market positions. We continued to gain profitable market share in our Equities Sales and Trading business. Despite the challenges experienced by most of our Fixed Income credit businesses and, in contrast, we saw solid Net Revenues recorded by our U.S. and International Rates, and U.S. Investment Grade corporate credit businesses.

Fixed Income, which has been a solid to excellent business for Jefferies for many years, did not perform well in 2015. Almost all of our Fixed Income credit businesses were negatively impacted by the long anticipated lift-off in Federal Reserve rate-setting, a collapse in the global energy market (where we have long been an active adviser, capital raiser and trader), reduced originations in Leveraged Finance and anemic liquidity — all of which impacted performance in the fourth quarter.

As promised during our Investor Day, we have reduced Jefferies' balance sheet and capital, consistent with the market environment. At the same time, we recruited new leadership in certain areas of our Fixed Income and Equities businesses to strengthen both our client offering and our results, and continue to selectively add accomplished senior professionals to our Investment Banking effort.

Jefferies' assets at the end of fiscal 2015 were \$38.6 billion, down \$4.2 billion from three months prior and \$6.0 billion from the end of fiscal 2014. Jefferies' leverage (as a percent of tangible net worth) was at its lowest level in seven years. In addition to the absolute reduction in our balance sheet, our long securities inventory was \$16.6 billion at fiscal year-end, down \$2.3 billion from three months prior, and down \$2.1 billion from the prior fiscal year-end. These reductions were substantially effected during the fourth quarter and impacted Jefferies' 2015 results, but leave Jefferies in a better position to succeed in 2016 and beyond. At the same time, the assets associated with the Prime Securities business, comprised primarily of securities held on behalf of clients, increased to \$3.9 billion from \$3.3 billion at the end of the prior quarter and \$3.2 billion at the end of 2014. Separately, Jefferies Finance, Jefferies' 50%-owned corporate lending joint venture with MassMutual, completed the syndication of a number of its committed financings through year-end 2015, with outstanding commitments being about 29% lower than the average of commitments outstanding at quarter-ends over the last two years and 33% lower when compared to the end of 2014.

Jefferies' unsecured long-term debt has been reduced by \$700 million to \$5.6 billion at year-end from \$6.3 billion one year ago, and the \$350 million March 2016 debt maturity will be repaid from cash on hand. Jefferies' Level 3 assets remain at about 3% of inventory, and the liquidity buffer at \$5 billion after the repayment of a \$500 million debt maturity during the fourth quarter. Jefferies' net distressed trading energy exposure was \$39 million at year-end. Average VaR for the fourth quarter of \$10 million was lower by 40% compared to \$14 million for the third quarter.

The significant changes to Jefferies' Fixed Income business followed our decision to exit the Bache futures and commodities business, which removes a significant drag on Jefferies' profitability. With respect to Bache, in 2015, we incurred pre-tax losses of \$135 million, including wind down costs of \$90 million.

As we write this letter, Jefferies is continuing to face a turbulent market environment, with extreme volatility and lower prices in almost every asset class. Jefferies' balance sheet, capital allocations and risk levels remain consistent with the actions we took toward the end of last year, and Jefferies' fixed income business, while far from robust, is thus far performing better. New issue capital markets are barely open and Investment Banking deal flow is sparse, as many transactions are being delayed due to market conditions. Similar to most market participants, we are experiencing some meaningful markdowns in equity positions held in inventory. Despite these short-term challenges, we believe Jefferies is poised for much better results when market conditions eventually stabilize.

Our management team has navigated challenging periods at Jefferies before as 1990, 1994, 1998, 2001-02, 2008-09, 2011 and now 2015, each delivered a unique dislocation. Each of these periods was also followed by unique growth opportunities and an improved competitive position. In 2016, Jefferies will continue to focus on our clients, be relentless in finding areas where we can continue to improve our operating results, hire new quality partners, prudently manage our risk, and never stop appreciating our employee-partners whose hard work and dedication are the backbone and most important assets of the firm. We thank Pete Forlenza (Equities), Fred Orlan (Fixed Income), Ben Lorello (Investment Banking), Peg Broadbent (CFO) and Mike Sharp (General Counsel of Leucadia and Jefferies) for their indefatigable leadership efforts at Jefferies.

FXCM

Last year's shareholder letter described the sudden and remarkable events that led to our January 2015 investment in FXCM. This year, we can report that our investment in FXCM is looking solid. Through the end of 2015, our \$300 million senior secured term-loan has generated \$166 million of principal, interest and fees to Leucadia and \$193 million remains outstanding under the credit agreement. Drew Niv and the FXCM management team have done an excellent job stabilizing and even strengthening the business, all while selling off non-core assets in order to pay off our loan. FXCM has come a long way from the extraordinary event that led to our involvement, and it is well on its way to regain and hopefully exceed its historic position in the global foreign exchange market.

Our investment in FXCM is held at fair value and is marked-to-market each quarter. This has created significant short-term variability in Leucadia's (and FXCM's) earnings. We determine fair value with the assistance of a nationally recognized third-party valuation firm, and it is based on valuation models that are impacted by various inputs and assumptions, including, most significantly, FXCM's publicly traded stock price and its volatility. We have had discussions with FXCM about restructuring our profit interest in a manner that is consistent with a sustainable long-term and value-enhancing strategy for both companies.

Leucadia Asset Management

Our goal at Leucadia Asset Management is to leverage the opportunity flow of Jefferies to build a diversified alternative asset management platform by seeding and developing focused funds managed by distinct management teams. Success will mean growing third party AUM to deliver long-term stable cash flows to Leucadia, along with a reasonable return on our own invested capital, expecting to recycle this capital into new efforts over time.

2015 was a busy year for Leucadia Asset Management. In March, with our partner Sol Kumin, we successfully launched Folger Hill Asset Management with \$1.1 billion in assets under management. Later in the year, we partnered with Henry Silverman to create 54 Madison, a vehicle to invest in hotel and leisure real estate opportunities now with \$500 million in assets under management. Our Strategic Investment Division (part of Jefferies Investment Advisors) led by Vlad Portnoy is preparing for the launch

of a new fund off the success of its Structured Alpha program. Topwater, our first-loss manager led by Brian Borgia and Travis Taylor, further proved the strength of its model by producing 7% returns with no down months in what was a particularly volatile year. We believe Topwater will see significant AUM growth in 2016 based on the attention these results are generating from investors. We also began incubating several other strategies, including systematic macro and options trading platforms.

Berkadia

Berkadia delivered on our high expectations in 2015. Fueled by increasing near-term maturities (which are driving the refinancing wave), overall low borrowing rates and several operational changes, Berkadia, our 50/50 joint venture with Berkshire Hathaway, experienced its best year ever for originations and investment sales volume in 2015. The continued integration of the mortgage banking and investment sales teams that we described last year led to strong results for both groups.

During 2015, Berkadia originated \$22.0 billion in new financings for its clients, up more than 72% over 2014. This volume included one of the largest Freddie Mac portfolios ever originated, a \$5.1 billion pool of loans for Lone Star's acquisition of Home Properties, making this the fourth consecutive year Berkadia completed a transaction above \$1 billion. With Berkadia's average loan size of \$17 million, this deal highlights the firm's ability to provide solutions to multi-family housing owners of all shapes and sizes. Berkadia also experienced strong growth in investment sales, growing from \$4.1 billion in 2014 to \$5.9 billion in 2015. The firm's momentum is also highlighted by the share of deals where we acted as both the sales advisor and debt originator (21%), and our hiring of 51 new high caliber mortgage bankers and investment sales advisors. All of these factors combined to enable Berkadia to generate \$164 million of pre-tax income and \$158 million of cash earnings. We expect our strong momentum to continue into 2016 and would like to thank Justin Wheeler and the rest of the Berkadia team for their continued efforts to grow by providing better products and services to our customers.

HomeFed

The majority of HomeFed's assets are now either operating real estate or entitled land available for sale, and our priority is to convert this land to cash in a smart and orderly process. In July, HomeFed completed the acquisition of about 1,600 acres of land in the Otay Ranch area of San Diego County for a cash purchase price of \$150 million. The acquired land is contiguous to land already owned by HomeFed. We now have about 4,450 acres of Otay Ranch land entitled for 9,350 multi-family residential units, 3,700 single family residential units and 1.85 million square feet of commercial space. Land development in Otay's first village commenced in February 2016. HomeFed's other assets, in California, Florida, Maine, New York, South Carolina and Virginia, are either currently generating cash or well-positioned to take advantage of strong expected demand for housing. We appreciate Paul Borden and the entire HomeFed team's intense efforts across the portfolio.

National Beef

The rebuilding of the domestic cattle herd continued to create a difficult environment for U.S. beef processors in 2015. Lower supply of cattle available for slaughter led to underutilization of industry-wide capacity and relatively high costs for cattle throughout much of the year. On the demand side, the price of beef was somewhat capped by increased imports and the relative cost of less expensive alternatives in chicken and pork, while exports were challenged by the strengthened dollar. Extreme volatility in the price of cattle during the last four months of the year only further strained the operating environment for most processors. National Beef suffered through all this, reporting negative EBITDA for the first time since Leucadia acquired this business in December 2011. However, we believe the company is poised to benefit

as the industry rebounds in the coming years on the back of an increase in the number of fed cattle available for slaughter. This is an industry where patience is rewarded and our management team led by Tim Klein has positioned National Beef to make the most of the cyclical turn when it arrives.

HRG Group

We continue to own 23% (46.6 million shares) of HRG Group acquired between September 2013 and November 2014 at an average cost of \$10.21 per share versus a \$13.56 per share stock price at year-end 2015. Our incredible Chairman, Joe Steinberg, serves as Chairman of HRG and is on the Boards of its major business units. The vast majority of HRG Group's value is accounted for by its ownership in Spectrum Brands (58%) and Fidelity & Guaranty Life (81%). Spectrum, a diversified global branded consumer products company, had its sixth consecutive year of record financial performance growing adjusted free cash flow from \$359 million in 2014 to \$454 million in 2015. With the May 21, 2015 acquisition of Armored AutoGroup, which includes brands Armor All and STP, Spectrum is now a player in the global auto care market and expects to grow free cash flow to \$505 million in 2016. On November 8, 2015, Fidelity agreed to be acquired by Anbang Insurance Group for \$1.57 billion, or \$26.80 per share, a 29% premium over Fidelity's unaffected stock price. The sale is expected to be completed in the second quarter, with a substantial portion of HRG's proceeds from the sale expected to be used to pay down debt at HRG. We believe that this sale of Fidelity, combined with the additional sale of other assets, may help to close the ongoing gap between HRG's share price and the sum of the value of its various parts.

Garcadia

Thanks in part to record auto sales in the U.S., Garcadia, our auto dealership joint venture with the Ken Garff Group of Salt Lake City, had an exceptional year in 2015. Auto sales in the U.S. grew 5.8% in 2015 to 17.39 million units, just eclipsing the previous sales record from 2000 of 17.35 million units. In this strong market, Garcadia was able to gain more than its fair share and grew same store new unit sales by 14.5%. Thanks to this growth in sales and our enhanced focus on the service business, Leucadia's share of distributions from Garcadia grew to \$51.5 million in 2015. To maintain this strong performance in a rapidly changing market, we will continue to focus in 2016 on trying to simplify and accelerate the car buying experience at our dealerships. Our goal is to get the average transaction time below one hour. Although we looked at numerous acquisition opportunities during the year, we remained true to our promise to be cautious at this point in the cycle and only completed one tuck-in deal - Long Beach Honda. We remain thankful for our long term partnership with John Garff, Brett Hopkins and the rest of the Garcadia team.

Vehicle Finance - Foursight Capital and Chrome Capital

Our consumer auto and motorcycle finance businesses continued to experience significant growth in 2015. Foursight, our near-prime auto finance company, grew originations from \$142 million in 2014 to \$215 million in 2015. This growth was driven by geographic expansion, not a change in underwriting - our weighted average FICO remained stable. Foursight's loan portfolio, including our two securitizations, is performing as expected in terms of delinquencies and losses. We plan to continue to invest in growth in 2016, with the addition of more marketing representatives both to cover our current markets better and to expand into new markets as well. Our medium-term goal at Foursight is to grow annual originations to \$500 million (supported by an estimated \$90 million in capital), with a pre-tax return on equity of about 20% per annum. Chrome also experienced strong growth in 2015, growing originations from \$20.5 million in 2014 to \$41.8 million. Although doubling volume in 2015 was a step in the right direction, we still need to achieve significant growth in 2016 for Chrome to be a meaningful contributor to this platform.

Linkem

At Linkem, our 56% owned Italian fixed wireless broadband service provider, 2015 was mainly focused on expanding its geographic footprint and migrating its network to LTE. Over 360 greenfield LTE base stations were added and LTE was overlaid on over 590 existing base stations. By year-end, Linkem's 1,424 base stations covered approximately 48% of the Italian population and 67% of its towers are LTE-enabled. Linkem increased its subscriber base approximately 30% to more than 310,000 subscribers and was EBITDA positive throughout the year. In the city of Bari, one of Linkem's early deployments, Linkem has reached a 6% household penetration rate. 2016 will be another busy year for Davide Rota and the Linkem team, with plans to increase the pace of its footprint expansion, including deployments in Rome and several major northern Italian cities.

Energy - Vitesse Energy and Juneau Energy

With hindsight, we recognize that, although we picked good management partners, we missed the better moment to begin building Vitesse and Juneau by being some months early and ahead of the collapse in global energy prices. We are pleased with our management teams, and the fact that neither company is heavily leveraged and thus have solid staying power. In the short-term, we will reduce overhead costs by combining certain functions between the two companies. We believe we will be rewarded over time with both of these investments.

Vitesse Energy is a non-operated owner of oil and gas assets located within the core of the Bakken Field in North Dakota. Led by Bob Gerrity and a strong and experienced oil and gas team, Vitesse owns 21,000 net acres and associated oil and gas production from over 1,100 gross wells, primarily located in Williams, McKenzie and Mountrail counties. Production has grown by 50% over the last year to nearly 3,000 net barrels of oil equivalent per day at year-end 2015. Despite the deep decline in oil prices over the past year, Vitesse's oil and gas properties retain value above their cost. Vitesse focuses on acquiring core acreage with significant development opportunities that are leveraged to lower drilling and completion costs and increasing reserve recoveries per well from improvements in fracking and completion technologies. During 2015, Bakken operators reported drilling and completion costs decreased by 30-40%, reserves for new wells completed have risen by 30% and the number of wells that can be drilled in most Bakken 1,280 acre drilling spacing units is increasing without a drop in reserves per well drilled (i.e., more reserves per acre can be recovered). Assuming current industry well spacing projections, Vitesse has an inventory of over 200 net undeveloped wells to be completed which represents capital expenditures that Vitesse can make solely at its election of over \$1 billion with virtually all capex funded by free cash flow from operations over time. Nearly 90% of Vitesse's asset base will be developed in the future at what we expect will be improving economics. Turning to the near-term, Vitesse increased its hedges in place for the balance of 2016 and all of 2017 for two-thirds of its currently flowing oil production at a hedged price in excess of \$50/bbl. We believe the risk of continuing falling oil is highest in 2016-17 and therefore exchanged prior hedges for 2018-20 for the above market hedges in 2016 and 2017.

Juneau Energy's assets continue to retain value and return potential despite the very low oil price environment, and management led by Brad Juneau and Jeff Edgar are committed to maximizing long-term value. Juneau's primary asset is over 22,000 net acres in the East Eagle Ford field in Brazos, Burleson and Grimes Counties, Texas. Most of the acreage is located in the core of the trend where Apache Corporation, a leading public oil and gas independent operator, drilled over a dozen wells in the last half of 2015 close to Juneau's acreage. Initial production rates of Apache's wells are strong and at the same time well costs have fallen over 30%. During December 2015, Juneau drilled and successfully completed two initial horizontal wells. The wells began initial production in late January and Juneau will monitor the performance of the wells over the coming months. While very early, the current production levels and well pressures point to reserves of the two wells being modestly below our initial reserve estimates.

Unfortunately, there are very few current domestic U.S. drilling opportunities that produce compelling returns until oil prices return to the \$45-55/bbl range. Juneau will use the data from our first two wells to improve the quality of our acreage position, extend leases where appropriate and continue to analyze the best future drilling locations in preparation for a one rig development program upon oil prices rebalancing.

In Juneau's Houston County project area, Juneau will soon receive new 3D seismic results on the Company's 20,000 net acre position. Based on this new information, the Company will evaluate further development of this asset. In Juneau's Mississippi Lime JV project in Alfalfa County, Oklahoma, we have drilled six successful horizontal wells and reserves appear to be about 25% above our original expectations and are producing good returns.

Conwed

Conwed, which manufactures extruded and oriented plastic netting, posted a 4% increase in revenues and an 8% increase in pre-tax profits in 2015, driven by organic growth in Conwed's legacy business, the full year impact of its 2014 Filtrexx and Weaver acquisitions, and a drop in the price of resin, Conwed's primary raw material. Although Filtrexx has experienced headwinds due to the decline in oil and gas drilling in the Marcellus Shale (Filtrexx's largest customer segment), it has made progress developing new markets for its compost filter sock products. 2015 marked Conwed's 30th year under Leucadia's ownership and we are grateful for Chris Hatzenbuehler's steady hand in making Conwed such a reliable contributor.

Idaho Timber

Coming off a strong 2014, Idaho Timber maintained its momentum despite weak prices for many lumber products. EBITDA was \$20 million, as volume increased 15% in the face of a two percentage point decrease in margin due to oversupply in certain global timber markets. Ted Ellis and his team are experts at mining the opportunities in the fluctuating timber market and the company is well positioned to continue to generate positive results.

Golden Queen

Golden Queen's Soledad Mountain gold and silver project completed construction on budget. Mining activities commenced on time and, despite minor delays getting its power connected and with commissioning, the first gold pour is expected in March. Our team, led by Bob Walsh, grew from a handful in January to over 90 at the end of December and did a terrific job delivering a working mine. In 2016, the team will be focused on ramping up production while keeping tight controls on its costs and continuing to develop ancillary activities, such as selling aggregates, which could extend the mine life. Although gold prices ended 2015 near their six-year lows, Golden Queen's projected construction costs should ensure comfortable operating margins.

* * *

As we have said before, we intend to continue to follow Leucadia's historic practice of letting our actions and results be our primary voice, but remind you that the two of us look forward to answering your questions at our upcoming Annual Meeting on May 26, 2016, and we also will hold our Annual Leucadia Investor Day on October 5, 2016, at which time you will have the opportunity to hear directly from the senior leaders of the major Leucadia businesses, including Jefferies.

We thank all of you — our clients and customers, our employees, our shareholders, our bondholders and all others associated with Leucadia, Jefferies 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, 2015

or

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

Commission file number: 1-5721

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, 2015 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): \$8,196,406,000.

On February 11, 2016, the registrant had outstanding 362,243,256 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 2016 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 73.

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 shareholder value. Our financial services businesses include Jefferies (investment banking and capital markets), Leucadia Asset Management (asset management), Berkadia (commercial mortgage banking and servicing), FXCM (a publicly traded company providing online foreign exchange trading), HomeFed Corporation (“HomeFed”) (a publicly traded real estate company) and Foursight Capital and Chrome Capital (vehicle finance). We also own and have investments in a diverse array of other businesses, including National Beef (beef processing), HRG Group (“HRG”) (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), and Golden Queen (a gold and silver mining project). The structure of each of our investments was tailored to the unique opportunity each transaction presented. Our investments may be reflected in our consolidated results as operating subsidiaries, equity investments, receivables, securities or in other ways, depending on the structure of our specific holdings.

We continuously review acquisitions of businesses, securities and assets that have the potential for significant long-term value creation, invest in a broad array 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.

At December 31, 2015, we and our consolidated subsidiaries had approximately 13,300 full-time employees. Our executive offices are located at 520 Madison Avenue, New York, NY 10022, as is the global headquarters of Jefferies, our largest subsidiary in terms of invested capital. Our primary telephone number is (212) 460-1900 and our website address is www.leucadia.com.

The following discussion should be read in conjunction with the Risk Factors presented in Item 1A of Part I and the Cautionary Statement for Forward-Looking Information and Management’s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of Part II.

Recent Transactions

In January 2015, we entered into a credit agreement with FXCM Inc. (“FXCM”), and provided FXCM a \$300 million two-year senior secured term loan with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and to require a sale of FXCM beginning in January 2018. FXCM is an online provider of foreign exchange trading and related services. The loan had an initial interest rate of 10% per annum, increasing by 1.5% per annum each quarter, not to exceed 20.5% per annum. The variable proportion of distributions is as follows: 100% until amounts due under the loan are repaid; 50% of the next \$350 million; then 90% of the next \$500 million (this was an amount initially set at a range between \$500 million to \$680 million and based on payments made by FXCM to us through April 16, 2015, this amount became \$500 million); and 60% of all amounts thereafter. During the year ended December 31, 2015, we received \$144.7 million of principal, interest and fees from FXCM and \$192.7 million remained outstanding under the credit agreement as of December 31, 2015. Leucadia and FXCM have discussed restructuring the variable portion of distributions in a manner that is consistent with a sustainable long-term and value-enhancing strategy for both companies, but there can be no assurances that an agreement will be reached.

During 2013, we formed Leucadia Asset Management (“LAM”), a registered investment adviser, through which we are developing focused alternative asset management businesses. As the adviser 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’s revenues derive from management fees and/or a performance fee based on investment returns generated for the investors. We have invested over \$800

million in LAM and other investment strategies managed by investment management companies in which we have a material financial interest and in most cases the investment management companies are subsidiaries of ours, including:

Folger Hill – We invested \$400 million in 2015 in Folger Hill, a multi-manager discretionary long/short equity hedge fund platform which has approximately \$1.0 billion in assets under management at the end of 2015.

Mazama – We invested \$250 million in 2014 with Mazama, a long-only growth equity fund manager which has \$550 million in assets under management at the end of 2015.

Topwater – We invested \$100 million beginning in 2013 in Topwater, a multi-strategy, multi-manager investment partnership where each underlying investment manager contributes 10% of the manager’s own capital as a first loss layer, shielding Topwater’s investors from losses up to 10%. Topwater has \$899 million in regulatory assets under management at the end of 2015.

54 Madison – We invested \$38 million in the fourth quarter of 2015 in 54 Madison, which manages a fund that provides equity capital for hotel, timeshare, resort, residential and specialty retail real estate development projects in core global markets. Our investment is part of a total capital commitment to invest \$225 million in 54 Madison over the next several years as projects are launched. 54 Madison has \$500 million of fund commitments from all investors.

CoreCommodity – We own a non-controlling interest in CoreCommodity Management, LLC, an asset manager focused on commodity strategies which has \$4.6 billion in assets under management at the end of 2015.

In addition, several investment management businesses operate under Jefferies as described below under Asset Management.

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);
- FXCM, variable (online foreign exchange trading);
- HomeFed, 65% (45% voting) (real estate);
- Berkadia, 50% (commercial mortgage banking and servicing); and
- Foursight Capital (100%) and Chrome Capital (83%) (vehicle finance).

Jefferies

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, 2015, Jefferies had approximately 3,550 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 \$3.6 billion, respectively, at December 31, 2015.

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 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 analysis across a range of industries and receives and executes client orders. Jefferies equity research covers over 2,000 companies around the world and a further 700 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. Jefferies offers selected prime brokerage clients with the option of custodial services 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 corporate bonds, U.S. and European government and agency securities, municipal bonds, mortgage- and asset-backed securities, whole loans, leveraged loans, high yield and 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 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 and Foreign Exchange

In April 2015, Jefferies entered into a definitive agreement to transfer most of its futures activities to Société Générale S.A. That transaction closed in the second quarter of 2015. As of the end of 2015, Jefferies futures business consists solely of executing certain customer and proprietary futures orders.

Jefferies also offers trade execution in foreign exchange spot, forward, swap and option contracts across major currencies.

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.

Approximately 750 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 Services; 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 U.S., Canada, Brazil, U.K., France, Germany, Sweden, India, United Arab Emirates, 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 systematic, special situation and global macro strategies. Jefferies partners with our asset management business in providing asset management services.

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 U.S. 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 NFA. 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. 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.

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 an FCM 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) 8% of the total risk margin requirement for positions carried by the FCM in customer accounts, plus (2) 8% 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.

During October 2015, Jefferies ceased being a full-service FCM. As a result, Jefferies no longer carries customer or proprietary accounts or holds any customer monies or funds. While Jefferies may execute certain customer orders, it no longer clears such transactions.

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.

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 U.S. Jefferies is an active participant in the international capital markets and provides investment banking services internationally, 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.

Leucadia Asset Management

During 2013, we formed LAM, a registered investment adviser, through which we are developing focused alternative asset management businesses. As the adviser 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 typical that we will be an initial or major investor. LAM's revenues derive from management fees and/or performance fees based on investment returns generated for the investors. Our strategy is to grow third party assets under management, while earning management fees and a reasonable return on our capital until the capital is returned to us. Our LAM and other asset management strategies primarily include Folger Hill, a multi-manager discretionary long/short equity hedge fund platform; Mazama Capital Management, a long-only growth equity fund manager; Topwater Capital, a first-loss hedge fund; 54 Madison Capital, LLC, which targets real estate projects; our investment in Jefferies Structured Alpha Fund B, a fund managed by the Jefferies Strategic Investments Division that focuses on quantitative strategies; our investment in CoreCommodity Management, LLC, an asset manager that focuses on commodity strategies; and our investment in Global Equity Events Opportunity Fund, a fund that focuses on event-driven strategies.

Folger Hill – In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC ("Folger Hill"), which is registered as an investment adviser with the SEC. In March 2015, Folger Hill launched a multi-manager hedge fund which included a \$400 million seed investment from us. The fund is a multi-manager discretionary long/short equity hedge fund platform that aims to deliver strong positive results with lower volatility and market correlation than typical equity long/short hedge funds. At the end of 2015, assets under management totaled approximately \$1.0 billion.

Mazama Capital Management – 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 \$250 million seed investment in 2014 in its strategies. At the end of 2015, assets under management totaled \$550 million.

Topwater – 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 and have raised additional third party capital. Starting in 2004, Topwater founders pioneered the first-loss model of investing, which 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. Regulatory assets under management totaled \$899 million at the end of 2015.

54 Madison – In August 2015, we and a team led by Henry Silverman launched 54 Madison Capital, LLC, which manages a fund that provides equity capital for hotel, timeshare, resort, residential and specialty retail real estate development projects in core global markets. We made a capital commitment of \$225 million to 54 Madison and through the end of 2015 we have invested \$38 million. Total fund commitments to 54 Madison from all investors are \$500 million.

Other additions and launches in 2015 include Tenacis Capital, a systematic macro investment platform, and Lake Hill, an electronic trader in listed options and futures across asset classes.

FXCM

FXCM is a leading, global online provider of foreign exchange trading and related services, including contract for difference trading and spread betting, to retail and institutional customers world-wide. Its mission is to provide global traders with access to foreign exchange trading, the world’s largest and most liquid market, by offering innovative trading tools, hiring excellent trading educators, meeting strict financial standards and striving for the best online trading experience in the market. FXCM is a public company traded on the New York Stock Exchange (“NYSE”) (Symbol: FXCM).

In January 2015, we entered into a credit agreement with FXCM, and provided FXCM a two-year senior secured term loan with rights to a variable proportion of certain future distributions. We account for our loan to FXCM and associated rights as one integrated transaction and have elected the fair value option for the loan. The total amount of our investment at December 31, 2015 is \$625.7 million and we report it within Trading assets, at fair value in our Consolidated Statement of Financial Condition.

HomeFed Corporation

HomeFed Corporation is a developer and owner of residential and mixed-use real estate properties in California, New York, Florida, Virginia, South Carolina and Maine. After many years in the entitlement process, the majority of HomeFed’s assets are now either operating real estate or entitled land ready for sale. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD). 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, 2015, our investment had a net book value of \$241.4 million and we report HomeFed as an equity investment in our financial statements. HomeFed’s strategic priorities vary by project, ranging from pursuing further planning, entitlement and approval, to beginning construction, commencing sales, oversight and management of operating assets, 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, is a joint venture formed in 2009 with Berkshire Hathaway. Berkadia is a commercial real estate company providing capital solutions, investment sales advisory, research and servicing for multifamily and commercial properties. We and Berkshire Hathaway each have a 50% equity interest in Berkadia.

Berkadia originates commercial real estate loans, primarily in respect of multi-family housing units, 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 2015, Berkadia originated \$16.1 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 2015, Berkadia closed \$5.6 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 2015, Berkadia originated \$356.9 million of such loans and held \$597.6 million on its balance sheet at December 31, 2015.

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 2015, Berkadia closed over \$5.9 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, 2015, Berkadia serviced approximately 23,000 loans with an unpaid principal balance of \$226.9 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 \$5.3 billion as of December 31, 2015.

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, 2015 we have received cumulative cash distributions of \$393.9 million. At December 31, 2015, the net book value of our investment in Berkadia was \$191.0 million, and we report Berkadia as an equity investment in our financial statements. Berkadia's strategic priorities include continued value creation by growing origination and sales advisory volumes 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.

Foursight Capital and Chrome Capital

In 2012, we partnered with an experienced management team in the indirect auto finance market to start Foursight Capital, of which we own 100%. Foursight purchases automobile installment contracts originated by franchised and independent dealerships in conjunction with the sale of new and used automobiles and services these loans throughout the life cycle. While Foursight was initially jump started by deal flow from Garcadia, it has grown quickly from third party dealerships which now account for approximately 83% of its originations. In 2015, Foursight originated \$215.0 million in auto loans, up from \$141.9 million in 2014.

To further build our consumer finance platform and leverage Foursight's servicing capabilities, we began investing in 2014 in Chrome Capital of which we now own 83%. Chrome, which began operations in 2012, is the largest lessor of used Harley-Davidson motorcycles in the U.S. Through partnerships with 689 new and used dealerships, Chrome generally provides three to four year leases on used Harleys. In 2015, Chrome originated \$41.8 million of leases, all of which are being serviced by Foursight.

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);
- HRG, 23% (diversified holding company);
- Vitesse Energy, 96% (oil and gas exploration and development);
- Juneau Energy, 98% (oil and gas exploration and development);
- Garcadia, about 75% (automobile dealerships);
- Linkem, 56% fully-diluted (42% voting) (fixed wireless broadband services);
- Conwed Plastics, 100% (manufacturing);
- Golden Queen, 35% (a gold and silver mining project); and
- Idaho Timber, 100% (manufacturing).

National Beef

National Beef Packing Company, LLC is one of the largest beef processing companies in the U.S., accounting for approximately 12.5% of the market. National Beef processes and markets fresh boxed beef, consumer-ready beef, beef by-products and wet blue leather for domestic and international markets. Based in Kansas City, Missouri, National Beef had about 8,400 employees at December 31, 2015 and generated total revenues of \$7.4 billion in 2015. We purchased National Beef in 2011 and own 79%.

The largest share of National Beef's revenue, about 91%, is generated from the sale of fresh and chilled boxed beef products. National Beef also generates revenues through value-added production with its consumer-ready products. In addition, National Beef operates one of the largest wet blue tanning facilities in the world (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, direct mail and direct response television, and service revenues generated by National Carriers, Inc., a wholly owned transportation and logistics company 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. 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 net book value of our investment in National Beef was \$690.7 million at December 31, 2015.

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, further processors and the U.S. 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 20 countries; in 2015, export sales represented approximately 10.5% 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 and pork, 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[®], a registered trademark of Certified Angus Beef LLC, and Certified Hereford Beef[®], 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 2015, National Beef purchased approximately 28% 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, 2015, National Beef has obtained from an insurance company a surety bond in the amount of \$50.4 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 8,400 employees, about 5,500 are represented by collective bargaining agreements. About 2,700 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, 2,500 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 220 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.

HRG Group

HRG is a publicly traded diversified holding company, that operates in four business segments: consumer products, insurance, energy and asset management. Its consumer products segment contains an approximate 58% ownership stake in Spectrum Brands, a global consumer products company. Its insurance segment includes an approximate 81% ownership stake in Fidelity & Guaranty Life (“FGL”) and Front Street Re, its subsidiary engaged in the business of providing long-term reinsurance, including reinsurance to the specialty insurance sector of fixed, deferred and payout annuities. On November 8, 2015, FGL and Anbang Insurance Group Co., Ltd. (“Anbang”) entered into a definitive merger agreement pursuant to which Anbang will acquire FGL for \$26.80 per share. HRG’s energy segment includes its wholly-owned subsidiary, Compass Production GP, LLC, that is engaged in the business of owning, operating, acquiring, exploiting and developing conventional oil and natural gas assets. On December 8, 2015, Compass completed the sale of certain oil and gas interests to Indigo Resources LLC. Proceeds from the transaction were \$147.5 million and were used primarily to reduce borrowings under Compass’ existing credit facility. Its asset management segment includes its ownership in HGI Asset Management Holdings, LLC, which, through its subsidiaries, provides financing and engages in asset management across a range of industries. HRG is publicly traded on the NYSE under the symbol “HRG.”

As of December 31, 2015, we own 46.6 million common shares of HRG, representing about 23% of its outstanding common shares, which we reflect in our financial results at fair value. In addition, we have designated two directors on HRG's board, one of whom is our Chairman and serves as HRG's Chairman. We have agreed not to increase our interest in HRG above 27.5% through March 17, 2016. At December 31, 2015, the book value of our holdings in HRG is \$631.9 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 approximately 21,000 net acres of Bakken leasehold and has an interest in 1,108 producing wells (26 net wells) and 413 gross wells (9 net wells) that are currently drilling or permitted for drilling.

At December 31, 2015, we have made cumulative cash investments of \$258.0 million and our net book value is \$278.8 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 48,000 net acres of East Texas leasehold. At December 31, 2015, we have made cumulative cash investments of \$233.2 million and our net book value is \$180.0 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.

Garcadia

Garcadia is a joint venture between us and Garff Enterprises, Inc. that owns and operates 27 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 2015 we received cash distributions from Garcadia's dealerships of \$51.5 million.

In addition, we own the land for certain dealerships and lease it to the dealerships. During 2015 we received rent payments related to these leases of \$8.6 million. At December 31, 2015, the net book value of our investment in Garcadia was \$172.7 million and was \$16.7 million for our land leased to the dealerships.

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 \$124.0 million of 5%

convertible preferred stock convertible in 2020 (dividends can be paid in cash or in kind). On an if-converted basis, we would own 56% of the common shares of Linkem.

Linkem owns or has exclusive rights to spectrum holdings of 84MHz covering over 80% of the population and at least 42MHz covering all of Italy. At December 31, 2015, Linkem's network includes base stations deployed on over 1,400 wireless towers that can reach 48% of the population. Linkem has over 310,000 subscribers for its services. Linkem has been aggressively deploying LTE since the fourth quarter of 2014 with 67% of its base stations now LTE-enabled. LTE, provides subscribers with faster download speeds and improved service. 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.

At December 31, 2015, we have made cumulative cash investments of \$259.2 million and our net book value is \$150.1 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. Manufacturing facilities are located in Minnesota, Georgia, Illinois, Virginia and Genk, Belgium (totaling approximately 569,000 square feet).

In March 2014, Conwed acquired 80% of Filtrexx, a manufacturer and marketer of a knitted sock product with numerous applications in sediment control and storm water management. 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 Filtrexx's knitted sock products.

As of December 31, 2015, we have owned Conwed for over thirty years and received cash distributions of \$167.4 million in excess of our investment. At December 31, 2015, the net book value of our investment in Conwed was \$105.3 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.

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 is essentially complete and mining activities and project commissioning commenced in the fourth quarter of 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 ("GQMNF") markets.

During 2014 and 2015, we invested \$83.0 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 \$34.5 million, net in cash. Gauss LLC invested both our and the Clay family's net contributions totaling \$117.5 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.

Our maximum exposure to loss as a result of our involvement with the joint venture is limited to our investment. The net book value of our investment was \$80.6 million at December 31, 2015.

Idaho Timber

Idaho Timber manufactures and distributes an extensive range of quality wood products to markets across North America. Its activities include 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.

The net book value of our investment was \$73.1 million at December 31, 2015.

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 three reportable segments, based on both qualitative and quantitative requirements, are Jefferies, National Beef, and Corporate and other. Our All other businesses and investments consist of our other financial services businesses and investments and our other merchant banking businesses and investments. Our other financial services businesses and investments include the Leucadia asset management platform, specialty finance companies, the commercial mortgage banking investment, the investment in HomeFed and the investment in FXCM. Our other merchant banking businesses and investments primarily include manufacturing, oil and gas exploration and development, real estate, and our investments in HRG, fixed wireless broadband services, automobile dealerships, and our gold and silver mining project. 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.

Our business, financial condition and results of operations are dependent upon those of our individual businesses, and our aggregate investment in particular industries. We are a holding company with investments in businesses and assets in a number of industries. Jefferies is our largest investment and we have significant additional investments in the financial services industry. Our business, financial condition and results of operations are dependent upon our investments. Any material adverse change in one of our material investments or in a particular industry in which we invest may cause material adverse changes to our business, financial condition and results of operations. The more capital we devote to a particular investment or industry may increase the risk that such investment could significantly impact our financial condition and results of operations, possibly in a material adverse way.

Jefferies may incur losses if its risk management is not effective. Jefferies seeks to monitor and control its risk exposure. Its risk management processes and procedures are designed to limit its exposure to acceptable levels as it conducts its business. Jefferies applies a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of its business activities. The size of the limit reflects Jefferies' risk tolerance for a certain activity. The framework includes inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, value-at-risk, sensitivities, exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis. While Jefferies employ various risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application, including risk tolerance determinations, cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As a result, Jefferies may incur losses notwithstanding its risk management processes and procedures.

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.

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, 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 such investigations and similar reviews will not result in adverse regulatory requirements, regulatory enforcement actions and/or fines.

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. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. Jefferies cost and availability of funding could be affected by illiquid credit markets and wider credit spreads.
- 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 extending credit to Jefferies, 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 extreme volatility. In addition, Jefferies operations in the past have been impacted as some clients either ceased doing business or temporarily reduced 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.

Certain of Jefferies financial and other data processing systems rely on access to and the functionality of operating systems maintained by third parties. If the accounting, trading or other data processing systems on which Jefferies is dependent are unable to meet increasingly demanding standards for processing and security or, if they fail or have other significant shortcomings, Jefferies could be adversely affected. Such consequences may include Jefferies inability to effect transactions and manage Jefferies 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 Jefferies computer systems and networks. Although Jefferies takes protective measures and devotes significant resources to maintaining and upgrading its systems and networks with measures such as intrusion and detection prevention systems, monitoring firewall to safeguard critical business applications and supervising third party providers that have access to its systems, Jefferies 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, our computer systems and networks. Furthermore, such events may 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 Jefferies. The increased use of smartphones, tablets and other mobile devices as well as cloud computing may also heighten these and other operational risks. Similar to other firms, Jefferies and its third party providers continue to be the subject of attempted unauthorized access, computer viruses and malware, and cyber attacks designed to disrupt or degrade service or cause other damage and denial of service. Additional challenges are posed by external parties, including foreign state actors. There can be no assurance that such unauthorized access or cyber incidents will not occur in the future, and they could occur more frequently and on a larger scale.

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. 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 cause 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, 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.

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 10.5% 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.

Difficult market conditions can adversely affect our asset management business in many ways, by reducing the value or performance of our funds (including our invested funds and funds invested by third parties) or by reducing the ability of our funds to raise or deploy capital, each of which could negatively impact our income and cash flow and adversely affect our financial condition. The build-out of our asset management business is affected by conditions in the financial markets and economic conditions and events throughout the world, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and regulations, market perceptions and other factors. In addition, we have substantially invested in many of our funds. Adverse changes such as those mentioned above could lead to a reduction in investment income, losses on our own capital invested and lower revenues from asset management fees. Such adverse changes may also lead to a decrease in new capital raised and may cause investors to withdraw their investments and commitments. Even in the absence of a market downturn, below-market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that may make it more difficult to attract new investors or retain existing investors.

Uncertainties inherent in HRG's business and operations could impact the realizability of the full value of our investment. As a diversified holding company, HRG 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 HRG and we record our investment at fair value. As we do not control HRG, its management may make decisions that are not in our best interest. HRG could decide to issue additional common shares, which would dilute our current ownership. Additionally, changes in the market price of HRG shares may lead to volatility in our results of operations. For additional risk factors concerning HRG, see its SEC filings.

Uncertainties relating to the results of FXCM could impact the value of our investment in FXCM. FXCM's revenue and operating results may vary significantly from period to period due to movements and trends in the world's currency markets and to fluctuations in trading levels. In addition, attrition of customer accounts, which are primarily comprised of individual retail customers, and failure to attract new accounts could impact revenue and profitability. FXCM is also subject to regulatory risks, as well as risks such as those relating to government actions like the unexpected actions of the Swiss National Bank on January 15, 2015, which resulted in the historic movement in the Swiss Franc. As a result of this event, FXCM's customers suffered significant losses and generated debit balances owed to FXCM of approximately \$276.0 million. Our \$300 million two-year secured term loan to FXCM allowed FXCM to come into compliance with regulatory net capital requirements. Pursuant to this loan, we have rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and to require a sale of FXCM beginning in January 2018. We do not have the power to direct the activities that most significantly impact FXCM's performance. We record our investment in FXCM at fair value. As we adjust to fair value each quarter, we anticipate there could be volatility in the FXCM valuation, which could materially impact our results in a given period. For additional risk factors concerning FXCM, see its SEC filings.

The performance of our oil and gas exploration and development 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 the prices of oil, gas and natural gas liquids, which are affected by local, regional and global events or conditions that affect supply and demand and which have a history of significant price volatility. These investments are also exposed to changes in regulations affecting the industry, which could increase our cost of compliance, increase taxes or reduce or delay business opportunities. In addition, there are numerous uncertainties inherent in the estimation of future oil and gas production and future income streams associated with production. As a result, actual results could materially differ from those we currently anticipate 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; despite some recent improvements in the housing market, revenues are not expected to return to prior levels until the U.S. housing market fully 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 fee-for-service businesses may be terminated on short notice. Some of Berkadia's fee-for-service customers are permitted to terminate Berkadia on short notice, usually 30 days. If Berkadia loses fee-for-service customers, it would negatively impact Berkadia's results of operations and cash flows.

Certain loan programs 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 makes certain short term, floating rate bridge loans ("Bridge Loans") and may from time to time originate loans for sale into commercial mortgage-backed securitizations ("CMBS Loans"). Berkadia cannot be assured it will be able to sell CMBS Loans 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. As of December 31, 2015, the aggregate amount of Bridge Loans on Berkadia's balance sheet was \$597.6 million. Berkadia is not currently originating any CMBS Loans and as of December 31, 2015, had no such loans held for sale.

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 a Berkshire Hathaway 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, 2015, 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, 2015, we have recognized net deferred tax assets of \$1.6 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 U.S., 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 for its headquarters facility.

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

Our businesses 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 required by 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>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	\$24.80	\$21.28
Second Quarter	25.09	22.22
Third Quarter	25.39	19.64
Fourth Quarter	21.29	15.93
<u>2016</u>		
First Quarter (through February 11, 2016)	\$17.39	\$14.33

As of February 11, 2016, there were approximately 1,815 record holders of the common shares.

We paid cash dividends of \$.0625 per share each quarter during 2015, 2014 and 2013. 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, 2015:

	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 2015	11,349	\$20.26	–	20,000,000
November 2015	11,522	\$19.30	–	20,000,000
December 2015	216,810	\$16.99	–	20,000,000
Total	239,681		–	

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. During

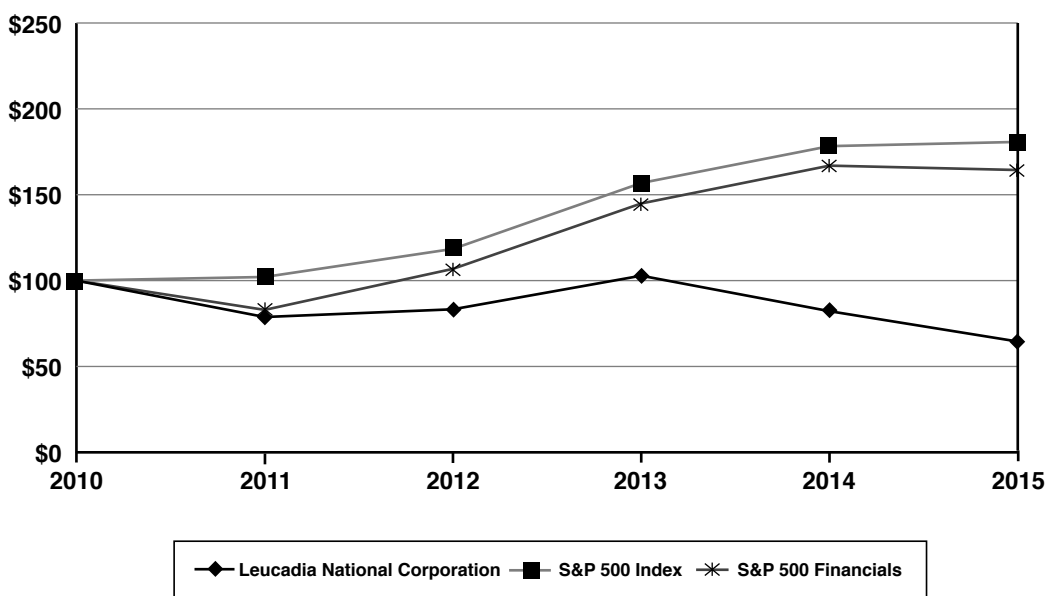
2015, we repurchased a total of 4,295,194 shares pursuant to this program. Separately, during the three months ended December 31, 2015, we repurchased an aggregate of 239,681 shares in connection with our share compensation plans which allow participants to use shares to satisfy certain tax liabilities 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 and the Standard & Poor’s 500 Financials Index for the period commencing December 31, 2010 to December 31, 2015. Index data was furnished by Standard & Poor’s Capital IQ. The graph assumes that \$100 was invested on December 31, 2010 in each of our common stock, the S&P 500 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,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA: (a)					
Net revenues (b)	\$10,886,458	\$11,486,485	\$10,425,746	\$9,404,584	\$637,265
Expenses	10,640,203	11,243,790	9,999,202	8,051,204	578,701
Income from continuing operations before income taxes	356,536	381,222	545,585	1,442,029	120,577
Income tax provision	109,947	165,971	136,481	539,464	71,237
Income from continuing operations	246,589	215,251	409,104	902,565	49,340
Income (loss) from discontinued operations, including gain (loss) on disposal, net of taxes	5,522	(16,226)	(46,911)	(37,924)	(24,384)
Net income attributable to Leucadia National Corporation common shareholders	279,587	204,306	369,240	854,466	25,231
Per share:					
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:					
Income from continuing operations	\$0.73	\$ 0.58	\$ 1.20	\$ 3.64	\$ 0.20
Income (loss) from discontinued operations, including gain (loss) on disposal	0.01	(0.04)	(0.13)	(0.15)	(0.10)
Net income	\$0.74	\$ 0.54	\$ 1.07	\$ 3.49	\$ 0.10
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:					
Income from continuing operations	\$0.73	\$ 0.58	\$ 1.20	\$ 3.59	\$ 0.20
Income (loss) from discontinued operations, including gain (loss) on disposal	0.01	(0.04)	(0.14)	(0.15)	(0.10)
Net income	\$0.74	\$ 0.54	\$ 1.06	\$ 3.44	\$ 0.10
	At December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share amounts)				
SELECTED BALANCE SHEET DATA: (a)					
Total assets	\$46,339,812	\$52,623,908	\$47,866,781	\$9,349,118	\$9,263,189
Long-term debt	7,407,594	8,527,929	8,180,865	1,358,695	1,903,653
Mezzanine equity	316,633	311,686	366,075	241,649	235,909
Shareholders' equity	10,401,211	10,302,158	10,102,462	6,767,268	6,174,396
Book value per common share	\$28.68	\$28.03	\$27.71	\$27.67	\$25.24
Cash dividends per common share	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25

(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 realized securities gains of \$63.0 million, \$30.4 million, \$244.0 million, \$590.6 million and \$641.5 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

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. Except as may be required by law, 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, receivables, available for sale securities, or in other ways, depending on the structure of our holdings. 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 year ended December 31, 2015 is as follows (in thousands):

	Jefferies	National Beef	Other Financial Services Businesses and Investments	Other Merchant Banking Businesses and Investments	Corporate and Other	Parent Company Interest	Inter-company Eliminations	Total
Net revenues	\$2,476,133	\$7,402,419	\$524,053	\$426,731	\$ 78,122	\$ –	\$(21,000)	\$10,886,458
Expenses:								
Cost of sales	–	7,347,874	–	329,359	–	–	–	7,677,233
Compensation and benefits	1,467,752	34,781	35,054	24,657	103,221	–	–	1,665,465
Floor brokerage and clearing fees	199,780	–	–	–	–	–	–	199,780
Interest	–	15,962	7,059	2,507	–	85,884	–	111,412
Depreciation and amortization	92,165	89,317	8,176	30,731	3,744	–	–	224,133
Selling, general and other expenses (including provision for doubtful accounts)	597,271	38,400	50,624	79,500	17,385	–	(21,000)	762,180
Total expenses	2,356,968	7,526,334	100,913	466,754	124,350	85,884	(21,000)	10,640,203
Income (loss) from continuing operations before income taxes and income related to associated companies	119,165	(123,915)	423,140	(40,023)	(46,228)	(85,884)	–	246,255
Income related to associated companies	–	–	81,688	27,957	636	–	–	110,281
Income (loss) from continuing operations before income taxes	\$ 119,165	\$ (123,915)	\$504,828	\$ (12,066)	\$ (45,592)	\$(85,884)	\$ –	\$ 356,536

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

	<u>Jefferies</u>	<u>National Beef</u>	<u>Other Financial Services Businesses and Investments</u>	<u>Other Merchant Banking Businesses and Investments</u>	<u>Corporate and Other</u>	<u>Parent Company Interest</u>	<u>Inter-company Eliminations</u>	<u>Total</u>
Net revenues	\$2,986,325	\$7,832,424	\$ 68,241	\$538,775	\$ 60,720	\$ —	\$ —	\$11,486,485
Expenses:								
Cost of sales	—	7,708,007	—	316,279	—	—	—	8,024,286
Compensation and benefits	1,697,533	38,660	12,530	21,917	71,034	—	—	1,841,674
Floor brokerage and clearing fees	215,329	—	—	—	—	—	—	215,329
Interest	—	14,503	3,012	1,544	—	98,115	—	117,174
Depreciation and amortization	78,566	85,305	4,266	12,229	5,627	—	—	185,993
Selling, general and other expenses (including provision for doubtful accounts)	636,501	26,252	13,715	53,470	129,396	—	—	859,334
Total expenses	<u>2,627,929</u>	<u>7,872,727</u>	<u>33,523</u>	<u>405,439</u>	<u>206,057</u>	<u>98,115</u>	<u>—</u>	<u>11,243,790</u>
Income (loss) from continuing operations before income taxes and income related to associated companies	358,396	(40,303)	34,718	133,336	(145,337)	(98,115)	—	242,695
Income related to associated companies	—	—	104,337	33,361	829	—	—	138,527
Income (loss) from continuing operations before income taxes	<u>\$ 358,396</u>	<u>\$ (40,303)</u>	<u>\$139,055</u>	<u>\$166,697</u>	<u>\$(144,508)</u>	<u>\$(98,115)</u>	<u>\$ —</u>	<u>\$381,222</u>

A summary of results of continuing operations for the year ended December 31, 2013 is as follows (in thousands):

	<u>Jefferies</u>	<u>National Beef</u>	<u>Other Financial Services Businesses and Investments</u>	<u>Other Merchant Banking Businesses and Investments</u>	<u>Corporate and Other</u>	<u>Parent Company Interest</u>	<u>Inter-company Eliminations</u>	<u>Total</u>
Net revenues	\$2,134,002	\$7,487,724	\$186,148	\$567,682	\$ 50,190	\$ —	\$ —	\$10,425,746
Expenses:								
Cost of sales	—	7,308,580	—	259,127	—	—	—	7,567,707
Compensation and benefits	1,213,908	33,447	2,370	19,924	83,005	—	—	1,352,654
Floor brokerage and clearing fees	150,774	—	—	—	—	—	—	150,774
Interest	—	12,272	475	—	—	72,217	—	84,964
Depreciation and amortization	59,631	88,484	117	9,269	9,924	—	—	167,425
Selling, general and other expenses (including provision for doubtful accounts)	448,705	87,299	3,151	83,950	52,573	—	—	675,678
Total expenses	<u>1,873,018</u>	<u>7,530,082</u>	<u>6,113</u>	<u>372,270</u>	<u>145,502</u>	<u>72,217</u>	<u>—</u>	<u>9,999,202</u>
Income (loss) from continuing operations before income taxes and income related to associated companies	260,984	(42,358)	180,035	195,412	(95,312)	(72,217)	—	426,544
Income related to associated companies	—	—	95,395	20,251	3,395	—	—	119,041
Income (loss) from continuing operations before income taxes	<u>\$ 260,984</u>	<u>\$ (42,358)</u>	<u>\$275,430</u>	<u>\$215,663</u>	<u>\$ (91,917)</u>	<u>\$(72,217)</u>	<u>\$ —</u>	<u>\$ 545,585</u>

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 years ended December 31, 2015 and 2014 and for the period from the Jefferies acquisition through December 31, 2013 is as follows (in thousands):

	<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>	<u>For the Period From the Jefferies Acquisition Through December 31, 2013</u>
Net revenues	<u>\$2,476,133</u>	<u>\$2,986,325</u>	<u>\$2,134,002</u>
Expenses:			
Compensation and benefits	<u>1,467,752</u>	1,697,533	1,213,908
Floor brokerage and clearing fees	<u>199,780</u>	215,329	150,774
Depreciation and amortization	<u>92,165</u>	78,566	59,631
Provision for doubtful accounts	<u>(396)</u>	55,355	179
Selling, general and other expenses	<u>597,667</u>	581,146	448,526
Total expenses	<u>2,356,968</u>	<u>2,627,929</u>	<u>1,873,018</u>
Income before income taxes	<u>\$ 119,165</u>	<u>\$ 358,396</u>	<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.

On April 9, 2015, Jefferies entered into an agreement to transfer certain of the client activities of its Jefferies Bache (also referred to as Futures) business to Société Générale S.A. At December 31, 2015, Jefferies has transferred all of its client accounts to Société Générale S.A. and other brokers. Jefferies substantially completed the exit of the Bache business during the third quarter of fiscal 2015. Total expenses, since the agreement on April 9, 2015, include costs of \$73.1 million, on a pre-tax basis, related to the exit of the Bache business. These costs consist primarily of severance, retention and benefit payments for employees, incremental amortization of outstanding restricted stock and cash awards, contract termination costs and incremental amortization expense of capitalized software expected to no longer be used subsequent to the wind-down of the business. Net revenues from this business activity, which are included within Jefferies fixed income results, were \$80.2 million in 2015, \$202.8 million in 2014 and \$158.4 million in the 2013 period. This is comprised of commissions, principal transaction revenues and net interest revenues. Expenses directly related to the Bache business, which are included within total expenses, were \$214.8 million in 2015, \$293.3 million in 2014 and \$193.4 million in the 2013 period. For further information, refer to Note 32 in our consolidated financial statements.

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 years ended December 31, 2015 and 2014 and for the period from the Jefferies acquisition through December 31, 2013 (in thousands):

	Year Ended December 31, 2015	Year Ended December 31, 2014	For the Period From the Jefferies Acquisition Through December 31, 2013
Equities	\$ 757,764	\$ 690,793	\$ 578,045
Fixed income	271,947	751,848	507,285
Total sales and trading	<u>1,029,711</u>	<u>1,442,641</u>	<u>1,085,330</u>
Investment banking:			
Capital markets:			
Equities	408,474	339,683	228,394
Debt	397,979	627,536	410,370
Advisory	632,354	559,418	369,191
Total investment banking	<u>1,438,807</u>	<u>1,526,637</u>	<u>1,007,955</u>
Other	7,615	17,047	40,717
Total net revenues	<u>\$2,476,133</u>	<u>\$2,986,325</u>	<u>\$2,134,002</u>

Net Revenues

Net revenues for 2015 reflect the impact of challenging market conditions throughout the year on Jefferies fixed income business, partially offset by increased revenues in Jefferies equities business. Almost all of Jefferies fixed income credit businesses were impacted by lower levels of liquidity due to the expectations of interest rate increases by the Federal Reserve and deterioration in the global energy and distressed markets. There were a number of periods of extreme volatility, which were followed by periods of low trading volume. Jefferies 2015 results include a net gain of \$49.1 million from its investment in KCG Holdings, Inc. (“KCG”).

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 and a gain of \$19.9 million from its investment in HRG.

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 KCG and HRG.

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 Jefferies share of the net earnings from Jefferies 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 HRG, which are accounted for at fair value.

Equities revenue for the year ended December 31, 2015 include a net gain of \$49.1 million from Jefferies investment in KCG, and 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 HRG, 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 HRG. 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 years ended December 31, 2015 and 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 \$48.9 million, \$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.

U.S. equity market conditions during the 2015 period were characterized by instability in stock prices and moderate economic growth. In the equity markets, the NASDAQ Composite Index increased 6.6% and the S&P 500 Index increased 0.6%, while the Dow Jones Industrial Average decreased by 0.6% during the fiscal year. In Europe and Asia, the recovery remains gradual and economic developments vary across regions. Strong revenues, as a result of increased trading volumes, from Jefferies electronic trading platform contributed to higher commissions revenues. Total equities revenue also includes higher revenues from the Asia equity cash desk and net mark-to-market gains from equity investments, as well as growth from Jefferies wealth management platform. This was partially offset by lower revenues from equity block trading results from Jefferies U.S. equity cash desk and lower commissions in its Europe equity cash desk.

Equities revenue from the Jefferies LoanCore joint venture during the year ended December 31, 2015 includes higher revenues from an increase in loan closings and securitizations by the venture over the comparable prior year period. Equities revenue from the Jefferies Finance joint venture during the year ended December 31, 2015 includes lower revenues as a result of syndicate costs associated with the sell down of commitments, as well as reserves taken on certain loans held for investment as compared with the prior year period.

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 Jefferies 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 Jefferies has expanded its 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 years ended December 31, 2015 and 2014 and for the 2013 period is positive income of \$51.3 million, \$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 lower revenues during the 2015 period were primarily due to tighter trading conditions across most core businesses and losses in Jefferies high yield distressed sales and trading business and international mortgages business, partially offset by higher revenues in its U.S. and International rates businesses, as well as its U.S. investment grade corporate credit business.

The fixed income markets during 2015 were impacted at various points by the expectations of and uncertainty related to interest rate increases by the Federal Reserve, deterioration in the global energy markets, the slowdown of China's economic growth, geopolitical concerns in the Middle East, the potential of a Greece default, and economic uncertainty, which led to volatility in currency markets. The uncertainty as to the timing of the interest rate increases by the Federal Reserve and extremely low rates globally drove investors to seek spread and yield primarily in more liquid investments. The higher revenues in Jefferies U.S. and International rates businesses, as well as its U.S. investment grade corporate credit business, resulted from higher transaction volumes as volatility caused attractive yields and interest in new issuances. However, that same volatility negatively impacted the municipal securities business as prices declined and the sector experienced overall net cash outflows. Most of Jefferies credit fixed income businesses were negatively impacted during 2015 by periods of extreme volatility and market conditions, as investors focused on liquidity, resulting

in periods of low trading volume during the year. In addition, results in Jefferies distressed trading businesses were negatively impacted by its position in the energy sector and led to mark-to-market write-downs in its inventory and results in its emerging markets business were lower due to slower growth in the emerging markets during the year. Revenues from futures sales and trading were also lower for 2015 as Jefferies exited this business activity. Jefferies mortgages business was also negatively impacted by market volatility as credit spreads tightened for these asset classes and expectations of future rate increases resulted in lower trading volumes and revenues.

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.

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.

During 2015, Jefferies generated \$1,438.8 million in investment banking revenues, reflecting lower debt capital market revenues, partially offset by record equity capital markets and advisory revenues. Overall, capital markets revenues of \$806.5 million in 2015 were lower primarily due to significantly lower transaction volume in the leveraged finance market. Record advisory revenues of \$632.4 million in 2015 were primarily due to higher transaction volume.

From equity and debt capital raising activities, Jefferies generated \$408.5 million and \$398.0 million in revenues, respectively. During 2015, Jefferies completed 1,003 public and private debt financings that raised \$199.8 billion in aggregate and Jefferies completed 191 public equity and convertible offerings that raised \$53.9 billion (176 of which it acted as sole or joint bookrunner). Financial advisory revenues totaled \$632.4 million, including revenues from 158 merger and acquisition transactions and 13 restructuring and recapitalization transactions with an aggregate transaction value of \$141.0 billion.

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 \$250.0 billion and Jefferies completed 193 public equity financings and convertible offerings that raised \$66.0 billion (159 of which it acted as sole or joint bookrunner). Financial advisory revenues totaled \$559.4 million, including revenues from 132 merger and acquisition transactions and 12 restructuring and recapitalization transactions with an aggregate transaction value of \$176.0 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. Historical share-based awards and a portion of cash awards granted to employees as part of year end compensation 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 such awards granted at year end as part of annual compensation is fully recorded in the year of the award. Separately, a portion of cash awards granted to employees as part of year end compensation are subject to ratable vesting terms with service requirements. Accordingly, the compensation expense for this portion of awards granted at year end as part of annual compensation is recognized in each period over the relevant service period, which is generally considered to start at the beginning of the annual compensation year.

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in 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 \$307.7 million, \$283.3 million and \$232.0 million for 2015, 2014 and for the period from the Jefferies acquisition through December 31, 2013, respectively. In addition, compensation and benefits expense includes \$13.3 million, \$14.4 million and \$11.0 million for 2015, 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 59.3%, 56.8% and 56.9% for 2015, 2014 and for the 2013 period, respectively.

Compensation and benefits expense directly related to Jefferies Bache business was \$87.7 million, \$98.6 million and \$87.1 million for 2015, 2014 and for the period from the Jefferies acquisition through December 31, 2013, respectively. Included within Compensation and benefits expense for the Bache business for 2015 are severance, retention and related benefits costs of \$38.2 million, incurred as part of decisions surrounding the exit of this business.

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 and depreciation and amortization expense, are included within Selling, general and other expenses in the Consolidated Statements of Operations.

For 2015, technology and communications expenses includes costs associated with the development of the various trading systems and projects associated with corporate support infrastructure, as well as accelerated amortization expense of \$19.7 million related to capitalized software and \$11.2 million in contract termination costs related to Jefferies Bache business. Floor brokerage and clearing expenses for the year are reflective of the exit of the Bache business, partially offset by higher trading volumes in Jefferies equities trading businesses. Business development costs reflect Jefferies continued efforts to continue to build market share. Jefferies continues to incur legal and consulting fees as part of implementing various regulatory requirements.

Non-compensation expenses for 2014 includes approximately \$7.6 million in impairment losses related to customer relationship intangible assets within its Jefferies Bache business 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 Jefferies 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 Jefferies 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.

Non-compensation expenses associated directly with the activities of the Bache business were \$127.2 million, \$197.7 million and \$106.3 million for 2015, 2014 and for the period from the Jefferies acquisition through December 31, 2013, respectively.

National Beef

A summary of results of operations for National Beef for the three years in the period ended December 31, 2015 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net revenues	<u>\$7,402,419</u>	<u>\$7,832,424</u>	<u>\$7,487,724</u>
Expenses:			
Cost of sales	7,347,874	7,708,007	7,308,580
Compensation and benefits	34,781	38,660	33,447
Interest	15,962	14,503	12,272
Depreciation and amortization	89,317	85,305	88,484
Selling, general and other expenses	38,400	26,252	87,299
Total expenses	<u>7,526,334</u>	<u>7,872,727</u>	<u>7,530,082</u>
Income (loss) before income taxes	<u>\$ (123,915)</u>	<u>\$ (40,303)</u>	<u>\$ (42,358)</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 coupled with its overall volume and capacity utilization. National Beef operates in a large and liquid commodity market and 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. While the ratio during 2015 was the highest since 2010, the drop credit value (amount received for all products other than beef that are produced when cattle are processed) as a percentage of cattle price was at a historically low level and had a negative impact on profitability.

Revenues in 2015 decreased about 5% in comparison to 2014, due to lower sales volume, as fewer cattle were processed, and lower average prices for beef and beef by-products. Additionally, during 2015 decreases to revenues of \$52.9 million were recorded as a result of National Beef's use of derivatives in its hedging activity associated with its forward sales of boxed beef and driven by a significant drop in live cattle futures prices amidst unusually high price volatility in the second half of the year. 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. For 2015, cost of sales declined as compared to 2014, due to fewer cattle processed, and a small decrease in the price of cattle. 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.

The combined effects of both lower volumes and tighter margins due to the relative price of cattle compared to the selling price of beef and beef by-products impacted margins leading to reduced profitability in 2015 compared to 2014.

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. An additional impairment charge related to the Brawley plant of \$4.7 million was included in Selling, general and other expenses in 2015. Also in connection with closing the Brawley facility, National Beef recognized \$6.9 million of costs including employee separation and retention, systems decommissioning and various other expenses in 2014. 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.

Corporate and Other Results

A summary of results of operations for corporate and other for the three years in the period ended December 31, 2015 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net revenues	<u>\$ 78,122</u>	<u>\$ 60,720</u>	<u>\$ 50,190</u>
Expenses:			
Corporate compensation and benefits	<u>52,385</u>	61,736	72,800
WilTel pension	<u>50,836</u>	9,298	10,205
Depreciation and amortization	<u>3,744</u>	5,627	9,924
Selling, general and other expenses	<u>17,385</u>	129,396	52,573
Total expenses	<u>124,350</u>	<u>206,057</u>	<u>145,502</u>
Income (loss) before income taxes and income related to associated companies	<u>(46,228)</u>	(145,337)	(95,312)
Income related to associated companies	<u>636</u>	829	3,395
Pre-tax income (loss) from continuing operations	<u>\$ (45,592)</u>	<u>\$(144,508)</u>	<u>\$(91,917)</u>

Net revenues include net realized securities gains of \$63.0 million, \$30.4 million and \$16.0 million for the years ended December 31, 2015, 2014 and 2013, respectively. The net realized securities gains in 2015, primarily relate to a recovery of \$35.0 million of an investment in a non-public security that was recently sold and had been written off in prior years. Net revenues also include interest income of \$10.9 million, \$22.6 million and \$20.1 million for 2015, 2014 and 2013, 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, 2015, 2014 and 2013, Corporate compensation and benefits includes accrued incentive bonus expense of \$17.4 million, \$13.9 million and \$22.1 million, respectively. 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 \$14.6 million, \$26.3 million and \$22.8 million in 2015, 2014 and 2013, respectively.

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. WilTel pension expense in 2015 includes \$40.7 million related to a settlement charge for pension plan participants who elected to receive a lump sum payment from pension plan assets in 2015. See Note 21 to our consolidated financial statements for further information.

Selling, general and other expenses for the 2015 period reflects a reduction of \$20.1 million in insurance payments covering previously expensed legal fees. Selling, general and other expenses for 2014 include a charge relating to the agreement to settle certain litigation related to the Jefferies acquisition for an aggregate payment of \$70.0 million plus legal fees. 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.

Income related to associated companies is comprised of 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 and Investments

A summary of results of operations for other financial services businesses and investments for the three years in the period ended December 31, 2015 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Principal transactions	\$498,869	\$ 39,548	\$182,719
Interest income	21,207	8,987	2,456
Net realized securities gains	-	-	426
Other	3,977	19,706	547
Total net revenues	<u>524,053</u>	<u>68,241</u>	<u>186,148</u>
Expenses:			
Compensation and benefits	35,054	12,530	2,370
Interest	7,059	3,012	475
Depreciation and amortization	8,176	4,266	117
Selling, general and other expenses	50,624	13,715	3,151
Total expenses	<u>100,913</u>	<u>33,523</u>	<u>6,113</u>
Income before income taxes and income related to associated companies	423,140	34,718	180,035
Income related to associated companies	81,688	104,337	95,395
Pre-tax income from continuing operations	<u>\$504,828</u>	<u>\$139,055</u>	<u>\$275,430</u>

Our other financial services businesses and investments include the consolidated results of certain Leucadia Asset Management fund managers, the returns on our investments in these funds, the consolidated results of Foursight Capital and Chrome Capital (vehicle finance), our share of the income of Berkadia, the results of our investment in FXCM, our share of the income of HomeFed, and prior to the Jefferies acquisition, the results of Jefferies High Yield Holdings, LLC (“JHYH”) and our investment in Jefferies.

As more fully discussed in Note 5 to our consolidated financial statements, in January 2015, we entered into a credit agreement with FXCM, for a \$300 million two-year senior secured term loan with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and our right to require a sale of FXCM beginning in January 2018. FXCM is an online provider of foreign exchange trading and related services. We are accounting for our loan and rights at fair value. During 2015, we recognized \$491.3 million of unrealized and realized gains from our FXCM investment, including the component related to interest income, which is recorded within Principal transactions revenues.

Revenues and pre-tax results for 2013 include principal transactions related to unrealized gains of \$182.7 million from the change in value in securities classified as trading assets for which the fair value option was elected. This amount related to our investment in Jefferies prior to the Jefferies acquisition in March 2013.

Excluding the FXCM revenues in 2015 and Jefferies revenues in 2013 discussed above, the net revenues in other financial services businesses and investments reflect revenues of \$32.7 million in 2015, \$68.2 million in 2014 and \$3.4 million in 2013. The year-over-year decrease in 2015 primarily reflects lower returns on investments recorded at market value related to the Leucadia Asset Management businesses partially offset by growth in our vehicle finance businesses. The increase in 2014 compared to 2013 is primarily due to returns on investments recorded at market value.

Compensation and benefits expense increased in 2015 compared to 2014 due to growth in our asset management businesses.

Selling, general and other expenses for 2015 include \$21.0 million of investment banking and advisory fees paid to Jefferies in connection with our entering into the agreement with FXCM, and which Jefferies recognized in net revenues during the first quarter. These intercompany fees have been eliminated in our consolidated results. Selling, general and other expenses also increased in 2015 due to the growth of our vehicle finance business.

For the years ended December 31, 2015, 2014 and 2013, income related to Berkadia was \$78.1 million, \$101.2 million and \$84.7 million, respectively. Berkadia's results were impacted by investment gains of \$15.4 million in 2015 and \$69.8 million in 2014, of which we then recorded our applicable share. In 2013, our equity income related to Berkadia includes an out of period adjustment of \$16.4 million to record income related to prior periods. As our share of profits from Berkadia are primarily taxed at the Leucadia level, the income discussed above is pre-tax. For 2013, income related to JHYH was \$7.2 million. Our share of HomeFed's results was not significant during the three year period.

Other Merchant Banking Businesses and Investments

A summary of results for other merchant banking businesses and investments for the three years in the period ended December 31, 2015 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Principal transactions	\$ (27,960)	\$ 99,254	\$ -
Interest income	903	604	917
Net realized securities gains	-	-	227,581
Other	<u>453,788</u>	<u>438,917</u>	<u>339,184</u>
Net revenues	<u>426,731</u>	<u>538,775</u>	<u>567,682</u>
Expenses:			
Cost of sales	329,359	316,279	259,127
Compensation and benefits	24,657	21,917	19,924
Interest	2,507	1,544	-
Depreciation and amortization	30,731	12,229	9,269
Selling, general and other expenses	<u>79,500</u>	<u>53,470</u>	<u>83,950</u>
Total expenses	<u>466,754</u>	<u>405,439</u>	<u>372,270</u>
Income (loss) before income taxes and income related to associated companies	(40,023)	133,336	195,412
Income related to associated companies	<u>27,957</u>	<u>33,361</u>	<u>20,251</u>
Pre-tax income (loss) from continuing operations	<u>\$ (12,066)</u>	<u>\$166,697</u>	<u>\$215,663</u>

Our other merchant banking operations include the consolidated results of Vitesse Energy and Juneau Energy (oil and gas exploration and development) and Conwed Plastics and Idaho Timber (manufacturing). It also includes our equity investments in Garcadia (automobile dealerships), Linkem (fixed wireless services in Italy) and Golden Queen (a gold and silver mining project), as well as our ownership of HRG shares, which is accounted for at fair value, and impacts our results through its mark-to-market adjustment reflected within net revenues. Other merchant banking operations also included our real estate operations, substantially all of which were sold to HomeFed during March 2014 in exchange for HomeFed common shares.

Net revenues and pre-tax results decreased in 2015 as compared to 2014, primarily due to a decline in the value of our investment in HRG. We classified HRG as a trading asset for which the fair value option was elected and we reflect mark-to-market adjustments through Principal transactions revenues. Unrealized gains (losses) of \$(28.0) million and \$99.3 million for 2015 and 2014 were recorded as a result of the change in fair value of our investment. 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. These year-over-year declines were partially offset by increased oil and gas exploration and development revenues in 2015. Net revenues and pre-tax income decreased in 2014 as compared to 2013, due to the impact of net realized securities gains of \$227.6 million in 2013 related to the sale of our common shares of Inmet Mining Corporation. This decline in revenues and pre-tax income was partially offset by the \$99.3 million unrealized HRG gain.

For the years ended December 31, 2015, 2014 and 2013, net revenues for manufacturing were \$392.1 million, \$380.5 million and \$310.8 million, and net revenues for real estate were \$3.7 million, \$11.2 million and \$16.7 million. Net revenues during 2015 and 2014 for our oil and gas exploration and development businesses were \$54.1 million and \$19.9 million.

For the years ended December 31, 2015, 2014 and 2013, Selling, general and other expenses for manufacturing were \$8.6 million, \$8.5 million and \$5.8 million. Selling, general and other expenses for our oil and gas exploration and development businesses were \$49.8 million in 2015 and \$15.7 million in 2014. The increase is primarily due to impairment charges totaling \$20.3 million recorded in 2015 for the write down of Juneau Energy oil field assets to fair value. Selling, general and other expenses for real estate were \$4.8 million, \$8.8 million and \$34.1 million for 2015, 2014 and 2013; included in these amounts were impairment charges for various real estate projects of \$20.0 million for 2013. 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.

Depreciation and amortization for the oil and gas exploration and development businesses were \$25.1 million in 2015 and \$3.9 million in 2014. The significant increase in 2015 is due to increased production and additional wells compared to 2014.

For the years ended December 31, 2015, 2014 and 2013, pre-tax profits for manufacturing were \$31.1 million, \$31.7 million and \$24.9 million. Pre-tax losses for the oil and gas exploration and development businesses were \$31.9 million for 2015 and \$0.8 million for 2014. Real estate generated pre-tax losses of \$6.4 million in 2015, \$2.9 million in 2014 and \$23.0 million in 2013. Pre-tax losses for the Oregon LNG project were \$7.5 million, \$6.8 million and \$14.4 million for 2015, 2014 and 2013.

Income related to associated companies primarily relates to our investments in Linkem and Garcadia. For the years ended December 31, 2015, 2014 and 2013, losses related to Linkem were \$15.6 million, \$14.6 million and \$22.7 million, and income related to Garcadia were \$53.2 million, \$49.4 million and \$39.4 million. In addition, pre-tax losses for the oil and gas exploration and development businesses include a loss of \$7.9 million in 2015 related to an oil and gas equity method investment.

Parent Company Interest

Parent company interest totaled \$85.9 million for 2015, \$98.1 million for 2014 and \$72.2 million for 2013. The decline in interest expense in 2015 compared to 2014 is primarily due to the redemption of the 8.125% Senior Notes in September 2015. 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.

Income Taxes

For the year ended December 31, 2015, our provision for income taxes was \$109.9 million, representing an effective tax rate of about 31%. Our 2015 provision was impacted by \$10.7 million, which lowered our effective rate by 3%. This related to benefits recorded for certain state and local net operating loss carryforwards which we now believe are more likely than not to be realized in the future, a significant portion of which results from recently enacted state and local tax law changes.

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, which increased our effective rate by 6%. This related to the charge recorded to settle the litigation concerning the Jefferies acquisition, which was 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, which increased our effective rate by 2%. This 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, 2015, 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 fossil fuels into clean-energy products; our July 2014 sale of Premier, through which we had conducted our gaming entertainment operations; our sale in December 2013 of our subsidiary, Empire Insurance Company, which had been undergoing a voluntary liquidation; 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; 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 and \$60.0 million in 2013. 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 income from discontinued operations in 2015 was not significant.

Our gain on disposal from discontinued operations, net of tax totaled \$5.1 million in 2015, \$1.7 million in 2014 and \$13.1 million in 2013. Gain on disposal of discontinued operations for 2015 primarily relates to additional consideration received related to the 2012 sale of our small Caribbean-based telecommunications provider and a reversal of a legal reserve. Our 2013 gain includes \$8.7 million related to the sale of Empire and the impact of a number of other insignificant transactions.

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

Selected Balance Sheet Data

In addition to preparing our Consolidated Statements of Financial Condition in accordance with U.S. GAAP, we also review the tangible capital associated with each of our businesses and investments, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that this presentation is meaningful because it is consistent with the way we view our businesses and investments. We define tangible capital as Total Leucadia National Corporation shareholders' equity less Intangible assets, net and goodwill.

The table below presents our tangible capital by significant business and investment (in thousands):

	Tangible Capital as of	
	December 31, 2015	December 31, 2014
Jefferies	\$3,592,801	\$3,513,905
National Beef	45,625	106,143
Other Financial Services Businesses and Investments:		
Leucadia Asset Management (1)	560,251	155,155
FXCM	625,689	—
HomeFed	241,368	236,572
Berkadia	190,986	208,511
Foursight and Chrome	81,275	60,737
Total Other Financial Services Businesses and Investments	<u>1,699,569</u>	<u>660,975</u>
Other Merchant Banking Businesses and Investments:		
HRG	631,896	659,856
Vitesse Energy	278,833	246,456
Juneau Energy	179,972	175,846
Garcadia	189,356	183,477
Linkem	150,149	159,054
Golden Queen	80,604	69,929
Idaho Timber	73,057	70,335
Conwed	42,915	41,140
Other	21,868	(21,373)
Total Other Merchant Banking Businesses and Investments	<u>1,648,650</u>	<u>1,584,720</u>
Corporate liquidity and other assets, net of all Corporate liabilities including long-term debt	<u>766,204</u>	<u>1,715,652</u>
Total Tangible Capital	<u>\$7,752,849</u>	<u>\$7,581,395</u>

(1) Leucadia Asset Management excludes \$366.3 million and \$399.5 million at December 31, 2015 and 2014 of liquid marketable securities that are available for sale immediately. These liquid marketable securities are included in Corporate liquidity and other assets, net of all Corporate liabilities including long-term debt.

Below is a brief description of the captions in the table above:

- Jefferies is our consolidated wholly-owned global full-service, integrated securities and investment banking firm.
- National Beef is our approximately 79% owned consolidated subsidiary that processes and markets fresh boxed beef, consumer-ready beef, beef by-products and wet blue leather for domestic and international markets.
- Other Financial Services Businesses and Investments include:
 - Leucadia Asset Management platform seeds and develops focused alternative asset management businesses led by distinct management teams.
 - Our investment in FXCM consists of a two-year senior secured term loan (\$192.7 million outstanding at December 31, 2015), with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and our right to require a sale of FXCM beginning in January 2018. FXCM is a leading, global online provider of foreign exchange trading and related services, including

contract for difference trading and spread betting, to retail and institutional customers world-wide. FXCM is a public company traded on the NYSE.

- Our approximately 65% equity method interest in HomeFed, is a developer and owner of residential and mixed-use real estate properties. HomeFed is a public company traded on the NASD OTC Bulletin Board.
- Berkadia, our 50-50 equity method joint venture with Berkshire Hathaway, is a commercial real estate company providing capital solutions, investment sales advisory, research and servicing for multifamily and commercial properties.
- Foursight Capital purchases automobile installment contracts originated by franchised and independent dealerships in conjunction with the sale of new and used automobiles and services these loans throughout their life cycle. Chrome Capital is a lessor of used Harley-Davidson motorcycles in the U.S. We consolidate both of these subsidiaries.
- Other Merchant Banking Businesses and Investments include:
 - We own approximately 23% of HRG, a diversified holding company that operates in four business segments: consumer products, insurance, energy and asset management. Its consumer products segment contains an approximate 58% ownership stake in Spectrum Brands, a global consumer products company. HRG is a public company traded on the NYSE and we reflect this investment at fair value.
 - Vitesse Energy, LLC is our 96% owned consolidated subsidiary that acquires producing and undeveloped leasehold properties in North Dakota and Montana, and converts the undeveloped leasehold into cash flow producing assets.
 - Juneau Energy, LLC, a 98% owned consolidated subsidiary, 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.
 - Garcadia is an equity method joint venture that owns and operates 27 automobile dealerships in the U.S. We own approximately 75%.
 - We own approximately 42% of the common shares of Linkem and convertible preferred equity which, if converted, would increase our ownership to approximately 56% 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. Linkem is accounted for under the equity method.
 - Conwed Plastics is our consolidated subsidiary that 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. In 2014, Conwed acquired 80% of Filtrexx, a manufacturer and marketer of a knitted sock product with numerous applications in sediment control and storm water management, and 100% of Weaver Express, the leading installer of Filtrexx's knitted sock projects.
 - 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 35% and is accounted for under the equity method.
 - Idaho Timber is our consolidated subsidiary that manufactures and distributes an extensive range of quality 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.
- Corporate liquidity and other assets, net of Corporate liabilities primarily consist of financial instruments owned, the deferred tax asset (exclusive of Jefferies deferred tax asset) and cash and cash equivalents, net of long-term debt, trade payables and accruals, as well as our outstanding mandatorily redeemable convertible preferred shares.

The tables below reconcile tangible capital to our U.S. GAAP balance sheet (in thousands):

	December 31, 2015						
	Jefferies	National Beef	Other Financial Services Businesses and Investments (1)	Other Merchant Banking Businesses and Investments	Corporate liquidity and other assets, net of Corporate liabilities	Inter-company Eliminations	Total
Assets							
Cash and cash equivalents	\$ 3,510,163	\$ 17,814	\$ 22,203	\$ 30,940	\$ 57,528	\$ –	\$ 3,638,648
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	751,084	–	–	–	–	–	751,084
Financial instruments owned . .	16,559,116	891	647,936	639,253	653,249	–	18,500,445
Investments in managed funds	85,775	–	488,940	–	55,317	(26,312)	603,720
Loans to and investments in associated companies	825,908	–	466,364	441,970	23,127	–	1,757,369
Securities borrowed	6,975,136	–	–	–	–	–	6,975,136
Securities purchased under agreements to resell	3,854,746	–	–	–	–	–	3,854,746
Receivables	3,023,899	208,107	463,545	51,558	83,858	–	3,830,967
Property, equipment and leasehold improvements, net	243,486	394,506	11,479	46,894	25,510	–	721,875
Intangible assets, net and goodwill	1,938,582	645,049	2,336	62,395	–	–	2,648,362
Deferred tax asset, net	320,198	–	–	–	1,255,170	–	1,575,368
Other assets	520,863	249,763	92,172	681,530	61,175	(123,411)	1,482,092
Total Assets	38,608,956	1,516,130	2,194,975	1,954,540	2,214,934	(149,723)	46,339,812
Liabilities							
Long-term debt (2)	5,641,892	441,180	259,919	75,993	988,610	–	7,407,594
Other liabilities	27,408,213	194,918	218,153	116,702	335,120	(123,411)	28,149,695
Total liabilities	33,050,105	636,098	478,072	192,695	1,323,730	(123,411)	35,557,289
Redeemable noncontrolling interests	–	189,358	–	2,275	–	–	191,633
Mandatorily redeemable convertible preferred shares	–	–	–	–	125,000	–	125,000
Noncontrolling interests	27,468	–	14,998	48,525	–	(26,312)	64,679
Total Leucadia National Corporation shareholders' equity	\$ 5,531,383	\$ 690,674	\$1,701,905	\$1,711,045	\$ 766,204	\$ –	\$10,401,211
Reconciliation to Tangible Capital							
Total Leucadia National Corporation shareholders' equity	\$ 5,531,383	\$ 690,674	\$1,701,905	\$1,711,045	\$ 766,204	\$ –	\$10,401,211
Less: Intangible assets, net and goodwill	(1,938,582)	(645,049)	(2,336)	(62,395)	–	–	(2,648,362)
Tangible Capital	\$ 3,592,801	\$ 45,625	\$1,699,569	\$1,648,650	\$ 766,204	\$ –	\$ 7,752,849

December 31, 2014

	Jefferies	National Beef	Other Financial Services Businesses and Investments (1)	Other Merchant Banking Businesses and Investments	Corporate liquidity and other assets, net of Corporate liabilities	Inter- company Eliminations	Total
Assets							
Cash and cash equivalents	\$ 4,079,710	\$ 15,627	\$ 8,974	\$ 33,100	\$ 139,364	\$ –	\$ 4,276,775
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,444,674	–	–	–	–	–	3,444,674
Financial instruments owned . .	18,636,612	–	47,609	659,856	1,877,182	–	21,221,259
Investments in managed funds .	74,365	–	105,954	–	126,571	(25,420)	281,470
Loans to and investments in associated companies	773,141	–	480,293	443,302	15,832	–	1,712,568
Securities borrowed	6,853,103	–	–	–	–	–	6,853,103
Securities purchased under agreements to resell	3,926,858	–	–	–	–	–	3,926,858
Securities received as collateral .	5,418	–	–	–	–	–	5,418
Receivables	3,414,526	225,340	183,582	54,006	57,371	–	3,934,825
Property, equipment and leasehold improvements, net .	251,957	394,984	10,164	48,547	20,724	–	726,376
Intangible assets, net and goodwill	1,960,628	690,303	400	69,432	–	–	2,720,763
Deferred tax asset, net	399,597	–	–	–	1,312,938	–	1,712,535
Other assets	743,219	392,267	37,116	571,502	91,165	(27,985)	1,807,284
Total Assets	<u>44,563,808</u>	<u>1,718,521</u>	<u>874,092</u>	<u>1,879,745</u>	<u>3,641,147</u>	<u>(53,405)</u>	<u>52,623,908</u>
Liabilities							
Long-term debt (3)	6,482,924	492,539	44,185	62,819	1,445,462	–	8,527,929
Other liabilities	32,567,503	245,203	161,449	113,068	355,033	(27,985)	33,414,271
Total liabilities	<u>39,050,427</u>	<u>737,742</u>	<u>205,634</u>	<u>175,887</u>	<u>1,800,495</u>	<u>(27,985)</u>	<u>41,942,200</u>
Redeemable noncontrolling interests	–	184,333	–	2,353	–	–	186,686
Mandatorily redeemable convertible preferred shares .	–	–	–	–	125,000	–	125,000
Noncontrolling interests	38,848	–	7,083	47,353	–	(25,420)	67,864
Total Leucadia National Corporation shareholders' equity	<u>\$ 5,474,533</u>	<u>\$ 796,446</u>	<u>\$661,375</u>	<u>\$1,654,152</u>	<u>\$1,715,652</u>	<u>\$ –</u>	<u>\$10,302,158</u>
Reconciliation to Tangible Capital							
Total Leucadia National Corporation shareholders' equity	\$ 5,474,533	\$ 796,446	\$661,375	\$1,654,152	\$1,715,652	\$ –	\$10,302,158
Less: Intangible assets, net and goodwill	(1,960,628)	(690,303)	(400)	(69,432)	–	–	(2,720,763)
Tangible Capital	<u>\$ 3,513,905</u>	<u>\$ 106,143</u>	<u>\$660,975</u>	<u>\$1,584,720</u>	<u>\$1,715,652</u>	<u>\$ –</u>	<u>\$ 7,581,395</u>

- (1) Other financial services businesses and investments excludes \$366.3 million and \$399.5 million at December 31, 2015 and 2014 of liquid marketable securities that are available for sale immediately. These liquid marketable securities are included in Corporate liquidity and other assets, net of Corporate liabilities.
- (2) Long-term debt within Other financial services businesses and investments of \$259.9 million at December 31, 2015, includes \$116.2 million for 54 Madison, \$110.3 million for Foursight and \$33.5 million for Chrome. Long-term debt within Other merchant banking businesses and investments of \$76.0 million at December 31, 2015, includes \$58.0 million for real estate associated with the Garcadia investment and \$18.0 million for Vitesse Energy.
- (3) Long-term debt within Other financial services businesses and investments of \$44.2 million at December 31, 2014, includes \$27.0 million for Foursight and \$17.2 million for Chrome. Long-term debt within Other merchant banking businesses and investments of \$62.8 million at December 31, 2014, includes \$60.1 million for real estate associated with the Garcadia investment and \$2.8 million for Juneau Energy.

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 \$613.8 million at December 31, 2015, primarily 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, dividends and corporate overhead expenses.

The parent company's primary long-term cash requirement is to make principal payments on its long-term debt (\$1.0 billion principal outstanding as of December 31, 2015), of which \$750.0 million is due in 2023 and \$250.0 million in 2043. 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 costs thereof 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. Ratings issued by bond rating agencies are subject to change at any time.

In August 2014, we and Solomon Kumin established Folger Hill; during the first quarter of 2015, we invested \$400 million in Folger Hill's funds. This investment is subject to a lock-up until August 15, 2019, subject to certain release events and other withdrawal rights. Following this date, investments can be redeemed as of any calendar quarter-end with no less than 45 calendar days' notice, subject to certain limitations. 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, 2015, \$7.4 million has been provided.

During the first quarter of 2015, we also invested \$279.0 million in FXCM, structured as a two-year term loan and rights to receive a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, as more fully discussed in Note 5 to our consolidated financial statements. We received \$144.7 million of principal, interest and fees from FXCM during the year ended December 31, 2015.

During 2015, we paid \$80.4 million (which was previously accrued) in connection with legal settlements.

In the third quarter of 2015, we paid \$458.6 million on the maturity of our 8.125% Senior Notes.

During August 2015, Jefferies sold an investment to Leucadia, for a cash payment of \$124.4 million, which represented the fair value of the investment at the time of sale. This intercompany transaction had no impact on our consolidated results.

We purchased a total of 5,952,873 of our common shares for \$125.8 million in 2015, at an average price per share of \$21.12.

During the year ended December 31, 2015, we paid four quarterly dividends of \$0.0625 per share which aggregated \$92.6 million. 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, 2015, we had outstanding 362,617,423 common shares and 12,898,000 share-based awards that do not require the holder to pay any exercise price (potentially an aggregate of 375,515,423 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. As of December 31, 2015 we are authorized to repurchase 20,000,000 common shares.

We and certain of our subsidiaries have federal income tax net operating loss carryforwards (“NOLs”) of approximately \$1.6 billion at December 31, 2015 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.

Concentration, Liquidity and Leverage Targets

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, expressed in the form of certain ratios and percentages, although there is no legal requirement to do so.

Concentration Target: As a diversification measure, we limit cash investments such that our single largest investment does not exceed 20% of equity excluding Jefferies, and that our next largest investment does not exceed 10% of equity excluding Jefferies, in each case measured at the time the investment was made. National Beef is our largest investment and HRG is our next largest investment.

Liquidity Target: We hold a liquidity reserve calculated as a minimum of twenty-four months of holding company expenses (excluding non-cash components), parent company interest, and dividends. Maturities of parent company debt within the upcoming year are also included in the target; however, our next maturity is during 2023 so there is no current inclusion.

Leverage Target: We target a maximum parent debt to stressed equity ratio of .50, with stressed equity defined as equity (excluding Jefferies) assuming the loss of our two largest investments.

These thresholds and calculations of the actual ratios and percentages are detailed below at December 31, 2015 (dollars in thousands):

Total equity	\$10,401,211
Less, investment in Jefferies	<u>(5,531,383)</u>
Equity excluding Jefferies	4,869,828
Less, our two largest investments:	
National Beef	(690,674)
HRG, at cost	<u>(475,600)</u>
Equity in a stressed scenario	3,703,554
Less, net deferred tax asset excluding Jefferies amount	<u>(1,255,170)</u>
Equity in a stressed scenario less net deferred tax asset	<u>\$ 2,448,384</u>
Balance sheet amounts:	
Available liquidity	<u>\$ 613,775</u>
Parent company debt (see Note 17 to our Consolidated financial statements)	<u>\$ 988,610</u>
Ratio of parent company debt to stressed equity:	
Maximum	0.50x
Actual, equity in a stressed scenario	0.27x
Actual, equity in a stressed scenario excluding net deferred tax asset	0.40x
Liquidity reserve:	
Minimum	\$ 426,100
Actual	\$ 613,775

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 \$761.8 million in 2015 and \$987.2 million in 2014 was used for operating activities and net cash of \$702.3 million was provided by operating activities in 2013.

- Jefferies used funds of \$294.5 million and \$276.6 million during 2015 and 2014 and generated funds of \$750.1 million during 2013. Included in these amounts are distributions received from associated companies of \$76.7 million during 2015, \$54.0 million during 2014 and \$37.7 million during 2013.
- National Beef generated funds of \$76.5 million and \$85.4 million during 2015 and 2013, and used funds of \$55.0 million during 2014. 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.
- Within our Other Financial Services Businesses and Investments, cash of \$325.0 million and \$345.1 million was used during 2015 and 2014 to make additional investments in the Leucadia Asset Management platform. We received distributions from Berkadia, an associated company, of \$89.4 million during 2015, \$72.9 million during 2014 and \$69.0 million during 2013. Cash used for operating activities also includes net cash used of \$140.2 million in 2015, \$110.1 million in 2014 and \$50.2 million in 2013 relating to automobile installment contracts, which is reflected in the net change in other receivables.
- Within our Other Merchant Banking Businesses and Investments, manufacturing generated funds of \$31.2 million in 2015, \$27.1 million in 2014 and \$30.0 million in 2013. In 2014, \$317.5 million was used to acquire

our investment in HRG. We received distributions from Garcadia, an associated company, of \$57.3 million during 2015, \$46.0 million during 2014 and \$26.0 million during 2013. Net losses related to real estate, property and equipment, and other assets in 2015 include impairment charges of \$27.7 million, primarily related to Juneau Energy.

- Our cash used for operating activities also reflects the use of \$7.3 million during 2015, \$40.7 million during 2014 and \$77.4 million during 2013 by our discontinued operations. Additionally, during 2015, we paid \$80.4 million in connection with legal settlements. The change in operating cash flows also reflects greater interest payments in 2015 and 2014 as compared to 2013.

Net cash of \$781.2 million in 2015, \$449.1 million in 2014 and \$3,323.6 million in 2013 was provided by investing activities.

- Acquisitions of property, equipment and leasehold improvements, and other assets related to Jefferies include \$68.8 million in 2015, \$113.0 million during 2014 and \$53.9 million during 2013. Jefferies made loans to and investments in associated companies of \$1,438.7 million during 2015, \$2,786.4 million during 2014 and \$2,241.2 million during 2013. Jefferies received capital distributions and loan repayment from its associated companies of \$1,384.9 million in 2015, \$2,750.6 million during 2014, and \$2,360.7 million in 2013. Cash acquired upon acquisition of Jefferies was \$3,018.0 million in 2013.
- Acquisitions of property, equipment and leasehold improvements, and other assets related to National Beef include \$48.6 million in 2015, \$48.2 million in 2014 and \$44.4 million in 2013.
- Within our Other Financial Services Businesses and Investments, acquisitions of property, equipment and leasehold improvements, and other assets were \$53.0 million in 2015 and \$19.8 million in 2014. Advances on notes, loans and other receivables in 2015 include the investment in FXCM (\$279.0 million). Collections on notes, loans and other receivables in 2015 primarily relate to FXCM.
- Within our Other Merchant Banking Businesses and Investments, acquisitions of property, equipment and leasehold improvements, and other assets reflect primarily activity in our oil and gas exploration and production businesses in 2015 and 2014 and real estate in 2013. They totaled \$113.4 million in 2015, \$408.8 million in 2014 and \$40.0 million in 2013. Loans to and investments in associated companies during 2015 include \$12.5 million, including \$0.4 million contributed from the noncontrolling interest, to Golden Queen and \$21.2 million to Linkem. During 2014 payments included those to Golden Queen of \$105.0 million, including \$34.1 million contributed from the noncontrolling interest, Garcadia of \$48.3 million and Linkem of \$18.4 million. During 2013 these amounts were \$38.4 million for Garcadia and \$107.4 million for Linkem. We also received capital distributions and loan repayments from Garcadia of \$2.8 million in 2015, \$3.8 million in 2014 and \$14.2 million in 2013.
- Our net cash provided by investing activities also includes the impact of acquisitions of property, equipment and leasehold improvements, and other assets within our discontinued operations of \$0.0 million during 2015, \$9.4 million during 2014 and \$25.8 million in 2013. Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold in 2015 relates to additional consideration received related to the 2012 sale of our small Caribbean-based telecommunications provider and, in 2014, relates to the sale of Premier.

Net cash of \$652.0 million in 2015 and \$270.5 million in 2013 was used for financing activities and \$917.8 million was provided by financing activities in 2014.

- Issuance of debt includes \$681.2 million in 2014 and \$1,034.7 million in 2013 related to Jefferies. Reduction in debt for Jefferies includes \$670.0 million in 2015, \$280.0 million in 2014 and \$980 million in 2013. Distributions to noncontrolling interests in 2013 principally represent the redemption of third-party investors in JHYH.
- Issuance of debt for National Beef includes \$135.1 million in 2014, and \$106.8 million in 2013 of borrowings under its bank credit facility. National Beef reflects a reduction in debt of \$51.7 million in 2015, \$32.8 million in 2014 and \$120.6 million in 2013.
- Within our Other Financial Services Businesses and Investments, borrowings include \$341.8 million in 2015 and \$125.5 million in 2014. Their reduction of debt includes \$127.3 million in 2015 and \$117.8 million in 2014. Contributions from noncontrolling interests include \$13.9 million in 2015 and \$37.5 million in 2013 related to Leucadia Asset Management.

- Borrowings by our Other Merchant Banking Businesses and Investments include \$21.5 million in 2015 and \$60.8 million in 2014. Their reduction of debt includes \$8.8 million in 2015. Contributions from noncontrolling interests include \$34.1 million related to Golden Queen in 2014.
- At the holding company level, we reflect issuance of long-term debt during 2013 of \$750.0 million principal amount of our 5.50% Senior Notes due 2023 and \$250.0 million principal amount of our 6.625% Senior Notes due 2043. We include a reduction in debt during 2015 of \$458.6 million on the maturity of our 8.125% Senior Notes, and during 2013 of \$94.5 million on the maturity of our 7.75% Senior Notes and of \$307.4 million on our 7% Senior Notes. The reduction in debt in 2013 also includes the decrease in repurchase agreements (exclusive of Jefferies) of \$391.7 million. Purchases of common shares for treasury relate to shares received from participants in our stock compensation plans and the buyback of our common shares in the open market of \$89.2 million in 2015 and \$15.2 million in 2014.

As shown below, at December 31, 2015, our contractual obligations totaled \$11,902.1 million.

Contractual Obligations	Total	Expected Maturity Date (in millions)				
		2016	2017	2018 and 2019	2020 and 2021	After 2021
Indebtedness	\$ 7,407.6	\$ 485.1	\$468.4	\$2,091.5	\$1,389.5	\$2,973.1
Estimated interest expense on debt	3,353.3	379.2	365.9	593.9	416.7	1,597.6
Cattle commitments	68.5	68.5	—	—	—	—
Operating leases, net of sublease income	761.3	78.0	77.8	140.8	110.2	354.5
Other	311.4	83.8	60.8	83.6	55.7	27.5
Total Contractual Obligations	<u>\$11,902.1</u>	<u>\$1,094.6</u>	<u>\$972.9</u>	<u>\$2,909.8</u>	<u>\$1,972.1</u>	<u>\$4,952.7</u>

Amounts related to our U.S. pension obligations (\$89.3 million) are not included in the above table as the timing of payments is uncertain; however, we do expect to make \$20.0 million of contributions to these plans in 2016. 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 \$189.9 million at December 31, 2015; 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, 2015, we had recorded a liability of \$78.0 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 2016 by \$0.2 million and the benefit obligation by \$6.1 million, of which \$4.5 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 (\$54.0 million at December 31, 2015). 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 2016 is \$2.0 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.

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 and trading 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.

The overall securities inventory is continually monitored by Jefferies, 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, refer to Quantitative and Qualitative Disclosures about Market Risk below.

Of Jefferies total trading assets, approximately 77% 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, 2015, our Consolidated Statement of Financial Condition includes Jefferies Level 3 trading assets that are approximately 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):

	Year Ended December 31, 2015	Year Ended December 31, 2014
Securities purchased under agreements to resell:		
Period end	\$ 3,855	\$ 3,927
Month end average	5,719	5,788
Maximum month end	7,577	8,081
Securities sold under agreements to repurchase:		
Period end	\$ 9,967	\$10,672
Month end average	14,011	13,291
Maximum month end	18,629	16,586

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, 2015	Average Balance Fourth Quarter 2015 (1)	December 31, 2014
Cash and cash equivalents:			
Cash in banks	\$ 973,796	\$ 811,034	\$1,083,605
Certificate of deposit	75,000	75,000	75,000
Money market investments	2,461,367	2,001,419	2,921,363
Total cash and cash equivalents	<u>3,510,163</u>	<u>2,887,453</u>	<u>4,079,968</u>
Other sources of liquidity:			
Debt securities owned and securities purchased under agreements to resell (2)	1,265,840	1,138,614	1,056,766
Other (3)	305,123	522,514	363,713
Total other sources	<u>1,570,963</u>	<u>1,661,128</u>	<u>1,420,479</u>
Total cash and cash equivalents and other liquidity sources	<u>\$5,081,126</u>	<u>\$4,548,581</u>	<u>\$5,500,447</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 U.S.; 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 LLC.

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 approximately 77% of Jefferies 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, 2015		December 31, 2014	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$ 1,881,419	\$ 268,664	\$ 2,191,288	\$ 297,628
Corporate debt securities	1,999,162	89,230	2,583,779	11,389
U.S. Government, agency and municipal securities	2,987,784	317,518	3,124,780	250,278
Other sovereign obligations	2,444,339	1,026,842	2,671,807	877,366
Agency mortgage-backed securities (1)	3,371,680	—	3,395,771	—
Physical commodities	—	—	62,234	—
	<u>\$12,684,384</u>	<u>\$1,702,254</u>	<u>\$14,029,659</u>	<u>\$1,436,661</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 a significant portion of the 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 81% 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.

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately four 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, 2015, 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 \$310.7 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 2015 and 2014 were \$65.3 million and \$81.7 million, respectively.

During the fourth quarter of 2015, Jefferies entered into a secured revolving loan facility (“Loan Facility”) with Pacific Western Bank under which Pacific Western Bank has agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million in U.S. dollars to purchase eligible receivables that meet certain requirements as defined in the Loan Facility agreement. Interest is based on an annual rate equal to the lesser of the LIBOR rate plus 3.75% or the maximum rate as defined in the Loan Facility agreement. At December 31, 2015, borrowings under the Loan Facility amounted to \$48.7 million and are included in the Short-term borrowings balance above and the Consolidated Statements of Financial Condition.

In addition to the above financing arrangements, Jefferies LLC issues notes backed by eligible collateral under a master repurchase agreement. The outstanding amount of the notes issued under the program was \$716.7 million in aggregate, which is presented within Other secured financings in the Consolidated Statement of Financial Condition at December 31, 2015. Of the \$716.7 million aggregate notes, \$40.0 million matures in March 2016, \$50.0 million in June 2016, \$195.1 million in July 2016, \$76.5 million in August 2016, \$60.0 million in December 2016, \$60.0 million in May 2017 and \$60.0 million in October 2017, all bearing interest at a spread over one month LIBOR. The remaining \$175.1 million matured in January 2016, and bore interest at a spread over three month LIBOR. \$431.6 million of the \$716.7 million aggregate notes are redeemable within approximately 90 days at the option of the noteholders.

During the second quarter of 2015, Jefferies entered into a committed revolving credit facility (“Intraday Credit Facility”) with the Bank of New York Mellon under which, the Bank of New York Mellon has agreed to make revolving intraday credit advances for an aggregate committed amount of \$500.0 million in U.S. dollars. The term of the Intraday Credit Facility is six months after the closing date, but can be extended for additional six months upon Jefferies request and at the lender’s discretion. During the fourth quarter of 2015, Jefferies amended and restated the Intraday Credit Facility and reduced the aggregate committed amount to \$300.0 million in U.S. dollars and extended the termination date to October 21, 2016, which can be extended for 364 days upon Jefferies request and at the lender’s discretion. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. Jefferies was in compliance with debt covenants under the Intraday Credit Facility.

Long-Term Debt

Jefferies long-term debt reflected in the Consolidated Statement of Financial Condition at December 31, 2015 is \$5.6 billion. Jefferies long-term debt has a weighted average maturity of 8 years. Jefferies next scheduled maturity is the \$350.0 million principal amount of 5.5% Senior Notes that mature in March 2016.

The Jefferies Credit Facility was a committed senior secured revolving credit facility with a group of commercial banks in Dollars, Euros and Sterling, for an aggregate committed amount of \$750.0 million, with availability subject to one or more borrowing bases and of which \$250.0 million could be borrowed by Jefferies Bache Limited without a borrowing base requirement. The borrowers under the facility were 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, was a borrower under the Credit Facility. Interest was based on, in the case of U.S. dollar borrowings, the Federal funds rate, or in the case of Euro and Sterling borrowings, the Euro Interbank Offered Rate and the London Interbank Offered Rate, respectively. The facility contained financial covenants that, among other things, imposed restrictions on future indebtedness of its subsidiaries, required Jefferies Group LLC to maintain specified levels of tangible net worth and liquidity amounts, and required certain of its subsidiaries to maintain specified levels of regulated capital. Throughout the period, Jefferies was in compliance with the facility. Jefferies terminated this Credit Facility in the third quarter of 2015, due to the exiting of the Bache business.

Jefferies long-term debt ratings are as follows:

	<u>Rating</u>	<u>Outlook</u>
Moody’s Investors Service	Baa3	Stable
Standard and Poor’s	BBB-	Stable
Fitch Ratings	BBB-	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 \$49.5 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 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 have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1 in calculating net capital. Jefferies, as a dually registered U.S. broker-dealer and FCM, is also subject to Rule 1.17 of the CFTC which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17.

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	\$1,556,602	\$1,471,663
Jefferies Execution	9,647	9,397

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 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 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.

Off-Balance Sheet Arrangements

As shown below, at December 31, 2015, our commitments and guarantees, substantially all of which related to Jefferies, totaled \$19,888.2 million.

Commitments and Guarantees	Total	Expected Maturity Date (in millions)				
		2016	2017	2018 and 2019	2020 and 2021	After 2021
Equity commitments	\$ 401.4	\$ 106.8	\$ 25.3	\$ 43.9	\$ 35.9	\$189.5
Loan commitments	499.4	247.3	170.7	81.4	–	–
Mortgage-related and other purchase commitments	2,897.6	1,571.4	312.5	1,013.7	–	–
Forward starting reverse repos and repos . .	1,635.0	1,635.0	–	–	–	–
Other unfunded commitments	335.4	87.0	186.9	20.2	5.7	35.6
Derivative contracts (1):						
Non credit related	12,982.4	11,840.6	584.6	142.8	–	414.4
Credit related	1,080.8	–	–	115.4	955.4	10.0
Standby letters of credit	56.2	55.4	–	–	–	0.8
Total Commitments and Guarantees . .	<u>\$19,888.2</u>	<u>\$15,543.5</u>	<u>\$1,280.0</u>	<u>\$1,417.4</u>	<u>\$997.0</u>	<u>\$650.3</u>

(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, 2015, 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 and certain other subsidiaries engage in other off-balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the Consolidated Statements of Financial Condition as 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 they are not the primary beneficiary.

At December 31, 2015, Jefferies did not have any commitments to purchase assets from its securitization vehicles. Jefferies held \$373.3 million of primarily 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, 2015. 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 weigh 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 2035). 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 and financial instruments of other consolidated entities that are accounted for through the fair value option election. 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.

We also engage independent valuation firms to assist management in estimating the fair value of certain of our investments including the fair value of our loan and rights in FXCM. Our estimate of fair value was determined using valuation models with inputs including management's assumptions concerning the amount and timing of expected cash flows; the loan's implied credit rating and effective yield; implied total equity value, based primarily on the publicly traded FXCM stock price; volatility; risk-free rate; and term.

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 \$27.7 million in 2015, \$3.2 million in 2014 and \$83.3 million in 2013. \$20.3 million of the 2015 charge related to Juneau Energy's oil and gas properties which were impacted by the decline in oil prices. \$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.

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. In testing for goodwill impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. If we conclude otherwise, we are required to perform the two-step quantitative impairment test. 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.

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. In addition, as the fair values determined under a market approach represent a noncontrolling interest, we applied a control premium to arrive at the estimated fair value of our reporting units on a controlling basis. 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, 2015. The results of this test did not indicate any impairment. While no goodwill impairment was identified, the valuation methodology of Jefferies components is sensitive to management's forecasts of future profitability, which comes with a level of uncertainty given current economic conditions and results. Changing conditions in financial markets and the global economy, among other factors, may adversely impact Jefferies business relative to our forecast, which could cause a decline in the estimated fair value of Jefferies and a resulting impairment to a portion of our goodwill.

During the fourth quarter of 2014, Jefferies decided to pursue alternative strategies for its Futures business and 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 did not recognize 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 for its goodwill impairment test as of December 31, 2015. The results of this test did not indicate any impairment.

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 is 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, which consists of exchange and clearing organization membership interests and registrations. Our annual impairment testing date is as of August 1, 2015.

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 HRG, representing approximately 23% of HRG’s outstanding common shares, which are accounted for under the fair value option and included within Trading Assets at fair value of \$631.9 million at December 31, 2015. Assuming a decline of 10% in market prices, the value of our investment in HRG could decrease by approximately \$63 million.

In addition, as more fully discussed elsewhere in this Report, we have an investment in FXCM consisting of a \$300 million two-year senior secured term loan with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and our right to require a sale of FXCM beginning in January 2018. We are accounting for this investment, which is included within Trading assets, at fair value of \$625.7 million at December 31, 2015. Our market risk with respect to our investment in FXCM primarily affects the value of our rights, particularly relating to FXCM’s underlying common stock price, its volatility and the time to liquidity event. Assuming a decline of \$1.00 (representing approximately 6% of the price at December 31, 2015) in FXCM’s market price, as of December 31, 2015, the value of our FXCM rights would decrease by approximately \$15 million, assuming no change in any other factors. Likewise, assuming an increase in the observed volatility of FXCM by 10%, the value of our FXCM rights would decrease by approximately \$18 million, assuming no other change in any other factors. A three month change in the estimated time to liquidity event would result in a change of about \$8 million in this valuation, assuming no change in any other factors. Changes to the key inputs with respect to our loan did not have a significant impact on the risk of loss.

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 effect 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)	Daily VaR (1)			
	Value-at-Risk In Trading Portfolios			
	VaR at November 30, 2015	Daily VaR for the Year Ended November 30, 2015		
Risk Categories		Average	High	Low
Interest Rates	\$ 5.01	\$ 5.84	\$ 8.06	\$4.19
Equity Prices	6.69	9.79	13.61	5.39
Currency Rates	0.30	0.46	3.32	0.12
Commodity Prices	0.82	0.57	1.62	0.04
Diversification Effect (2)	(5.09)	(4.27)	N/A	N/A
Firmwide	<u>\$ 7.73</u>	<u>\$12.39</u>	\$17.75	\$6.35

(In millions)	Daily VaR (1)			
	Value-at-Risk In Trading Portfolios			
	VaR at November 30, 2014	Daily VaR for the Year Ended November 30, 2014		
<u>Risk Categories</u>		<u>Average</u>	<u>High</u>	<u>Low</u>
Interest Rates	\$ 5.56	\$ 5.77	\$ 8.69	\$ 3.16
Equity Prices	10.53	11.08	14.68	7.85
Currency Rates	0.87	1.33	6.59	0.15
Commodity Prices	0.19	0.70	2.14	0.07
Diversification Effect (2)	(3.87)	(4.53)	N/A	N/A
Firmwide	<u>\$13.28</u>	<u>\$14.35</u>	\$19.68	\$10.31

- (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 decreased to \$12.39 million for the year ended November 30, 2015 from \$14.35 million for the year ended November 30, 2014, a 13.7% decrease. The decrease was primarily driven by a decrease in Jefferies' investment in KCG and the exit of the Bache business. In addition, VaR declined from \$13.28 million at November 30, 2014 to \$7.73 million at November 30, 2015. The decrease is reflective of a reduction in risk that Jefferies implemented in connection with its view of the current market environment. The reduction in Jefferies' balance sheet and mix of inventory was substantially effected during its fourth quarter. Excluding the investment in KCG, average VaR increased to \$9.97 million for the year ended November 30, 2015 from \$9.54 million in the year ended November 30, 2014.

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, 2015, results of the evaluation at the aggregate level demonstrated five 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, 2015 (in thousands):

	<u>10% Sensitivity</u>
Private investments	\$24,889
Corporate debt securities in default	7,223
Trade claims	1,435

Excluding trading losses associated with the daily marking to market of the investment in KCG, there were 55 days with trading losses out of a total of 252 trading days in the year ended November 30, 2015. Including these losses, there were 64 days with trading losses.

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 Statements of Financial Condition at December 31, 2015 and 2014 (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
December 31, 2015						
AAA Range	\$ –	\$ 11.8	\$ –	\$ 11.8	\$2,461.4	\$2,473.2
AA Range	–	152.3	4.4	156.7	175.0	331.7
A Range	1.0	556.4	95.9	653.3	846.3	1,499.6
BBB Range	86.6	107.9	31.7	226.2	25.8	252.0
BB or Lower	197.5	14.8	30.1	242.4	–	242.4
Unrated	85.1	–	0.1	85.2	1.7	86.9
Total	<u>\$370.2</u>	<u>\$843.2</u>	<u>\$162.2</u>	<u>\$1,375.6</u>	<u>\$3,510.2</u>	<u>\$4,885.8</u>
December 31, 2014						
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>

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
December 31, 2015						
Asia/Latin America/Other	\$ 37.4	\$ 15.3	\$ 40.6	\$ 93.3	\$ 159.6	\$ 252.9
Europe	0.4	212.2	43.4	256.0	341.8	597.8
North America	332.4	615.7	78.2	1,026.3	3,008.8	4,035.1
Total	<u>\$370.2</u>	<u>\$843.2</u>	<u>\$162.2</u>	<u>\$1,375.6</u>	<u>\$3,510.2</u>	<u>\$4,885.8</u>
December 31, 2014						
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>

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
December 31, 2015						
Asset Managers	\$ –	\$ 69.8	\$ –	\$ 69.8	\$2,461.3	\$2,531.1
Banks, Broker-dealers	0.9	464.9	95.1	560.9	1,048.9	1,609.8
Commodities	–	–	16.7	16.7	–	16.7
Corporates/Loans	237.4	–	11.3	248.7	–	248.7
Other	131.9	308.5	39.1	479.5	–	479.5
Total	<u>\$370.2</u>	<u>\$843.2</u>	<u>\$162.2</u>	<u>\$1,375.6</u>	<u>\$3,510.2</u>	<u>\$4,885.8</u>
December 31, 2014						
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
Corporates/Loans	320.8	–	0.8	321.6	–	321.6
Other	140.6	291.0	28.2	459.8	–	459.8
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>

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 Statements of Financial Condition at December 31, 2015 and 2014 (in millions):

December 31, 2015									
	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
Belgium	\$ 413.8	\$ (48.8)	\$ 6.2	\$ –	\$ –	\$ –	\$157.8	\$ 371.2	\$ 529.0
United Kingdom	711.6	(359.3)	52.4	0.4	31.6	25.4	26.3	462.1	488.4
Netherlands	543.5	(139.6)	(23.4)	–	36.2	2.0	–	418.7	418.7
Italy	1,112.2	(662.4)	(105.6)	–	–	0.2	–	344.4	344.4
Ireland	164.3	(27.4)	3.3	–	3.5	–	–	143.7	143.7
Spain	394.0	(291.9)	(1.6)	–	–	0.2	26.6	100.7	127.3
Australia	86.6	(24.9)	9.6	37.4	–	0.3	0.8	109.0	109.8
Hong Kong	38.1	(22.3)	(2.9)	–	0.4	–	74.8	13.3	88.1
Switzerland	79.5	(28.9)	(6.6)	–	34.5	5.2	3.7	83.7	87.4
Portugal	111.9	(38.2)	–	–	–	–	–	73.7	73.7
Total	<u>\$3,655.5</u>	<u>\$(1,643.7)</u>	<u>\$ (68.6)</u>	<u>\$37.8</u>	<u>\$106.2</u>	<u>\$ 33.3</u>	<u>\$290.0</u>	<u>\$2,120.5</u>	<u>\$2,410.5</u>

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
United Kingdom	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>

In addition, Jefferies' issuer and counterparty risk exposure to Puerto Rico was \$40.1 million, as reflected in our Consolidated Statement of Financial Condition at December 31, 2015, which is in connection with its municipal securities market making activities. The government of Puerto Rico is seeking to restructure much of its \$72 billion in debt on a voluntary basis. At December 31, 2015, Jefferies had no material exposure to countries where either sovereign or non-sovereign sectors potentially pose potential default risk as the result of liquidity concerns, given that individually and collectively all countries of concern are less than 2% of Jefferies' total exposure.

Other than our trading portfolio, 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 64% of the total available for sale portfolio at December 31, 2015. 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 2.1 years at December 31, 2015. 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, 2014, fixed income securities comprised approximately 94% of the total portfolio and had an estimated weighted average remaining life of approximately 2.5 years.

Also included in the available for sale portfolio are equity securities, which are recorded at an aggregate fair value of \$73.6 million (aggregate cost of \$53.0 million) and which comprised approximately 36% of our total available for sale portfolio at December 31, 2015. 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
	2016	2017	2018	2019	2020	Thereafter		
(Dollars in thousands)								
Rate Sensitive Assets:								
Available for Sale Fixed Income Securities:								
U.S. Government	\$ 63,945	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,945	\$ 63,945
Weighted-Average Interest Rate	0.05%							
Residential mortgage-backed:								
Rated Investment Grade	\$ 2,422	\$ 818	\$ 532	\$ 320	\$ 263	\$ 1,637	\$ 5,992	\$ 5,992
Weighted-Average Interest Rate	2.62%	2.73%	2.51%	2.20%	2.09%	2.03%		
Rated Less Than Investment								
Grade/Not Rated	\$ 6,740	\$ 3,628	\$ 2,268	\$ 1,257	\$ 786	\$ 2,569	\$ 17,248	\$ 17,248
Weighted-Average Interest Rate	3.51%	3.61%	3.56%	4.38%	5.16%	5.08%		
Commercial mortgage-backed:								
Rated Investment Grade	\$ -	\$ -	\$ 295	\$ -	\$ -	\$ -	\$ 295	\$ 295
Weighted-Average Interest Rate			4.18%					
Rated Less Than Investment								
Grade/Not Rated	\$ -	\$ 1,186	\$ 893	\$ -	\$ -	\$ -	\$ 2,079	\$ 2,079
Weighted-Average Interest Rate		5.80%	3.49%					
Other asset-backed:								
Rated Investment Grade	\$ 13,667	\$ 25,806	\$ -	\$ -	\$ -	\$ -	\$ 39,473	\$ 39,473
Weighted-Average Interest Rate	4.38%	3.46%						
All other corporates:								
Rated Investment Grade	\$ 1,504	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,504	\$ 1,504
Weighted-Average Interest Rate	2.75%							
Rated Less Than Investment								
Grade/Not Rated	\$ 2,729	\$ -	\$ -	\$ 511	\$ -	\$ -	\$ 3,240	\$ 3,240
Weighted-Average Interest Rate	4.30%			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
	2016	2017	2018	2019	2020	Thereafter		
(Dollars in thousands)								
Rate Sensitive Liabilities:								
Fixed Interest Rate Borrowings	\$ 350,000	\$ 433,724	\$ 830,234	\$ 700,500	\$ -	\$ 3,600,000	\$ 5,914,458	\$ 6,119,397
Weighted-Average Interest Rate	5.50%	4.32%	5.16%	8.50%		6.11%		
Variable Interest Rate Borrowings	\$ 132,097	\$ 32,385	\$ 421,899	\$ 2,436	\$ 20,530	\$ 48,287	\$ 657,634	\$ 658,323
Weighted-Average Interest Rate	2.84%	4.44%	4.87%	3.96%	2.62%	4.00%		
Borrowings with Foreign Currency Exposure	\$ -	\$ -	\$ -	\$ -	\$ 528,625	\$ 4,229	\$ 532,854	\$ 521,685
Weighted-Average Interest Rate					2.37%	2.25%		

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, 2015. 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, 2015.

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, 2015, 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, 2015. 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, 2015, 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, 2015 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 2016 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 is available on our website. We intend to post amendments to or waivers from our Code of Business Practices 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 2016 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 2016 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 2016 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 2016 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, 2015 and 2014	F-2
Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013	F-3
Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014 and 2013	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013	F-6
Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2014 and 2013	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.

- 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 3.2 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 3.5 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 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).* +
- 10.43 Compensation Information Concerning Non-Employee Directors (incorporated by reference to page 19 of the Company's Proxy Statement dated April 7, 2015).* +

- 10.44 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).*
- 10.45 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).*
- 10.46 Summary of executive bonus compensation (filed in the Company's Current Report on Form 8-K dated January 20, 2016).* +
- 10.47 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).* +
- 10.48 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).*
- 10.49 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).*
- 10.50 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).*
- 10.51 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).*
- 10.52 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).*
- 10.53 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).*
- 10.54 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 LLC 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, 2015, 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 LLC financial statements for the three months ended February 28, 2013.

+ Management/Employment Contract or Compensatory Plan or Arrangement.

* Incorporated by reference.

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

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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 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, 2015, 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 opinions.

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 19, 2016

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

December 31, 2015 and 2014

(Dollars in thousands, except par value)

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 3,638,648	\$ 4,276,775
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	751,084	3,444,674
Financial instruments owned, including securities pledged of \$12,207,123 and \$14,794,488:		
Trading assets, at fair value	18,293,090	19,612,490
Available for sale securities	<u>207,355</u>	<u>1,608,769</u>
Total financial instruments owned	18,500,445	21,221,259
Investments in managed funds	603,720	281,470
Loans to and investments in associated companies	1,757,369	1,712,568
Securities borrowed	6,975,136	6,853,103
Securities purchased under agreements to resell	3,854,746	3,926,858
Securities received as collateral	—	5,418
Receivables	3,830,967	3,934,825
Property, equipment and leasehold improvements, net	721,875	726,376
Intangible assets, net and goodwill	2,648,362	2,720,763
Deferred tax asset, net	1,575,368	1,712,535
Other assets	1,482,092	1,807,284
Total	<u>\$46,339,812</u>	<u>\$52,623,908</u>
Liabilities		
Short-term borrowings	\$ 310,659	\$ 12,000
Trading liabilities, at fair value	6,840,430	8,904,592
Securities loaned	3,014,300	2,598,487
Securities sold under agreements to repurchase	9,966,868	10,672,157
Other secured financings	910,357	705,126
Obligation to return securities received as collateral	—	5,418
Payables, expense accruals and other liabilities	7,107,081	10,516,491
Long-term debt	7,407,594	8,527,929
Total liabilities	<u>35,557,289</u>	<u>41,942,200</u>
Commitments and contingencies		
Mezzanine Equity		
Redeemable noncontrolling interests	191,633	186,686
Mandatorily redeemable convertible preferred shares	125,000	125,000
Equity		
Common shares, par value \$1 per share, authorized 600,000,000 shares; 362,617,423 and 367,498,615 shares issued and outstanding, after deducting 53,755,292 and 48,447,573 shares held in treasury	362,617	367,499
Additional paid-in capital	4,986,819	5,059,508
Accumulated other comprehensive income	438,793	447,082
Retained earnings	4,612,982	4,428,069
Total Leucadia National Corporation shareholders' equity	<u>10,401,211</u>	<u>10,302,158</u>
Noncontrolling interests	<u>64,679</u>	<u>67,864</u>
Total equity	<u>10,465,890</u>	<u>10,370,022</u>
Total	<u>\$46,339,812</u>	<u>\$52,623,908</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, 2015, 2014 and 2013

(In thousands, except per share amounts)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:			
Beef processing services	\$ 7,396,869	\$ 7,824,246	\$ 7,486,332
Commissions	659,002	668,801	472,596
Principal transactions	642,824	662,213	574,895
Investment banking	1,417,807	1,526,637	997,955
Interest income	955,240	1,052,151	737,780
Net realized securities gains	62,957	30,394	243,957
Other	549,228	570,465	485,492
	<u>11,683,927</u>	<u>12,334,907</u>	<u>10,999,007</u>
Total revenues			
Interest expense	797,469	848,422	573,261
	<u>10,886,458</u>	<u>11,486,485</u>	<u>10,425,746</u>
Net revenues			
Expenses:			
Cost of sales	7,677,233	8,024,286	7,567,707
Compensation and benefits	1,665,465	1,841,674	1,352,654
Floor brokerage and clearing fees	199,780	215,329	150,774
Interest	111,412	117,174	84,964
Depreciation and amortization	224,133	185,993	167,425
Provision for doubtful accounts	7,353	59,695	1,490
Selling, general and other expenses	754,827	799,639	674,188
	<u>10,640,203</u>	<u>11,243,790</u>	<u>9,999,202</u>
Income from continuing operations before income taxes and income related to associated companies	246,255	242,695	426,544
Income related to associated companies	110,281	138,527	119,041
	<u>356,536</u>	<u>381,222</u>	<u>545,585</u>
Income from continuing operations before income taxes			
Income tax provision	109,947	165,971	136,481
	<u>246,589</u>	<u>215,251</u>	<u>409,104</u>
Income from continuing operations			
Income (loss) from discontinued operations, net of income tax provision (benefit) of \$231, \$(9,634) and \$(32,303)	429	(17,893)	(60,026)
Gain on disposal of discontinued operations, net of income tax provision (benefit) of \$2,743, \$899 and \$(3,009)	5,093	1,667	13,115
	<u>252,111</u>	<u>199,025</u>	<u>362,193</u>
Net income			
Net loss attributable to the noncontrolling interests	4,996	727	1,162
Net loss attributable to the redeemable noncontrolling interests	26,543	8,616	9,282
Preferred stock dividends	(4,063)	(4,062)	(3,397)
	<u>279,587</u>	<u>204,306</u>	<u>369,240</u>
Net income attributable to Leucadia National Corporation common shareholders			

(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, 2015, 2014 and 2013

(In thousands, except per share amounts)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations	\$0.73	\$ 0.58	\$ 1.20
Income (loss) from discontinued operations	-	(0.05)	(0.17)
Gain on disposal of discontinued operations	0.01	0.01	0.04
Net income	<u>\$0.74</u>	<u>\$ 0.54</u>	<u>\$ 1.07</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations	\$0.73	\$ 0.58	\$ 1.20
Income (loss) from discontinued operations	-	(0.05)	(0.17)
Gain on disposal of discontinued operations	0.01	0.01	0.03
Net income	<u>\$0.74</u>	<u>\$ 0.54</u>	<u>\$ 1.06</u>
Amounts attributable to Leucadia National Corporation common shareholders:			
Income from continuing operations, net of taxes	\$274,065	\$220,584	\$415,093
Income (loss) from discontinued operations, net of taxes	429	(17,945)	(58,968)
Gain on disposal of discontinued operations, net of taxes	5,093	1,667	13,115
Net income	<u>\$279,587</u>	<u>\$204,306</u>	<u>\$369,240</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, 2015, 2014 and 2013

(In thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income	<u>\$252,111</u>	<u>\$ 199,025</u>	<u>\$ 362,193</u>
Other comprehensive income (loss):			
Net unrealized holding gains (losses) on investments arising during the period, net of income tax provision (benefit) of \$(5,029), \$(4,923) and \$(543)	(9,057)	(8,866)	(979)
Less: reclassification adjustment for net (gains) losses included in net income (loss), net of income tax provision (benefit) of \$6,068, \$1,631 and \$118,292	(10,930)	(2,939)	(213,058)
Net change in unrealized holding gains (losses) on investments, net of income tax provision (benefit) of \$(11,097), \$(6,554) and \$(118,835)	(19,987)	(11,805)	(214,037)
Net unrealized foreign exchange gains (losses) arising during the period, net of income tax provision (benefit) of \$(5,174), \$(6,837) and \$865	(36,477)	(43,307)	22,900
Less: reclassification adjustment for foreign exchange (gains) losses included in net income (loss), net of income tax provision (benefit) of \$0, \$149 and \$0	—	(267)	—
Net change in unrealized foreign exchange gains (losses), net of income tax provision (benefit) of \$(5,174), \$(6,986) and \$865 ...	(36,477)	(43,574)	22,900
Net unrealized gains (losses) on derivatives arising during the period, net of income tax provision (benefit) of \$0, \$0 and \$(9) ..	—	—	(15)
Less: reclassification adjustment for derivative (gains) losses included in net income (loss), net of income tax provision (benefit) of \$0, \$(95) and \$0	—	169	—
Net change in unrealized derivative gains (losses), net of income tax provision (benefit) of \$0, \$95 and \$(9)	—	169	(15)
Net pension gains (losses) arising during the period, net of income tax provision (benefit) of \$7,152, \$(17,698) and \$11,685	17,073	(38,959)	19,274
Less: reclassification adjustment for pension (gains) losses included in net income (loss), net of income tax provision (benefit) of \$(17,159), \$(1,676) and \$(2,665)	31,102	3,201	4,799
Net change in pension liability benefits, net of income tax provision (benefit) of \$24,311, \$(16,022) and \$14,350	48,175	(35,758)	24,073
Other comprehensive loss, net of income taxes	(8,289)	(90,968)	(167,079)
Comprehensive income	243,822	108,057	195,114
Comprehensive loss attributable to the noncontrolling interests	4,996	727	1,162
Comprehensive loss attributable to the redeemable noncontrolling interests	26,543	8,616	9,282
Preferred stock dividends	(4,063)	(4,062)	(3,397)
Comprehensive income attributable to Leucadia National Corporation common shareholders	<u>\$271,298</u>	<u>\$ 113,338</u>	<u>\$ 202,161</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, 2015, 2014 and 2013

(In thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net cash flows from operating activities:			
Net income	\$ 252,111	\$ 199,025	\$ 362,193
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Deferred income tax provision	134,016	126,885	70,047
Depreciation and amortization of property, equipment and leasehold improvements	164,067	124,977	111,175
Other amortization	8,006	14,767	27,789
Share-based compensation	74,087	109,838	87,309
Provision for doubtful accounts	20,168	69,907	13,945
Net securities gains	(62,957)	(30,394)	(243,957)
Income related to associated companies	(185,998)	(228,769)	(211,221)
Distributions from associated companies	223,658	176,491	137,098
Net (gains) losses related to property and equipment, and other assets	29,776	(27,784)	94,074
Gain on disposal of discontinued operations	(7,836)	(12,566)	(10,106)
Change in estimated litigation reserve	(96,500)	101,710	-
Net change in:			
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	2,691,028	166,108	113,754
Trading assets	1,380,230	(3,223,327)	(383,682)
Investments in managed funds	(295,342)	(80,247)	2,674
Securities borrowed	(127,060)	(1,497,438)	(41,678)
Securities purchased under agreements to resell	56,377	(200,568)	(156,197)
Receivables from brokers, dealers and clearing organizations	551,021	11,872	336,263
Receivables from customers of securities operations	58,233	(349,767)	225
Other receivables	(145,634)	(161,415)	(93,690)
Other assets	83,414	(107,028)	23,488
Trading liabilities	(2,011,277)	1,832,930	(2,511,777)
Securities loaned	420,929	95,607	600,539
Securities sold under agreements to repurchase	(688,355)	(84,303)	2,794,412
Payables to brokers, dealers and clearing organizations	486,841	968,615	(507,722)
Payables to customers of securities operations	(3,455,080)	1,089,423	(249,305)
Trade payables, expense accruals and other liabilities	(225,711)	(3,546)	345,345
Other	(93,967)	(68,163)	(8,655)
Net cash provided by (used for) operating activities	<u>(761,755)</u>	<u>(987,160)</u>	<u>702,340</u>
Net cash flows from investing activities:			
Acquisitions of property, equipment and leasehold improvements, and other assets	(295,894)	(600,837)	(166,129)
Proceeds from disposals of property and equipment, and other assets	22,820	52,011	24,400
Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold	5,842	223,217	20,997
Cash acquired upon acquisition of Jefferies Group LLC	-	-	3,017,958
Acquisitions, net of cash acquired	-	(61,493)	-
Cash paid and cash of real estate operations sold to HomeFed Corporation	-	(19,730)	-
Advances on notes, loans and other receivables	(420,219)	(8,500)	(1,934)
Collections on notes, loans and other receivables	153,004	22,002	18,852
Loans to and investments in associated companies	(1,492,060)	(2,959,689)	(2,388,540)
Capital distributions and loan repayment from associated companies	1,389,262	2,756,320	2,381,145
Deconsolidation of asset management entities	(16,512)	(207,965)	-
Purchases of investments (other than short-term)	(873,831)	(1,821,635)	(3,789,166)
Proceeds from maturities of investments	379,629	1,191,349	2,368,734
Proceeds from sales of investments	1,931,656	1,878,427	1,838,029
Other	(2,532)	5,606	(724)
Net cash provided by investing activities	<u>781,165</u>	<u>449,083</u>	<u>3,323,622</u>

(continued)

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

For the years ended December 31, 2015, 2014 and 2013

(In thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net cash flows from financing activities:			
Issuance of debt, net of issuance costs	\$ 363,595	\$1,002,636	\$ 2,038,226
Change in short-term borrowings	298,659	—	(88,000)
Reduction of debt	(1,316,494)	(434,278)	(1,894,301)
Net proceeds from other secured financings	205,231	470,415	114,711
Issuance of common shares	1,223	2,190	5,557
Cash and cash equivalents of Crimson Wine Group, Ltd., which was spun off	—	—	(21,042)
Net contributions from (distributions to) redeemable noncontrolling interests	5,165	(2,765)	(8,073)
Distributions to noncontrolling interests	(7,277)	(7,797)	(355,086)
Contributions from noncontrolling interests	15,469	54,259	65,870
Purchase of common shares for treasury	(125,754)	(75,728)	(40,024)
Dividends paid	(92,550)	(93,071)	(91,335)
Other	750	1,921	2,990
Net cash provided by (used for) financing activities	<u>(651,983)</u>	<u>917,782</u>	<u>(270,507)</u>
Effect of foreign exchange rate changes on cash	<u>(5,554)</u>	<u>(10,525)</u>	<u>6,180</u>
Net increase (decrease) in cash and cash equivalents	<u>(638,127)</u>	<u>369,180</u>	<u>3,761,635</u>
Cash and cash equivalents at January 1, including cash classified as assets of discontinued operations	<u>4,276,775</u>	<u>3,907,595</u>	<u>145,960</u>
Cash and cash equivalents at December 31, including cash classified as assets of discontinued operations	<u>\$ 3,638,648</u>	<u>\$4,276,775</u>	<u>\$ 3,907,595</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 980,266	\$1,038,201	\$ 722,695
Income tax payments, net	\$ 510	\$ 9,880	\$ 75,925
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	\$ —	\$ 97,546	\$ —

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, 2015, 2014 and 2013

(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
Balance, January 1, 2013	\$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
Balance, December 31, 2013	<u>364,541</u>	<u>4,881,031</u>	<u>538,050</u>	<u>4,318,840</u>	<u>10,102,462</u>	<u>70,591</u>	<u>10,173,053</u>
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		15,796
Balance, December 31, 2014	<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>
Net income				279,587	279,587	(4,996)	274,591
Other comprehensive loss, net of taxes			(8,289)		(8,289)		(8,289)
Contributions from noncontrolling interests						16,189	16,189
Distributions to noncontrolling interests						(7,277)	(7,277)
Deconsolidation of asset management entities						(8,193)	(8,193)
Change in interest in consolidated subsidiary		(1,092)			(1,092)	1,092	
Share-based compensation expense		74,087			74,087		74,087
Change in fair value of redeemable noncontrolling interests		(26,325)			(26,325)		(26,325)
Exercise of options to purchase common shares, including excess tax benefit	2	42			44		44
Purchase of common shares for treasury	(5,953)	(119,801)			(125,754)		(125,754)
Dividends (\$.25 per common share)				(94,674)	(94,674)		(94,674)
Other	1,069	400			1,469		1,469
Balance, December 31, 2015	<u>\$362,617</u>	<u>\$4,986,819</u>	<u>\$438,793</u>	<u>\$4,612,982</u>	<u>\$10,401,211</u>	<u>\$ 64,679</u>	<u>\$10,465,890</u>

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1. Nature of Operations:

Leucadia National Corporation (“Leucadia” or the “Company”) is a diversified holding company focused on return on investment and long-term value creation to maximize 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 array 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), FXCM (a publicly traded company providing online foreign exchange trading), HomeFed (a publicly traded real estate company) and Foursight Capital and Chrome Capital (vehicle finance). We also own and have investments in a diverse array of other businesses, including National Beef (beef processing), HRG Group (“HRG”), formerly known as 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), and Golden Queen (a gold and silver mining project). The structure of each of our investments was tailored to the unique opportunity each transaction presented. Our investments may be reflected in our consolidated results as operating subsidiaries, equity investments, receivables, securities, or in other ways, depending on the structure of our specific holdings.

Jefferies is a global full-service, integrated securities and investment banking firm. In March 2013, Jefferies became an indirect wholly-owned subsidiary of Leucadia, yet retains a separate credit rating and continues to be a separate SEC reporting company. Through Jefferies, we own 50% of Jefferies Finance LLC (“Jefferies Finance”), our joint venture 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 own a 48.5% voting interest in Jefferies LoanCore, a joint venture with the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore originates, purchases and securitizes commercial real estate loans throughout the U.S.

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 2015 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.

Leucadia Asset Management supports and develops focused alternative asset management businesses led by distinct management teams. These primarily include Folger Hill, a multi-manager discretionary long/short equity hedge fund platform; Topwater Capital, a first-loss hedge fund; Mazama Capital Management, a long-only growth equity fund manager; and 54 Madison Capital, LLC, which targets real estate projects. After the end of 2015, we contributed an additional \$33.7 million to 54 Madison for real estate projects.

Our investment in FXCM Inc. (“FXCM”) consists of a two-year senior secured term loan (\$192.7 million outstanding at December 31, 2015), with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and our right to require a sale of FXCM beginning in January 2018.

Berkadia, our 50-50 equity method joint venture with Berkshire Hathaway Inc., originates and brokers commercial real estate loans primarily in respect of multi-family housing units and services commercial real estate loans in the U.S.

Our approximately 65% equity method interest of HomeFed, owns and develops residential and mixed use real estate properties. 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.

Notes to Consolidated Financial Statements, continued

Note 1. Nature of Operations, continued:

We own 100% of Foursight Capital, an auto loan originator and servicer. We also own 83% of Chrome Capital, which provides leases on used Harley-Davidson motorcycles.

We own 79% of National Beef Packing Company. National Beef processes and markets fresh and chilled boxed beef, ground beef, beef by-products, consumer-ready beef and pork, 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 operates one of the largest wet blue tanning facilities 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, direct mail and direct response television. National Beef also owns a refrigerated and livestock transportation and logistics company that provides transportation services for National Beef and third parties.

We own approximately 23% of HRG, a diversified holding company that operates in four business segments: consumer products, insurance, energy and asset management. Its consumer products segment contains an approximate 58% ownership stake in Spectrum Brands, a global consumer products company. Its insurance segment includes an approximate 81% ownership stake in Fidelity & Guaranty Life (“FGL”). On November 8, 2015, FGL and Anbang Insurance Group Co., Ltd. (“Anbang”) had entered into a definitive merger agreement pursuant to which Anbang will acquire FGL for \$26.80 per share. HRG is a public company traded on the NYSE and we reflect this investment at fair value.

Vitesse Energy, LLC is our 96% owned consolidated subsidiary that acquires and develops non-operated working and royalty oil and gas interests in the Bakken Shale oil field in North Dakota and Montana.

Juneau Energy, LLC, a 98% owned consolidated subsidiary, 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.

Garcadia is an equity method joint venture that owns and operates 27 automobile dealerships in California, Texas, Iowa and Michigan. We own approximately 75%.

We own approximately 42% of the common shares of Linkem and convertible preferred shares which, if converted, would increase our ownership to approximately 56% of Linkem’s common equity. 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. Linkem is accounted for under the equity method. After the end of 2015, we purchased \$33.3 million (€30.5 million) of additional convertible preferred shares. If all of our convertible preferred shares were converted, we would continue to own approximately 56% of Linkem’s common equity.

Conwed Plastics is our consolidated subsidiary that 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. In 2014, Conwed acquired 80% of Filtrexx, a manufacturer and marketer of a knitted sock product with numerous applications in sediment control and storm water management, and 100% of Weaver Express, the leading installer of Filtrexx’s knitted sock projects.

Idaho Timber is our consolidated subsidiary engaged in the manufacture and distribution of various wood products, including the following principal activities: 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.

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

Notes to Consolidated Financial Statements, continued

Note 1. Nature of Operations, continued:

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 35% and is accounted for under the equity method.

During August 2015, Jefferies sold an investment to Leucadia, for a cash payment of \$124.4 million, which represented the fair value of the investment at the time of sale. This intercompany transaction had no impact on our consolidated results.

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 2015 presentation.

Note 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.

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.

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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. In addition, we earn asset-based fees associated with the management and supervision of assets, account services and administration related to customer accounts.

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.

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.

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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 (“CFTC”) 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. During October 2015, Jefferies ceased being a full service futures commission merchant. As a result, Jefferies no longer carries customer or proprietary accounts or holds any customer monies or funds. 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:

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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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

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

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

Valuation Process for Financial Instruments

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.

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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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, 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 services use a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, 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.

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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 Note 11 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, 2015 and 2014, Receivables include receivables from brokers, dealers and clearing organizations of \$1,616.3 million and \$2,187.5 million, respectively, and receivables from customers of securities operations of \$1,191.3 million and \$1,250.5 million, respectively.

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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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.

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 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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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.

In 2015, we recorded impairment charges in Selling, general and other expenses of \$27.7 million, primarily related to a \$20.3 million impairment at our Juneau Energy oil and gas company and an additional impairment charge related to the Brawley plant of \$4.7 million. For the oil and gas impairment test, we compare expected undiscounted future net cash flows to the unamortized capitalized cost of the asset. If the future undiscounted net cash flows are lower than the unamortized capital cost, we reduce the capitalized cost to fair market value. We used a third party reserve report in which the cash flows were calculated using West Texas Intermediate (oil) and Henry Hub (gas) NYMEX futures prices as of December 31, 2015. For one of our oil fields, the undiscounted net cash flows were lower than the unamortized capital cost and as a result, we wrote off the total capital cost. There were no significant impairment charges in 2014.

Excluding the National Beef impairment, we recorded impairment charges in Selling, general and other expenses of \$20.0 million in 2013, 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.

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.

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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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 for Jefferies 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 and National Beef as of December 31.

See Note 13 for further information with respect to our impairment charges related to intangible assets during 2014 and 2015.

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.

Payables, expense accruals and other liabilities

At December 31, 2015 and 2014, Payables, expense accruals and other liabilities include payables to brokers, dealers and clearing organizations of \$2,757.2 million and \$2,280.1 million, respectively, and payables to customers of securities operations of \$2,780.5 million and \$6,242.0 million, respectively.

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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 weigh 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 2035). 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 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.

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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 in the Consolidated Statements of Financial Condition.

Beginning in the third quarter of 2014, another of our subsidiaries utilized a special purpose entity to securitize automobile loans receivable. This special purpose entity 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.

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

Notes to Consolidated Financial Statements, continued

Note 2. Significant Accounting Policies, continued:

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.

Note 3. Accounting Developments:

Discontinued Operations. In January 2015, we adopted new Financial Accounting Standards Board (“FASB”) 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. The adoption of this guidance did not have an impact on our consolidated financial statements.

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 originally was effective for interim and annual periods beginning after December 15, 2016. In August 2015, the FASB issued guidance that deferred the effective date by one year, with early adoption on the original effective date permitted. We are currently evaluating the impact this new guidance will have on our consolidated financial statements.

Repurchase Agreements. In January 2015, we adopted the FASB’s 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. This guidance did not significantly impact our consolidated results of operations, financial condition or cash flows. Effective for interim periods beginning after March 31, 2015, 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. We have provided 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 also eliminates the deferral of certain consolidation standards for entities considered to be investment companies. This guidance will be effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. We will adopt this guidance in the first quarter of fiscal 2016. The adoption of this guidance is not expected to have a significant impact on our consolidated financial statements.

Debt Issuance Costs. In April 2015, the FASB issued new guidance that requires debt issuance costs related to a recognized debt liability be presented in the Consolidated Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. This guidance will be effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on our Consolidated Statements of Financial Condition.

Investments in Certain Entities That Calculate Net Asset Value. In May 2015, the FASB issued new guidance that removes the requirement to include investments in the fair value hierarchy for which the fair value is measured at net asset value (“NAV”) using the practical expedient. The guidance also removes the requirement to make certain

Notes to Consolidated Financial Statements, continued

Note 3. Accounting Developments, continued:

disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Rather, those disclosures are limited to investments for which we have elected to measure the fair value using that practical expedient. The guidance is effective retrospectively for annual and interim periods beginning after December 15, 2015. Early adoption is permitted and we have early adopted this guidance during the second quarter of 2015. Since the guidance only impacts our disclosures, adoption did not impact our consolidated financial statements.

Financial Instruments. In January 2016, the FASB issued new guidance that affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The guidance is effective for annual and interim periods beginning after December 15, 2017. We are currently evaluating the impact this new guidance will have on our consolidated financial statements.

Note 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) became 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 \$44.53 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, 2015.

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

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

Net revenues	\$11,083,248
Net income attributable to Leucadia National Corporation	
common shareholders	\$ 267,160
Basic income per common share attributable to Leucadia	
National Corporation common shareholders	\$0.70
Diluted income per common share attributable to Leucadia	
National Corporation common shareholders	\$0.70

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

Notes to Consolidated Financial Statements, continued

Note 4. Acquisitions, continued:

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). 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.

Note 5. Fair Value Disclosures:

The following is a summary of our financial instruments and trading liabilities that are accounted for at fair value on a recurring basis, excluding Investments at fair value based on NAV of \$36.7 million and \$42.2 million, respectively, by level within the fair value hierarchy at December 31, 2015 and 2014 (in thousands):

	December 31, 2015				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Trading assets, at fair value:					
Corporate equity securities	\$2,803,243	\$ 133,732	\$ 40,906	\$ –	\$ 2,977,881
Corporate debt securities	–	2,867,165	25,876	–	2,893,041
Collateralized debt obligations	–	89,144	85,092	–	174,236
U.S. government and federal agency securities	2,555,018	90,633	–	–	2,645,651
Municipal securities	–	487,141	–	–	487,141
Sovereign obligations	1,251,366	1,407,955	120	–	2,659,441
Residential mortgage-backed securities	–	2,731,070	70,263	–	2,801,333
Commercial mortgage-backed securities	–	1,014,913	14,326	–	1,029,239
Other asset-backed securities	–	118,629	42,925	–	161,554
Loans and other receivables	–	1,123,044	189,289	–	1,312,333
Derivatives	2,253	4,406,207	19,785	(4,165,446)	262,799
Investments at fair value	–	26,224	199,794	–	226,018
Investment in FXCM	–	–	625,689	–	625,689
Total trading assets, excluding investments at fair value based on NAV	<u>\$6,611,880</u>	<u>\$14,495,857</u>	<u>\$1,314,065</u>	<u>\$(4,165,446)</u>	<u>\$18,256,356</u>

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

	December 31, 2015				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Available for sale securities:					
Corporate equity securities	\$ 73,579	\$ —	\$ —	\$ —	\$ 73,579
Corporate debt securities	—	4,744	—	—	4,744
U.S. government securities	63,945	—	—	—	63,945
Residential mortgage-backed securities	—	23,240	—	—	23,240
Commercial mortgage-backed securities	—	2,374	—	—	2,374
Other asset-backed securities	—	39,473	—	—	39,473
Total available for sale securities ..	<u>\$ 137,524</u>	<u>\$ 69,831</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 207,355</u>
Cash and cash equivalents	\$3,638,648	\$ —	\$ —	\$ —	\$ 3,638,648
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	\$ 751,084	\$ —	\$ —	\$ —	\$ 751,084
Liabilities:					
Trading liabilities:					
Corporate equity securities	\$1,428,048	\$ 36,518	\$ 38	\$ —	\$ 1,464,604
Corporate debt securities	—	1,556,941	—	—	1,556,941
Collateralized debt obligations	1,488,121	—	—	—	1,488,121
U.S. government and federal agency securities	837,614	505,382	—	—	1,342,996
Sovereign obligations	—	117	—	—	117
Loans	—	758,939	10,469	—	769,408
Derivatives	364	4,456,334	19,543	(4,257,998)	218,243
Total trading liabilities	<u>\$3,754,147</u>	<u>\$ 7,314,231</u>	<u>\$ 30,050</u>	<u>\$(4,257,998)</u>	<u>\$ 6,840,430</u>
Other secured financings	\$ —	\$ —	\$ 544	\$ —	\$ 544

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

	December 31, 2014				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Trading assets, at fair value:					
Corporate equity securities	\$3,130,892	\$ 226,441	\$ 20,964	\$ –	\$ 3,378,297
Corporate debt securities (3)	–	3,342,276	22,766	–	3,365,042
Collateralized debt obligations (3)	–	306,218	124,650	–	430,868
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	–	73,148	77,047	–	150,195
Physical commodities	–	62,234	–	–	62,234
Total trading assets, excluding investments at fair value based on NAV	<u>\$7,859,052</u>	<u>\$15,962,233</u>	<u>\$508,381</u>	<u>\$(4,759,345)</u>	<u>\$19,570,321</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
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (4)					
	\$3,444,674	\$ –	\$ –	\$ –	\$ 3,444,674
Securities received as collateral	\$ 5,418	\$ –	\$ –	\$ –	\$ 5,418

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

	December 31, 2014				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Liabilities:					
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

- (1) There were no material transfers between Level 1 and Level 2 during the year ended December 31, 2015. 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.
- (2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.
- (3) Level 3 Collateralized debt obligations increased by \$33.2 million with a corresponding decrease in Level 3 Corporate debt securities from those previously reported to correct for the classification of certain positions. The total amount of Level 3 assets remained unchanged.
- (4) Securities comprise U.S. government securities segregated for regulatory purposes with a fair value of \$453.7 million at December 31, 2014 and CFTC approved money market funds with a fair value of \$545.0 million at December 31, 2014.

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

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

- *Equity Warrants:* Non-exchange traded equity warrants are generally categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

Corporate Debt Securities

- *Corporate Bonds:* Corporate bonds are measured primarily using pricing data from external pricing services and broker quotations, where available, prices observed for recently executed market transactions of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.
- *High Yield Corporate and Convertible Bonds:* A significant portion of our high yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing data from external pricing services, where available, and prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer's subsequent financings or recapitalizations, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

Collateralized Debt Obligations

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.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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.
- *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”)

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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, student loans and other consumer loans and are categorized within Level 2 and Level 3 of the fair value hierarchy. Valuations are primarily determined using pricing data obtained from external pricing services and prices observed for recently executed market transactions.

Loans and Other Receivables

- *Corporate Loans:* Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer’s capital structure.
- *Participation Certificates in Agency Residential Loans:* Valuations of participation certificates in agency residential loans are based on observed market prices of recently executed purchases and sales of similar loans. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions and availability of data provider pricing.
- *Project Loans and Participation Certificates in GNMA Project and Construction Loans:* Valuations of participation certificates in GNMA project and construction loans are based on inputs corroborated from and benchmarked to observed prices of recent securitizations of assets with similar underlying loan collateral to derive an implied spread. Securitization prices are adjusted to estimate the fair value of the loans incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. The measurements are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.
- *Consumer Loans and Funding Facilities:* Consumer and small business whole loans and related funding facilities are valued based on observed market transactions incorporating additional valuation inputs including, but not limited to, delinquency and default rates, prepayment rates, borrower characteristics, loan risk grades and loan age. These assets are categorized within Level 2 or Level 3 of the fair value hierarchy.
- *Escrow and Trade Claim Receivables:* Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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, interest rate 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.

- *National Beef Derivatives:* National Beef uses futures contracts in order to reduce its exposure associated with entering into firm commitments to purchase live cattle at prices determined prior to the delivery of the cattle as well as firm commitments to sell certain beef products at sales prices determined prior to shipment. The futures contracts and their related firm purchase commitments are accounted for at fair value, which are classified as Level 1 or Level 2 within the fair value hierarchy. Certain firm commitments for live cattle purchases and all firm commitments for sales are treated as normal purchases and sales and therefore not marked to market. Fair values classified as Level 1 are calculated based on the quoted market prices of identical assets or liabilities compared to National Beef’s cost of those same assets or liabilities. Fair values classified as Level 2 are calculated based on the difference between the contracted price for live cattle and the relevant quoted market price for live cattle futures.
- *Oil Futures Derivatives:* Vitesse uses call and put options in order to reduce exposure to future oil price fluctuations. Vitesse accounts for the derivative instruments at fair value, which are classified as Level 2 within the fair value hierarchy. Fair values classified as Level 2 are determined under the income valuation technique using an option-pricing model that is based on directly or indirectly observable inputs.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

Investment in FXCM

In January 2015, we entered into a credit agreement with FXCM, and provided FXCM a \$300 million two-year senior secured term loan with rights to a variable proportion of certain distributions in connection with an FXCM sale of assets or certain other events, and to require a sale of FXCM beginning in January 2018. FXCM is an online provider of foreign exchange trading and related services. The loan had an initial interest rate of 10% per annum, increasing by 1.5% per annum each quarter, not to exceed 20.5% per annum. The variable proportion of distributions is as follows: 100% until amounts due under the loan are repaid; 50% of the next \$350 million; then 90% of the next \$500 million (this was an amount initially set at a range between \$500 million to \$680 million and based on payments made by FXCM to us through April 16, 2015, this amount became \$500 million); and 60% of all amounts thereafter. During the year ended December 31, 2015, we received \$144.7 million of principal, interest and fees from FXCM and \$192.7 million remained outstanding under the credit agreement as of December 31, 2015.

FXCM is considered a variable interest entity and our term loan with rights is a variable interest. We have determined that we are not the primary beneficiary of FXCM because we do not have the power to direct the activities that most significantly impact FXCM's performance. Therefore, we are not consolidating FXCM.

We view the FXCM loan and associated rights as one integrated transaction; since the rights, as derivatives, are accounted for at fair value, we have elected the fair value option for the loan. The total amount of our investment in FXCM is reported within Trading assets, at fair value in our Consolidated Statement of Financial Condition, and unrealized and realized changes in value, including the component related to interest income on the loan, are included within Principal transactions in the Consolidated Statements of Operations. During the year ended December 31, 2015, we recorded in Principal transactions an aggregate \$491.3 million of unrealized and realized gains (losses), interest income and fees relating to our investment in FXCM. Our maximum exposure to loss as a result of our involvement with FXCM is limited to the carrying value of our investment (\$625.7 million at December 31, 2015).

We engaged an independent valuation firm to assist management in estimating the fair value of our loan and rights in FXCM. Our estimate of fair value was determined using valuation models with inputs including management's assumptions concerning the amount and timing of expected cash flows; the loan's implied credit rating and effective yield; implied total equity value, based primarily on the publicly traded FXCM stock price; volatility; risk-free rate; and term. Because of these inputs and the degree of judgment involved, we have categorized our investment in FXCM in Level 3. The valuation is most significantly impacted by the inputs and assumptions related to the publicly traded stock price, volatility and the time to liquidity event. A \$1.00 change in the price of FXCM's shares alone (representing about 6% of the price at December 31, 2015 after FXCM completed a one-for-ten reverse split of its common stock), would result in a change of about \$15 million in this valuation, assuming no change in any other factors we considered. Likewise, a 10% change in the assumed volatility would result in a change of about \$18 million in this valuation, assuming no other change in any other factors. A three month change in the estimated time to liquidity event would result in a change of about \$8 million in this valuation, assuming no change in any other factors. As we adjust to fair value each quarter, we anticipate there could be volatility in the FXCM valuation, which could materially impact our results in a given period.

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.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

Investments at Fair Value and Investments in Managed Funds

Investments at fair value based on NAV 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 the NAV of the funds provided by the fund managers and are excluded from 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 and are measured based on NAV (in thousands).

	December 31, 2015		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$482,570	\$ —	(2)
Fixed Income and High Yield Hedge Funds (3)	1,703	—	—
Fund of Funds (4)	287	94	—
Equity Funds (5)	42,111	20,791	—
Convertible Bond Funds (6)	326	—	At Will
Multi-strategy Fund (7)	113,458	—	—
Total	<u>\$640,455</u>	<u>\$20,885</u>	
	December 31, 2014		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$146,134	\$ —	Monthly/Quarterly
Fixed Income and High Yield Hedge Funds (3)	2,704	—	—
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	<u>\$323,686</u>	<u>\$26,117</u>	

- (1) Where fair value is calculated based on NAV, 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, 2015, investments with a fair value of \$107.1 million and at December 31, 2014 substantially all of the investments in this category are 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 \$52.4 million and \$117.2 million at December 31, 2015 and 2014, respectively. At December 31, 2015, this category also includes investments in two Folger Hill feeder funds that invest solely in a Folger Hill master fund that makes long/short equity investments, with broad industry and geographic diversification. Investment in these funds is subject to a lock-up until August 15, 2019, subject to certain release events and other withdrawal rights. Following this date, investments can be redeemed as of any calendar quarter-end with no less than 45 calendar days' notice, subject to certain limitations. At December 31, 2015, our investments in these two funds had an aggregate fair value of \$375.5 million.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

- (3) Includes investments in funds that invest in loans secured by a first trust deed on property, 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. At December 31, 2015 and 2014, the underlying assets of 8% and 8%, respectively, of these 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, 2015 and 2014, approximately 95% and 95%, respectively, of the fair value of investments in this category is managed by us and have no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in the next twelve months. For the remaining investments, we have requested redemption; however, we are unable to estimate when these funds will be received.
- (5) At December 31, 2015 and 2014, investments representing approximately 100% 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.
- (6) Investment in the Jefferies Umbrella Fund, an open-ended investment company managed by Jefferies that invests primarily in convertible bonds. The remaining investments are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.
- (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.

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, 2015 and 2014, Other secured financings includes \$0.0 million and \$7.8 million, respectively, related to transfers of loans accounted for as secured financings rather than as sales and classified as Level 3 within the fair value hierarchy.

Notes to Consolidated Financial Statements, continued

Note 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 year ended December 31, 2015 (in thousands):

	Year Ended December 31, 2015								
	Balance, December 31, 2014	Total gains (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances	Net transfers into (out of) Level 3	Balance at December 31, 2015	Changes in unrealized gains (losses) relating to instruments still held at December 31, 2015 (1)
Assets:									
Trading assets:									
Corporate equity securities	\$ 20,964	\$ 11,154	\$ 21,385	\$ (6,391)	\$ –	\$ –	\$ (6,206)	\$ 40,906	\$ 11,424
Corporate debt securities	22,766	(11,013)	21,534	(14,636)	–	–	7,225	25,876	(9,443)
Collateralized debt obligations	124,650	(66,332)	104,998	(107,381)	(5,754)	–	34,911	85,092	(48,514)
Municipal securities	–	10	–	–	(21,551)	–	21,541	–	–
Sovereign obligations	–	47	1,032	(1,031)	–	–	72	120	39
Residential mortgage-backed securities	82,557	(12,951)	18,961	(31,762)	(597)	–	14,055	70,263	(4,498)
Commercial mortgage-backed securities	26,655	(3,813)	3,480	(10,146)	(6,861)	–	5,011	14,326	(3,205)
Other asset-backed securities	2,294	(990)	42,922	(1,299)	(2)	–	–	42,925	(254)
Loans and other receivables	97,258	(14,755)	792,345	(576,536)	(124,365)	–	15,342	189,289	(16,802)
Investments at fair value	77,047	62,804	5,510	(425)	(4,093)	–	58,951	199,794	(1,964)
Investment in FXCM	–	491,341	279,000	–	(144,652)	–	–	625,689	491,341
Liabilities:									
Trading liabilities:									
Corporate equity securities	\$ 38	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 38	\$ –
Corporate debt securities	223	(110)	(6,804)	6,691	–	–	–	–	–
Net derivatives (2)	(4,638)	(7,310)	(6,705)	13,522	37	2,437	2,415	(242)	4,754
Loans	14,450	(163)	(2,059)	229	–	–	(1,988)	10,469	104
Other secured financings	30,825	–	–	–	(15,704)	36,995	(51,572)	544	–

(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.

Analysis of Level 3 Assets and Liabilities for the year ended December 31, 2015

During the year ended December 31, 2015, transfers of assets of \$236.7 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Collateralized debt obligations of \$69.8 million, non-agency residential mortgage-backed securities of \$30.4 million and commercial mortgage-backed securities of \$11.3 million for which no recent trade activity was observed for purposes of determining observable inputs;

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

- Municipal securities of \$21.5 million and loans and other receivables of \$20.1 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Corporate debt securities of \$7.4 million and investments at fair value of \$74.7 million due to a lack of observable market transactions.

During the year ended December 31, 2015, transfers of assets of \$85.8 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of \$16.3 million and commercial mortgage-backed securities of \$6.3 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of \$34.9 million and loans and other receivables of \$4.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Investments at fair value of \$15.8 million due to an increase in observable market transactions;
- Corporate equity securities of \$7.7 million due to an increase in observable market transactions.

During the year ended December 31, 2015, there were transfers of other secured financings of \$51.6 million from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net gains on Level 3 assets were \$455.5 million and net gains on Level 3 liabilities were \$7.6 million for the year ended December 31, 2015. Net gains on Level 3 assets were primarily due to increased valuations of our investment in FXCM and increase in valuation of certain investments at fair value and corporate equity securities partially offset by decreased valuations of collateralized debt obligations, certain loans and other receivables and residential and commercial mortgage-backed securities. Net gains on Level 3 liabilities were primarily due to increased valuations of certain derivatives.

Notes to Consolidated Financial Statements, continued

Note 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 year ended December 31, 2014 (in thousands):

	Year Ended December 31, 2014								
	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)
Assets:									
Trading assets:									
Corporate equity securities	\$ 9,884	\$ 957	\$ 18,138	\$ (12,826)	\$ –	\$ –	\$ 4,811	\$ 20,964	\$ 2,324
Corporate debt securities	25,666	6,629	38,316	(40,328)	–	–	(7,517)	22,766	8,982
Collateralized debt obligations	37,216	(6,386)	204,337	(181,757)	(1,297)	–	72,537	124,650	(1,141)
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	66,931	17,642	32,493	(23,324)	(1,243)	–	(15,452)	77,047	1,985
Liabilities:									
Trading liabilities:									
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.

During the year ended December 31, 2014, transfers of assets of \$139.0 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 \$73.0 million which have little to no transparency related to trade activity;

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

- Corporate equity securities of \$9.7 million due to a lack of observable market transactions.

During the year ended December 31, 2014, transfers of assets of \$54.6 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 \$15.5 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate equity securities of \$4.9 million and corporate debt securities of \$7.5 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 \$24.8 million and net losses on Level 3 liabilities were \$14.9 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, partially offset by increased valuations of certain investments at fair value certain corporate debt securities and other asset-backed securities. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivatives.

Notes to Consolidated Financial Statements, continued

Note 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). There were no significant Leucadia Level 3 trading assets or liabilities prior to the Jefferies acquisition.

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	Balance at December 31, 2013	Changes in unrealized gains (losses) relating to instruments still held at December 31, 2013 (1)
Assets:								
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	39,693	(1,317)	28,515	(102)	(875)	1,017	66,931	(1,290)
Liabilities:								
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

Note 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 losses on Level 3 assets were \$3.4 million and net losses on Level 3 liabilities were \$5.8 million for the period from the Jefferies acquisition through December 31, 2013. Net losses on Level 3 assets were primarily due to a decrease in valuation of certain corporate debt securities, collateralized debt obligations, residential and commercial mortgage-backed securities and other asset-backed securities, partially offset by increased valuations of certain corporate equity securities and loans and other receivables. 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.

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

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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, 2015

<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>
Corporate equity securities	\$ 20,285				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	4.4	–
			Transaction level	\$1	–
			Underlying stock price	\$5 to \$102	\$19.0
Corporate debt securities	\$ 20,257	Convertible bond model	Discount rate/yield	86%	–
		Market approach	Transaction level	\$59	–
Collateralized debt obligations	\$ 49,923	Discounted cash flows	Constant prepayment rate	5% to 20%	13%
			Constant default rate	2% to 8%	2%
			Loss severity	25% to 90%	52%
			Yield	6% to 13%	10%
Residential mortgage-backed securities	\$ 70,263	Discounted cash flows	Constant prepayment rate	0% to 50%	13%
			Constant default rate	1% to 9%	3%
			Loss severity	25% to 70%	39%
			Yield	1% to 9%	6%
Commercial mortgage-backed securities	\$ 14,326	Discounted cash flows	Yield	7% to 30%	16%
			Cumulative loss rate	2% to 63%	23%
Other asset-backed securities	\$ 21,463	Discounted cash flows	Constant prepayment rate	6% to 8%	7%
			Constant default rate	3% to 5%	4%
			Loss severity	55% to 75%	62%
			Yield	7% to 22%	18%
		Over-collateralization	Over-collateralization percentage	117% to 125%	118%
Loans and other receivables	\$161,470	Comparable pricing	Comparable loan price	\$99 to \$100	\$99.7
		Market approach	Discount rate/yield	2% to 17%	12%
			EBITDA (a) multiple	10.0	–
		Scenario analysis	Estimated recovery percentage	6% to 100%	83%
Derivatives	\$ 19,785				
Commodity forwards		Market approach	Discount rate/yield	47%	–
			Transaction level	\$9,500,000	–
Unfunded commitment		Comparable pricing	Comparable loan price	\$100	–
		Market approach	Credit spread	298 bps	–
Total return swap		Comparable pricing	Comparable loan price	\$91.7 to \$92.4	\$92.1
Investments at fair value					
Private equity securities	\$ 29,940	Market approach	Transaction Level	\$64	–
			Enterprise value	\$5,200,000	–
			Discount rate	15% to 30%	23%
Investment in FXCM				0 months	
Term loan	\$203,700	Discounted cash flows	Term based on the pay off	to 1.0 year	0.4 years
Rights	422,000	Option pricing model	Volatility	110%	–
	<u>\$625,700</u>				

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

December 31, 2015					
<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>
Derivatives	\$19,543				
Equity options		Option model	Volatility	45%	–
		Default rate	Default probability	0%	–
Unfunded commitments		Comparable pricing	Comparable loan price	\$79 to \$100	\$82.6
		Market approach	Discount rate/yield	3% to 10%	10%
		Discounted cash flows	Constant prepayment rate	20%	–
			Constant default rate	2%	–
			Loss severity	25%	–
			Yield	11%	–
Total return swaps		Comparable pricing	Comparable loan price	\$91.7 to \$92.4	\$92.1
Loans	\$10,469	Comparable pricing	Comparable loan price	\$100	–
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>
Corporate equity securities	\$19,814				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.4 to 4.7	3.6
		Scenario analysis	Estimated recovery percentage	24%	–
Corporate debt securities	\$22,766	Convertible bond model	Discount rate/yield	32%	–
Collateralized debt obligations	\$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%
Residential mortgage-backed securities	\$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%
Commercial mortgage-backed securities	\$26,655	Discounted cash flows	Yield	8% to 12%	11%
			Cumulative loss rate	4% to 72%	15%
		Scenario analysis	Estimated recovery percentage	90%	–
Other asset-backed securities	\$2,294	Discounted cash flows	Constant prepayment rate	8%	–
			Constant default rate	3%	–
			Loss severity	70%	–
			Yield	7%	–
Loans and other receivables	\$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%
Derivatives	\$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	–
Investments at fair value					
Private equity securities	\$32,323	Market approach	Transaction Level	\$50	–
		Market approach	Discount rate	15% to 30%	23%

Notes to Consolidated Financial Statements, continued

Note 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>
Derivatives	\$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%	–
Loans	\$14,450	Comparable pricing	Comparable loan price	\$100	–
Other secured financings	\$30,825	Comparable pricing	Comparable loan price	\$81 to \$100	\$98.7

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

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above tables. At December 31, 2015 and 2014, asset exclusions consisted of \$280.6 million and \$137.8 million, respectively, primarily comprised of certain corporate debt and equity securities, investments at fair value, private equity securities, derivative contracts, collateralized debt obligations, sovereign obligations and certain loans and other receivables. At December 31, 2015 and 2014, liability exclusions consisted of \$0.6 million and \$0.3 million, respectively, of certain corporate debt and equity securities and other secured financings.

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:

- Loans and other receivables, loan and unfunded commitments, total return swaps and other secured financings using comparable pricing valuation techniques. A significant increase (decrease) in the comparable loan price in isolation would result in a significantly higher (lower) fair value measurement.
- Corporate debt securities using a convertible bond model. A significant increase (decrease) in the bond discount rate/yield would result in a significantly higher (lower) fair value measurement.
- Non-exchange traded securities, corporate debt securities, loans and other receivables, unfunded commitments, commodity forwards and private equity securities 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 or unfunded commitment would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the transaction level of a private equity security would result in a significantly higher (lower) fair value measurement.
- Non-exchange traded securities, commercial mortgage-backed 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, certain corporate debt securities, residential and commercial mortgage-backed securities, other asset-backed securities, commodity forwards and unfunded commitments using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate and loss severities or cumulative loss rate would result in a significantly lower (higher) fair value measurement.

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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 significantly lower (higher) fair value measurement.

- Certain other asset-backed securities using an over-collateralization model. A significant increase (decrease) in the over-collateralization percentage would result in a significantly higher (lower) fair value measurement.
- Derivative foreign exchange and equity options using an option model. A significant increase (decrease) in volatility would result in a significantly higher (lower) fair value measurement.
- Derivative equity options using a default rate model. A significant increase (decrease) in default probability would result in a significantly higher (lower) fair value measurement.
- Investment in FXCM using a discounted cash flow valuation technique and an option pricing model. A significant increase in term based on the time to pay off the loan would result in a significantly higher fair value measurement. A significant increase (decrease) in volatility or time to liquidity event would result in a significantly lower (higher) fair value measurement.

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 liabilities. 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 years ended December 31, 2015 and 2014 and the period from the Jefferies acquisition through December 31, 2013 (in thousands):

	For the year ended December 31, 2015	For the year ended December 31, 2014	For the period from the Jefferies acquisition through December 31, 2013
Financial Instruments Owned:			
Loans and other receivables	\$ (17,389)	\$(24,785)	\$(15,327)
Financial Instruments Sold:			
Loans	\$ (162)	\$ (585)	\$ (32)
Loan commitments	\$ 7,502	\$(15,459)	\$ (1,007)

Notes to Consolidated Financial Statements, continued

Note 5. Fair Value Disclosures, continued:

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):

	Balance at December 31, 2015	Balance at December 31, 2014
Loans and other receivables (1)	\$408,369	\$403,119
Loans and other receivables greater than 90 days past due (1)	\$ 29,720	\$ 5,594
Loans and other receivables on nonaccrual status (1) (2) . . .	\$ 54,652	\$(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 \$11.3 million and \$0 million at December 31, 2015 and 2014, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 or more days past due, was \$307.5 million and \$274.6 million at December 31, 2015 and 2014, respectively.

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, which is 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 \$49.1 million, \$(14.7) million and \$19.5 million for 2015, 2014 and 2013, respectively.

As of December 31, 2015 and 2014, we owned approximately 46.6 million common shares of HRG, representing approximately 23% of HRG's outstanding common shares, which are accounted for under the fair value option. The shares are included in our Consolidated Statements of Financial Condition at fair value of \$631.9 million and \$659.9 million at December 31, 2015 and 2014, respectively. The shares were acquired at an aggregate cost of \$475.6 million. The change in the fair value of our investment in HRG aggregated \$(28.0) million during the year ended December 31, 2015 and \$119.2 million during the year ended December 31, 2014. We currently have two directors on HRG's board. We have agreed not to increase our interest in HRG 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 HRG 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.

Notes to Consolidated Financial Statements, continued

Note 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.

Derivative Financial Instruments

Derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Trading assets and Trading liabilities, 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 primarily 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, 2015 and 2014. 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, 2015			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$ 2,910,093	56,748	\$ 2,849,958	74,904
Foreign exchange contracts	472,869	8,118	470,649	7,404
Equity contracts	1,017,611	3,057,754	1,094,597	2,947,416
Commodity contracts	8,248	2,867	882	1,973
Credit contracts: centrally cleared swaps	2,447	299	841	44
Credit contracts: other credit derivatives	16,977	100	59,314	135
Total	4,428,245		4,476,241	
Counterparty/cash-collateral netting	(4,165,446)		(4,257,998)	
Total	<u>\$ 262,799</u>		<u>\$ 218,243</u>	

Notes to Consolidated Financial Statements, continued

Note 6. Derivative Financial Instruments, continued:

	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	(4,759,345)		(4,856,618)	
Total	<u>\$ 406,268</u>		<u>\$ 363,515</u>	

The following table presents unrealized and realized gains (losses) on derivative contracts as reflected in the Consolidated Statements of Operations for the years ended December 31, 2015 and 2014 and the period from the Jefferies acquisition through December 31, 2013 (in thousands):

	For the year ended December 31, 2015	For the year ended December 31, 2014	For the period from the Jefferies acquisition through December 31, 2013
Interest rate contracts	\$ (36,792)	\$(149,587)	\$132,397
Foreign exchange contracts	36,233	39,872	5,514
Equity contracts	(137,219)	(327,978)	(21,216)
Commodity contracts	(13,625)	58,746	45,546
Credit contracts	(16,223)	(23,934)	(18,098)
Total	<u>\$(167,626)</u>	<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, 2015 (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	\$ 7,743	\$ 18,955	\$ -	\$ -	\$ 26,698
Credit default swaps	-	6,022	-	(2,839)	3,183
Equity swaps and options	26,278	7,112	-	(3,782)	29,608
Total return swaps	8,648	252	-	(1)	8,899
Foreign currency forwards, swaps and options	82,707	15,780	-	(7,462)	91,025
Interest rate swaps, options and forwards	57,655	158,874	63,816	(43,881)	236,464
Total	<u>\$183,031</u>	<u>\$206,995</u>	<u>\$63,816</u>	<u>\$(57,965)</u>	<u>395,877</u>
Cross product counterparty netting					<u>(13,063)</u>
Total OTC derivative assets included in Trading assets					<u>\$382,814</u>

(1) At December 31, 2015, we held exchange traded derivative assets and other credit agreements with a fair value of \$24.4 million, which are not included in this table.

Notes to Consolidated Financial Statements, continued

Note 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, 2015 cash collateral received was \$144.4 million.
- (3) Derivative fair values include counterparty netting within product category.
- (4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

	OTC Derivative Liabilities(1)(2)(3)				
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross-Maturity Netting(4)	Total
Commodity swaps, options and forwards	\$ 5,510	\$ —	\$ —	\$ —	\$ 5,510
Credit default swaps	—	2,628	31,982	(2,839)	31,771
Equity swaps and options	4,880	28,516	3,046	(3,782)	32,660
Total return swaps	22,644	774	2,540	(1)	25,957
Foreign currency forwards, swaps and options	98,726	12,255	—	(7,462)	103,519
Fixed income forwards	2,522	—	—	—	2,522
Interest rate swaps, options and forwards	41,938	91,139	89,934	(43,881)	179,130
Total	<u>\$176,220</u>	<u>\$135,312</u>	<u>\$127,502</u>	<u>\$(57,965)</u>	<u>381,069</u>
Cross product counterparty netting					<u>(13,063)</u>
Total OTC derivative liabilities included in Trading liabilities					<u>\$368,006</u>

- (1) At December 31, 2015, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$87.2 million, which are not included in this table.
- (2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged in the Consolidated Statements of Financial Condition. At December 31, 2015, cash collateral pledged was \$237.0 million.
- (3) Derivative fair values include counterparty netting within product category.
- (4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

At December 31, 2015, 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	\$195,503
BBB- to BBB+	76,796
BB+ or lower	50,581
Unrated	59,934
Total	<u>\$382,814</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

Note 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, 2015 and 2014 is \$114.5 million and \$269.0 million, respectively, for which Jefferies has posted collateral of \$97.2 million and \$234.6 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2015 and 2014, Jefferies would have been required to post an additional \$19.7 million and \$55.1 million, respectively, of collateral to its counterparties.

Other Derivatives

National Beef uses futures contracts in order to reduce its exposure associated with entering into firm commitments to purchase live cattle at prices determined prior to the delivery of the cattle as well as firm commitments to sell certain beef products at sales prices determined prior to shipment. National Beef accounts for the futures contracts and their related firm purchase commitments at fair value. Certain firm commitments for live cattle purchases and all firm commitments for sales are treated as normal purchases and sales and therefore not marked to market. The gains and losses associated with the change in fair value of the futures contracts and the offsetting gains and losses associated with changes in the market value of certain of the firm purchase commitments related to the futures contracts are recorded to income and expense in the period of change.

Vitesse uses call and put options in order to reduce exposure to future oil price fluctuations. Vitesse accounts for the derivative instruments at fair value. The gains and losses associated with the change in fair value of the derivatives are recorded in income.

Note 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.

Notes to Consolidated Financial Statements, continued

Note 7. Collateralized Transactions, continued:

The following tables set forth the carrying value of securities lending arrangements and repurchase agreements by class of collateral pledged and remaining contractual maturity (in thousands):

Collateral Pledged	Securities Lending Arrangements	Repurchase Agreements	Total	
Corporate equity securities	\$2,200,273	\$ 271,519	\$ 2,471,792	
Corporate debt securities	779,044	1,721,583	2,500,627	
Mortgage- and asset-backed securities	–	3,537,812	3,537,812	
U.S. government and federal agency securities	34,983	12,003,521	12,038,504	
Municipal securities	–	357,350	357,350	
Sovereign securities	–	1,804,103	1,804,103	
Loans and other receivables	–	462,534	462,534	
Total	\$3,014,300	\$20,158,422	\$23,172,722	

	Contractual Maturity				Total
	Overnight and Continuous	Up to 30 Days	30 to 90 Days	Greater than 90 Days	
Securities lending arrangements	\$1,522,475	\$ –	\$ 973,201	\$ 518,624	\$ 3,014,300
Repurchase agreements	7,848,231	5,218,059	5,291,729	1,800,403	20,158,422
Total	\$9,370,706	\$5,218,059	\$6,264,930	\$2,319,027	\$23,172,722

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, 2015 and 2014, the approximate fair value of securities received as collateral by Jefferies that may be sold or repledged was \$26.2 billion and \$25.8 billion, respectively. A substantial portion of these securities have been sold or repledged.

Note 8. Securitization Activities:

Jefferies engages in securitization activities related to corporate loans, commercial mortgage loans, consumer 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.

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

Notes to Consolidated Financial Statements, continued

Note 8. Securitization Activities, continued:

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. Jefferies applies 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 years ended December 31, 2015 and 2014 and the period from the Jefferies acquisition through December 31, 2013 (in millions):

	<u>For the year ended December 31, 2015</u>	<u>For the year ended December 31, 2014</u>	<u>For the period from the Jefferies acquisition through December 31, 2013</u>
Transferred assets	\$5,770.5	\$6,112.6	\$4,592.5
Proceeds on new securitizations	5,811.3	6,221.1	4,609.0
Cash flows received on retained interests	31.2	46.3	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, 2015 and 2014.

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, 2015</u>		<u>December 31, 2014</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	\$10,901.9	\$203.6	\$19,196.9	\$226.9
U.S. government agency commercial mortgage-backed securities	2,313.4	87.2	5,848.5	204.7
Collateralized loan obligations	4,538.4	51.5	4,511.8	108.4
Consumer and other loans	655.0	31.0	-	-

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

Note 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, 2015 and 2014 are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
2015				
Bonds and notes:				
U.S. government securities	\$ 63,968	\$ 2	\$ 25	\$ 63,945
Residential mortgage-backed securities	23,033	308	101	23,240
Commercial mortgage-backed securities . . .	2,392	-	18	2,374
Other asset-backed securities	39,633	-	160	39,473
All other corporates	4,794	7	57	4,744
Total fixed maturities	<u>133,820</u>	<u>317</u>	<u>361</u>	<u>133,776</u>
Equity securities:				
Common stocks:				
Banks, trusts and insurance companies . .	35,071	10,201	-	45,272
Industrial, miscellaneous and all other . . .	17,946	10,361	-	28,307
Total equity securities	<u>53,017</u>	<u>20,562</u>	<u>-</u>	<u>73,579</u>
	<u>\$ 186,837</u>	<u>\$20,879</u>	<u>\$ 361</u>	<u>\$ 207,355</u>
2014				
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>

The amortized cost and estimated fair value of investments classified as available for sale at December 31, 2015, 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.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(In thousands)	
Due within one year	\$ 68,250	\$ 68,178
Due after one year through five years	512	511
Due after five years through ten years	-	-
Due after ten years	-	-
	<u>68,762</u>	<u>68,689</u>
Mortgage-backed and asset-backed securities	<u>65,058</u>	<u>65,087</u>
	<u>\$133,820</u>	<u>\$133,776</u>

Notes to Consolidated Financial Statements, continued

Note 9. Available for Sale Securities, continued:

At December 31, 2015, 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 Minerals Ltd., 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.

Note 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 VIE 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, corporate and consumer loans,
- Acting as placement agent and/or underwriter in connection with client-sponsored securitizations,
- Financing of agency and non-agency mortgage- and other asset-backed securities,
- Warehousing funding arrangements for client-sponsored consumer loan vehicles and collateralized loan obligations (“CLOs”) through participation certificates and revolving loan commitments, and
- Loans to, investments in and fees from various investment fund vehicles.

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

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

Notes to Consolidated Financial Statements, continued

Note 10. Variable Interest Entities, continued:

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, 2015 and 2014.

<u>(In millions)</u>	<u>Securitization Vehicles</u>	
	<u>2015</u>	<u>2014</u>
Cash	\$ 1.1	\$ 0.5
Financial instruments owned	68.3	62.7
Securities purchased under agreement to resell (1)	717.3	575.2
Other	160.2	107.1
Total assets	<u>\$946.9</u>	<u>\$745.5</u>
Other secured financings (2)	\$932.4	\$737.0
Other	14.5	8.5
Total liabilities	<u>\$946.9</u>	<u>\$745.5</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 \$22.1 million and \$39.7 million of the secured financing represents an amount held by Jefferies in inventory and eliminated in consolidation at December 31, 2015 and 2014, respectively.

Securitization vehicles. Jefferies is the primary beneficiary of securitization vehicles associated with their financing of consumer and small business loans. In the creation of the securitization vehicles, Jefferies was involved in the decisions made during the establishment and design of the entities and holds variable interests consisting of the securities retained that could potentially be significant. The assets of the VIEs consist of the small business loans and term loans backed by consumer installment receivables, which are available for the benefit of the vehicles' beneficial interest holders. The creditors of the VIEs do not have recourse to Jefferies general credit and the assets of the VIEs are not available to satisfy any other debt.

Jefferies is also the primary beneficiary of mortgage-backed financing vehicles to which Jefferies sells agency and non-agency residential and commercial mortgage loans and 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, 2015 and 2014, another of our subsidiaries is the primary beneficiary of SPEs it utilized to securitize automobile loans receivable. Our subsidiary acts as the servicer for which it receives a fee, and owns the equity interest in the SPEs. The notes issued by the SPEs are secured solely by the assets of the SPEs and do not have recourse to our subsidiary's general credit and the assets of the VIEs are not available to satisfy any other debt.

Notes to Consolidated Financial Statements, continued

Note 10. Variable Interest Entities, continued:

Nonconsolidated VIEs

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

		December 31, 2015		
		Variable Interests		
(In millions)	Financial Statement Carrying Amount (1) Assets	Maximum Exposure to Loss	VIE Assets	
Collateralized loan obligations	\$ 73.6	\$ 458.1	\$6,368.7	
Consumer loan vehicles	188.3	845.8	1,133.0	
Asset management vehicles	0.5	0.5	45.5	
Private equity vehicles	27.3	40.7	80.8	
Total	<u>\$289.7</u>	<u>\$1,345.1</u>	<u>\$7,628.0</u>	
December 31, 2014				
		Variable Interests		
(In millions)	Financial Statement Carrying Amount (1) Assets	Maximum Exposure to Loss	VIE Assets	
Collateralized loan obligations	\$134.0	\$ 926.9	\$7,737.1	
Consumer loan vehicles	170.6	797.8	485.2	
Asset management vehicles	11.3	11.3	432.3	
Private equity vehicles	44.3	59.2	92.8	
Total	<u>\$360.2</u>	<u>\$1,795.2</u>	<u>\$8,747.4</u>	

(1) There were no significant liabilities at December 31, 2015 or December 31, 2014.

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 sponsors and provides advisory services to the 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
- 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

Notes to Consolidated Financial Statements, continued

Note 10. Variable Interest Entities, continued:

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

Consumer Loan Vehicles. 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. The underlying assets, which are collateralizing the vehicles, are primarily comprised of unsecured consumer and small business loans. 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 Vehicle. Jefferies managed the Jefferies Umbrella Fund, an "umbrella structure" company that invested primarily in convertible bonds and enabled investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. Jefferies variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees. Effective May 2015, the Jefferies Umbrella Fund was placed into liquidation.

Jefferies manages an asset management vehicle that provides investors with exposure to absolute return strategies, primarily including merger arbitrage, relative value and stock loan arbitrage. Jefferies variable interests in this asset management vehicle consist of management 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 L.P."). As of December 31, 2015 and 2014, Jefferies funded approximately \$64.6 million and \$60.1 million, respectively, of its commitment. The carrying amount of Jefferies equity investment was \$26.2 million and \$43.1 million at December 31, 2015 and 2014, respectively. Jefferies exposure to loss is limited to its equity commitment. The SBI USA Fund L.P. 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 \$1.1 million and \$1.2 million at December 31, 2015 and 2014, respectively. Jefferies exposure to loss is limited to its equity investment. JEP IV has assets consisting primarily of private equity and equity related investments.

Jefferies has provided a guarantee of a portion of Energy Partners I, LP's obligations under a credit agreement. Energy Partners I, LP is a private equity fund owned and managed by certain of our employees. At December 31, 2015, the carrying value and maximum exposure to loss of the guarantee were \$11,000 and \$3.0 million, respectively. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

Mortgage- and Other Asset-Backed Vehicles. In connection with Jefferies secondary trading and market-making activities, Jefferies buys and sells agency and non-agency mortgage-backed and other asset-backed securities, which are issued by third party securitization SPEs and are generally considered variable interests in VIEs. Securities issued by securitization SPEs are backed by residential mortgage loans, U.S. agency collateralized mortgage obligations, commercial mortgage loans, collateralized debt obligations and CLOs and other consumer loans, such as installment receivables, auto loans and student loans. These securities are accounted for at fair value and included in 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

Note 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 non-agency 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 non-agency 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 non-agency 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, 2015 and 2014, Jefferies held \$3,359.1 million and \$3,186.9 million of agency mortgage-backed securities, respectively, and \$630.5 million and \$1,120.0 million of non-agency 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.

In addition, at December 31, 2015, we have a variable interest in a nonconsolidated VIE consisting of our senior secured term loan receivable with rights with FXCM. See Note 5 for further discussion.

Notes to Consolidated Financial Statements, continued

Note 11. Loans to and Investments in Associated Companies:

A summary of loans to and investments in associated companies at December 31, 2015 and 2014 accounted for under the equity method of accounting is as follows (in thousands):

	Jefferies Finance	Jefferies LoanCore	Berkadia	Garcadia Companies	Linkem	HomeFed	Golden Queen Mining Company, LLC (1)	Other	Total
Loans to and investments in associated companies as of December 31, 2012	\$ -	\$ -	\$172,942	\$ 82,425	\$ 86,424	\$ 49,384	\$ -	\$ 416,299	\$ 807,474
<i>2013 Activity:</i>									
Amounts at date of Jefferies acquisition	510,684	217,299	-	-	-	-	-	38,911	766,894
Income (losses) related to associated companies	-	-	84,678	39,399	(22,719)	3,539	-	14,144	119,041
Income (losses) related to associated companies classified as other revenues	57,795	35,300	-	-	-	-	-	(915)	92,180
Contributions to (distributions from) associated companies, net	(97,942)	(28,562)	(69,016)	(1,807)	107,385	-	-	(39,761)	(129,703)
Other, including foreign exchange and unrealized gain (losses)	-	-	(6,031)	-	2,487	-	-	(394,001)	(397,545)
Loans to and investments in associated companies as of December 31, 2013	470,537	224,037	182,573	120,017	173,577	52,923	-	34,677	1,258,341
<i>2014 Activity:</i>									
Income (losses) related to associated companies	-	-	101,187	49,416	(14,633)	3,150	(1,402)	809	138,527
Income (losses) related to associated companies classified as other revenues	72,701	18,793	-	-	-	-	-	(1,252)	90,242
Contributions to (distributions from) associated companies, net	(34,347)	16,117	(72,721)	(1,494)	18,390	-	105,000	(4,067)	26,878
Other, including foreign exchange and unrealized gain (losses)	-	-	(2,528)	-	(18,280)	215,709	-	3,679	198,580
Loans to and investments in associated companies as of December 31, 2014	508,891	258,947	208,511	167,939	159,054	271,782	103,598	33,846	1,712,568
<i>2015 Activity:</i>									
Income (losses) related to associated companies	-	-	78,092	53,182	(15,577)	3,596	(1,775)	(7,237)	110,281
Income (losses) related to associated companies classified as other revenues	40,884	36,554	-	-	-	-	-	(1,721)	75,717
Contributions to (distributions from) associated companies, net	(21,200)	(6,760)	(89,560)	(48,461)	21,138	-	12,500	11,483	(120,860)
Other, including foreign exchange and unrealized gain (losses)	-	-	(6,057)	-	(14,466)	-	-	186	(20,337)
Loans to and investments in associated companies as of December 31, 2015	<u>\$528,575</u>	<u>\$288,741</u>	<u>\$190,986</u>	<u>\$172,660</u>	<u>\$150,149</u>	<u>\$275,378</u>	<u>\$114,323</u>	<u>\$ 36,557</u>	<u>\$1,757,369</u>

(1) At December 31, 2015 and 2014, the balance reflects \$33.7 million and \$33.7 million, respectively, related to a noncontrolling interest.

Notes to Consolidated Financial Statements, continued

Note 11. Loans to and Investments in Associated Companies, continued:

Jefferies Finance

In October 2004, Jefferies entered into an agreement with Massachusetts Mutual Life Insurance Company (“MassMutual”) and Babson Capital Management LLC to form Jefferies Finance, a joint venture entity. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt to middle market and growth companies in the form of term and revolving loans. Loans are originated primarily through the investment banking efforts of Jefferies. Jefferies Finance may also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market.

Jefferies and MassMutual each made equity commitments to Jefferies Finance of \$600.0 million. At December 31, 2015, approximately \$497.4 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. During 2015, the Secured Revolving Credit Facility was modified and reduced from a committed and discretionary total of \$1.0 billion to a total committed amount of \$500.0 million at December 31, 2015. Advances are shared equally between Jefferies and MassMutual. 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, 2015 and 2014, \$19.3 million and \$0.0 million, respectively, of Jefferies \$250.0 million and \$350.0 million commitment, respectively, was funded.

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 fees of \$122.7 million, \$199.5 million and \$125.8 million during 2015, 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 in respect of certain loans originated by Jefferies Finance of \$5.9 million, \$10.6 million and \$12.0 million during 2015, 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, 2015, 2014 and 2013, Jefferies acted as placement agent in connection with several CLOs managed by Jefferies Finance, for which Jefferies recognized fees of \$6.2 million, \$4.6 million and \$1.9 million, respectively, which are included in Investment banking revenues in the Consolidated Statements of Operations. At December 31, 2015 and 2014, Jefferies held securities issued by the CLOs managed by Jefferies Finance, 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 participation agreements and derivative contracts with Jefferies Finance whose underlying is based on certain securities issued by the CLOs. There were no significant revenues recognized by Jefferies in connection with its roles related to the execution of the CLOs.

During 2015, 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 \$1.3 million, \$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 \$51.7 million, \$41.6 million and \$14.2 million for services provided during 2015, 2014 and 2013, respectively. Receivables from Jefferies Finance, included within Other assets in the Consolidated Statements of Financial Condition, were \$7.8 million and \$41.5 million at December 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements, continued

Note 11. Loans to and Investments in Associated Companies, continued:

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, 2015 and 2014, Jefferies has funded \$207.4 million and \$200.9 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 Inc. 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, 2015, cumulative cash distributions received from this investment aggregated \$393.9 million. Berkadia originates commercial/multifamily real estate loans that are sold to U.S. government agencies, and originates and brokers commercial/multifamily 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.

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.

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, and we have agreed to reimburse Berkshire Hathaway for one-half of any losses incurred thereunder. As of December 31, 2015, the aggregate amount of commercial paper outstanding was \$2.47 billion.

Garcadia

Garcadia is a joint venture between us and Garff Enterprises, Inc. that owns and operates 27 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.

Linkem

We own approximately 42% of the common shares of Linkem, a fixed wireless broadband services provider in Italy, at a cost of \$142.9 million. In addition, we had purchased 5% convertible notes issued by Linkem for \$108.6 million (€81.2 million principal amount, including interest in kind). During 2015, these notes and a \$1.1 million (€1.0 million) loan were swapped for convertible preferred equity with similar terms. In 2015, we also purchased an additional \$14.2 million (€13.3 million principal amount) of convertible preferred equity. If all of our convertible preferred equity was converted, it would increase our ownership to approximately 56% 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.

Notes to Consolidated Financial Statements, continued

Note 11. Loans to and Investments in Associated Companies, continued:

HomeFed

At December 31, 2015, 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 develops and owns residential and mixed-use real estate properties. 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, 2015. 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. 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.

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.

Golden Queen Mining Company

During 2014 and 2015, we invested \$83.0 million, net 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 is essentially complete and mining activities and project commissioning commenced in the fourth quarter of 2015. In exchange for a noncontrolling ownership interest in Gauss LLC, the Clay family contributed \$34.5 million, net in cash. Gauss LLC invested both our and the Clay family's net contributions totaling \$117.5 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.

As a result of our consolidating Gauss LLC, our Loans to and investments in associated companies reflects Gauss LLC's net investment of \$117.5 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.

Our maximum exposure to loss as a result of our involvement with the joint venture is limited to our investment.

Other

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 in 2013, we contributed our investment in JHYH to Jefferies, other third-party investors were redeemed and JHYH was effectively dissolved.

Notes to Consolidated Financial Statements, continued

Note 11. Loans to and Investments in Associated Companies, continued:

The following table provides summarized data for associated companies as of December 31, 2015 and 2014 and for the three years ended December 31, 2015 (in thousands):

	<u>2015</u>	<u>2014</u>		
Assets	\$18,489,684	\$12,683,212		
Liabilities	14,990,876	9,350,034		
Noncontrolling interest	39,038	12,718		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	
Revenues	\$3,946,252	\$3,201,823	\$2,710,205	
Income from continuing operations before extraordinary items . . .	\$ 398,369	\$ 431,654	\$ 428,509	
Net income	\$ 398,369	\$ 431,654	\$ 434,969	
The Company's income related to associated companies	\$ 185,998	\$ 228,769	\$ 211,221	

Except for our investment in Berkadia and Jefferies Finance, 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. See Note 26 for further discussion of these guarantees.

Included in consolidated retained earnings at December 31, 2015 is approximately \$117.1 million of undistributed earnings of the associated companies accounted for under the equity method of accounting.

Note 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 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.

Notes to Consolidated Financial Statements, continued

Note 12. Financial Statement Offsetting, continued:

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.

<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>
Assets at December 31, 2015						
Derivative contracts	\$ 4,428,245	\$ (4,165,446)	\$ 262,799	\$ –	\$ –	\$ 262,799
Securities borrowing arrangements . . .	\$ 6,975,136	\$ –	\$ 6,975,136	\$(478,991)	\$ (667,099)	\$5,829,046
Reverse repurchase agreements	\$14,046,300	\$(10,191,554)	\$ 3,854,746	\$ (83,452)	\$(3,745,215)	\$ 26,079
Liabilities at December 31, 2015						
Derivative contracts	\$ 4,476,241	\$ (4,257,998)	\$ 218,243	\$ –	\$ –	\$ 218,243
Securities lending arrangements	\$ 3,014,300	\$ –	\$ 3,014,300	\$(478,991)	\$(2,499,395)	\$ 35,914
Repurchase agreements	\$20,158,422	\$(10,191,554)	\$ 9,966,868	\$ (83,452)	\$(8,068,468)	\$1,814,948
Assets at December 31, 2014						
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
Liabilities at December 31, 2014						
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

- (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 a counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other provisions of 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, 2015, amounts include \$5,796.1 million of securities borrowing arrangements, for which we have received securities collateral of \$5,613.3 million, and \$1,807.2 million of repurchase agreements, for which we have pledged securities collateral of \$1,875.3 million, which are subject to master netting agreements but we have not yet determined the agreements to be legally enforceable. At December 31, 2014, amounts include \$4,847.4 million of securities borrowing arrangements, for which we have received securities collateral

Notes to Consolidated Financial Statements, continued

Note 12. Financial Statement Offsetting, continued:

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.

Note 13. Intangible Assets, Net and Goodwill:

A summary of intangible assets, net and goodwill at December 31, 2015 and 2014 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Indefinite lived intangibles:		
Exchange and clearing organization membership interests and registrations . . .	\$ 11,897	\$ 14,528
Amortizable intangibles:		
Customer and other relationships, net of accumulated amortization of \$191,761 and \$155,548	456,222	493,501
Trademarks and tradename, net of accumulated amortization of \$64,052 and \$47,101	330,172	347,883
Supply contracts, net of accumulated amortization of \$40,684 and \$30,433 . . .	109,311	119,562
Other, net of accumulated amortization of \$5,216 and \$4,703	4,419	2,900
Total intangible assets, net	<u>912,021</u>	<u>978,374</u>
Goodwill:		
National Beef	14,991	14,991
Jefferies	1,712,799	1,718,847
Other operations	8,551	8,551
Total goodwill	<u>1,736,341</u>	<u>1,742,389</u>
Total intangible assets, net and goodwill	<u>\$2,648,362</u>	<u>\$2,720,763</u>

Amortization expense on intangible assets was \$63.9 million, \$66.2 million and \$74.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2016 – \$63.4 million; 2017 – \$63.5 million; 2018 – \$63.6 million; 2019 – \$63.5 million; and 2020 – \$63.2 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.

The estimated 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. In addition, as the fair values determined under a market approach represent a noncontrolling interest, we applied a control premium to arrive at the estimated fair value of our reporting units on a controlling basis. An independent valuation specialist was engaged to assist with the valuation process for Jefferies as of August 1, 2015, as well as for National Beef as of December 31, 2015. The results of our annual impairment test related to Jefferies, National Beef and other operations indicated goodwill was not impaired when tested.

Notes to Consolidated Financial Statements, continued

Note 13. Intangible Assets, Net and Goodwill, continued:

Intangible Assets Impairment Testing

We performed our annual impairment testing of Jefferies intangible assets with an indefinite useful life, which consists of exchange and clearing organization membership interests and registrations, as of August 1, 2015. We elected to perform a quantitative assessment of membership interests and registrations that have available quoted sales prices, as well as all other membership interests and registrations related to the Bache business. A qualitative assessment was performed on the remainder of Jefferies indefinite-life intangible assets. In applying the quantitative assessment, we recognized an impairment loss of \$1.3 million on certain exchange memberships based on a decline in fair value at August 1, 2015. With regard to the qualitative assessment of the remaining indefinite-life intangible assets, based on our assessment of market conditions, the utilization of the assets and replacement costs associated with the assets, we have 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.

Note 14. Inventory:

A summary of inventory at December 31, 2015 and 2014 which is classified as Other assets is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Finished goods	\$211,426	\$343,959
Work in process	34,091	40,951
Raw materials, supplies and other	42,556	37,993
	<u>\$288,073</u>	<u>\$422,903</u>

Note 15. Property, Equipment and Leasehold Improvements, Net:

A summary of property, equipment and leasehold improvements, net at December 31, 2015 and 2014 is as follows (in thousands):

	Depreciable Lives (in years)	<u>2015</u>	<u>2014</u>
Land, buildings and leasehold improvements	5-45	\$ 371,383	\$ 321,098
Beef processing machinery and equipment	2-15	315,238	283,360
Other machinery and equipment	3-15	113,412	110,075
Corporate aircraft	10	104,862	104,780
Furniture, fixtures and office equipment	2-10	311,845	283,436
Construction in progress	N/A	38,903	40,788
Other	3-10	4,909	4,598
		<u>1,260,552</u>	<u>1,148,135</u>
Accumulated depreciation and amortization		<u>(538,677)</u>	<u>(421,759)</u>
		<u>\$ 721,875</u>	<u>\$ 726,376</u>

Notes to Consolidated Financial Statements, continued

Note 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, as well as borrowings under revolving credit facilities. 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, 2015 and 2014, \$310.7 million and \$12.0 million, respectively, was outstanding, all of which was secured financing. At December 31, 2015, the interest rate on short-term borrowings outstanding was 0.85% per annum.

In October 2015, Jefferies entered into a secured revolving loan facility (“Loan Facility”) with Pacific Western Bank. Pacific Western Bank agrees to make available a revolving loan facility in a maximum principal amount of \$50.0 million in U.S. dollars to purchase eligible receivables that meet certain requirements as defined in the Loan Facility agreement. Interest is based on an annual rate equal to the lesser of the LIBOR rate plus 3.75% or the maximum rate as defined in the Loan Facility agreement.

In April 2015, Jefferies entered into a committed revolving credit facility (“Intraday Credit Facility”) with the Bank of New York Mellon under which, the Bank of New York Mellon has agreed to make revolving intraday credit advances for an aggregate committed amount of \$500.0 million in U.S. dollars. The term of the Intraday Credit Facility was six months after the closing date, but could be extended for an additional six months upon Jefferies request and at the lender’s discretion. On October 22, 2015, Jefferies amended and restated the Intraday Credit Facility and reduced the aggregate committed amount to \$300.0 million in U.S. dollars and extended the termination date to October 21, 2016, which can be extended for 364 days upon Jefferies request and at the lender’s discretion. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At December 31, 2015, Jefferies was in compliance with debt covenants under the Intraday Credit Facility.

Notes to Consolidated Financial Statements, continued

Note 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, 2015 and 2014 are as follows (dollars in thousands):

	<u>2015</u>	<u>2014</u>
Parent Company Debt:		
Senior Notes:		
8.125% Senior Notes due September 15, 2015, \$0 and \$458,641 principal	\$ –	\$ 457,723
5.50% Senior Notes due October 18, 2023, \$750,000 principal	741,583	740,748
6.625% Senior Notes due October 23, 2043, \$250,000 principal	247,027	246,991
Total long-term debt – Parent Company	<u>988,610</u>	<u>1,445,462</u>
Subsidiary Debt (non-recourse to Parent Company):		
Jefferies:		
3.875% Senior Notes, due November 9, 2015, \$0 and \$500,000 principal	–	507,944
5.5% Senior Notes, due March 15, 2016, \$350,000 principal	353,025	363,229
5.125% Senior Notes, due April 13, 2018, \$800,000 principal	830,298	842,359
8.5% Senior Notes, due July 15, 2019, \$700,000 principal	806,125	832,797
2.375% Euro Senior Notes, due May 20, 2020, \$528,625 and \$622,175 principal	527,606	620,725
6.875% Senior Notes, due April 15, 2021, \$750,000 principal	838,765	853,091
2.25% Euro Medium Term Notes, due July 13, 2022, \$4,229 and \$4,977 principal	3,779	4,379
5.125% Senior Notes, due January 20, 2023, \$600,000 principal	620,890	623,311
6.45% Senior Debentures, due June 8, 2027, \$350,000 principal	379,711	381,515
3.875% Convertible Senior Debentures, due November 1, 2029, \$345,000 principal	347,307	348,568
6.25% Senior Debentures, due January 15, 2036, \$500,000 principal	512,730	513,046
6.50% Senior Notes, due January 20, 2043, \$400,000 principal	421,656	421,960
Secured credit facility	–	170,000
National Beef Term Loan	310,000	345,000
National Beef Revolving Credit Facility	121,961	135,144
54 Madison debt	116,211	–
Foursight Credit Facilities	110,253	27,000
Other	118,667	92,399
Total long-term debt – subsidiaries	<u>6,418,984</u>	<u>7,082,467</u>
Long-term debt	<u>\$7,407,594</u>	<u>\$8,527,929</u>

At December 31, 2015, \$1.6 billion of consolidated assets (primarily receivables, property and equipment and other assets) are pledged for indebtedness aggregating \$777.1 million, principally for National Beef, Foursight and 54 Madison subsidiary debt.

The aggregate annual mandatory redemptions of all long-term debt during the five year period ending December 31, 2020 are as follows: 2016 – \$485.1 million; 2017 – \$468.4 million; 2018 – \$1,282.4 million; 2019 – \$809.1 million; and 2020 – \$548.1 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 notice. No such purchases were made during 2015, 2014 and 2013.

Notes to Consolidated Financial Statements, continued

Note 17. Long-Term Debt, continued:

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 22.4574 common shares (equivalent to a conversion price of approximately \$44.53). 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.

At December 31, 2014, Jefferies had 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 \$750.0 million with availability subject to one or more borrowing bases. The Jefferies Credit Facility contained 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 was 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, was based on the London Interbank Offered Rate. The obligations of each borrower under the Credit Facility were secured by substantially all the assets of such borrower, but none of the borrowers was responsible for any obligations of any other borrower. Jefferies terminated the Credit Facility on July 31, 2015, due to the exiting of the Bache business. For further information with respect to Jefferies use of the Credit Facility, see Note 32.

At December 31, 2015, National Beef's credit facility consisted of a \$375.0 million term loan and a revolving credit facility of \$375.0 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, 2015, the interest rate on the outstanding term loan was 3.0% and the interest rate on the outstanding revolving credit facility was 3.0%. The credit facility contains a minimum tangible net worth covenant; at December 31, 2015, 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 \$19.8 million were outstanding at December 31, 2015. Amounts available under

Notes to Consolidated Financial Statements, continued

Note 17. Long-Term Debt, continued:

the revolver are subject to a borrowing base calculation primarily comprised of receivable and inventory balances. At December 31, 2015, after deducting outstanding amounts and issued letters of credit, \$109.9 million of the unused revolver was available to National Beef.

At December 31, 2015, 54 Madison had \$115.7 million of 6% term loan debt that matures in 2017 and 2018. As discussed further in Note 29, the holders of the debt are also investors in 54 Madison.

At December 31, 2015, Foursight's credit facilities consisted of two warehouse credit commitments aggregating \$175.0 million, which mature in March 2016 and December 2018. The 2016 credit facility bears interest based on the three-month LIBOR plus a margin of 1.75% and the 2018 credit facility bears interest based on the one-month LIBOR plus a margin of 2.15%. As a condition of the 2016 credit facility, Foursight is obligated to maintain interest rate caps with a notional amount no less than the outstanding loan on any day. The credit facilities are secured by first priority liens on auto loan receivables owed to Foursight of approximately \$143.0 million at December 31, 2015.

Note 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, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
As of January 1,	\$184,333	\$241,075
Loss allocated to redeemable noncontrolling interests	(26,465)	(8,576)
Contributions from redeemable noncontrolling interests	5,263	—
Distributions to redeemable noncontrolling interests	—	(2,765)
Increase (decrease) in fair value of redeemable noncontrolling interests charged to additional paid-in capital	<u>26,227</u>	<u>(45,401)</u>
Balance, December 31,	<u>\$189,358</u>	<u>\$184,333</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, 2015, 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

Notes to Consolidated Financial Statements, continued

Note 18. Mezzanine Equity:, continued:

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 (12.50%) and the terminal growth rate (2.00%) 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, 2015 (dollars in millions):

Terminal Growth Rates	Discount Rates		
	12.25%	12.50%	12.75%
1.75%	\$191.2	\$188.1	\$185.0
2.00%	\$192.6	\$189.4	\$186.3
2.25%	\$194.1	\$190.7	\$187.6

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, 2015 and 2014, redeemable noncontrolling interests also include the noncontrolling interest in a business acquired by Conwed of \$2.3 million and \$2.4 million, respectively.

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.

Note 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, 2015, we are authorized to repurchase 20,000,000 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 provided for the issuance of stock options and stock appreciation 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 were intended to qualify as incentive stock options to the extent permitted under the Internal Revenue Code and became exercisable in five equal annual installments starting one year from date of grant. Options granted to non-employee directors became exercisable in four equal annual installments starting one year from date of grant. No stock appreciation rights have been granted. In March 2014, we terminated authorization to issue options and rights under our option plan. No shares remain available for future issuances under our option plan or warrant plan. At December 31, 2015 and 2014, 4,661,272 and 5,640,034, respectively, of our common shares were reserved for stock options and warrants.

Compensation and benefits expense included \$74.1 million, \$109.8 million and \$87.2 million for the years ended December 31, 2015, 2014 and 2013, 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-

Notes to Consolidated Financial Statements, continued

Note 19. Common Shares and Compensation Plans, continued:

based compensation expenses was \$27.3 million, \$39.9 million and \$33.2 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, total unrecognized compensation cost related to nonvested share-based compensation plans was \$41.8 million; this cost is expected to be recognized over a weighted-average period of 1.9 years.

The net tax benefit (detriment) related to share-based compensation plans recognized in additional paid-in capital was \$(5.9) million, \$1.3 million and \$2.9 million during the years ended December 31, 2015, 2014 and 2013, respectively. Cash flows resulting from tax deductions in excess of the grant date fair value of share-based awards are included in cash flows from financing activities; accordingly, we reflected the excess tax benefit related to share-based compensation in cash flows from financing activities. Such amounts for the years ended December 31, 2015, 2014 and 2013 were not significant.

At December 31, 2015, there were 2,004,000 shares of restricted stock outstanding with future service required, 3,388,000 RSUs outstanding with future service required, 8,583,000 RSUs outstanding with no future service required and 927,000 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 12,898,000.

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 then 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 is 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 \$1.0 million, \$5.3 million and \$4.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements, continued

Note 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, 2015 is as follows:

	Common Shares Subject to Option	Weighted- Average Exercise Prices	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2012	2,577,500	\$26.10		
Granted	51,432	\$26.06		
Exercised	(184,276)	\$24.65		<u>\$603,000</u>
Cancelled	(27,408)	\$38.68		
Balance at December 31, 2013	2,417,248	\$25.64		
Granted	-	\$ -		
Exercised	(35,536)	\$22.87		<u>\$ 58,000</u>
Cancelled	(741,678)	\$27.39		
Balance at December 31, 2014	1,640,034	\$24.91		
Granted	-	\$ -		
Exercised	(2,030)	\$21.66		<u>\$ 6,000</u>
Cancelled	(976,732)	\$24.88		
Balance at December 31, 2015	<u>661,272</u>	\$24.97	<u>2.1 years</u>	<u>\$ -</u>
Exercisable at December 31, 2015	<u>391,274</u>	\$25.75	<u>1.7 years</u>	<u>\$ -</u>

The following summary presents the weighted-average assumptions used for grants made during 2013. There were no grants during 2014 or 2015.

Risk free interest rate	1.26%
Expected volatility	39.17%
Expected dividend yield	0.85%
Expected life	4.0 years
Weighted-average fair value per grant	\$7.67

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

Note 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, 2015, 18,165,279 common shares remained available for new grants under the Incentive Plan. 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, 2015, 2014 and 2013 (in thousands, except per share amounts):

		<u>Weighted-Average Grant Date Fair Value</u>
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	3,383	\$27.00
Grants	602	\$18.63
Forfeited	(94)	\$28.12
Fulfillment of service requirement	<u>(1,887)</u>	\$26.87
Balance at December 31, 2015	<u>2,004</u>	\$24.56

Notes to Consolidated Financial Statements, continued

Note 19. Common Shares and Compensation Plans, continued:

The following table details the activity in restricted stock units during the years ended December 31, 2015, 2014 and 2013 (in thousands, except per share amounts):

	<u>Future Service Required</u>	<u>No Future Service Required</u>	<u>Future Service Required</u>	<u>No Future Service Required</u>
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	4,238	8,467	\$26.90	\$26.79
Grants	–	121	\$ –	\$18.95
Distributions of underlying shares	–	(229)	\$ –	\$22.34
Forfeited	(626)	–	\$26.90	\$ –
Fulfillment of service requirement	<u>(224)</u>	<u>224</u>	\$26.90	\$26.90
Balance at December 31, 2015	<u>3,388</u>	<u>8,583</u>	\$26.90	\$26.68

At December 31, 2015 and 2014, respectively, grants include approximately 106,000 and 88,000 dividend equivalents declared on RSUs; the weighted-average grant date fair values of the dividend equivalents were approximately \$18.13 and \$20.41, respectively.

Directors' Plan. Under our Directors' Plan, we will issue each nonemployee director of Leucadia \$120,000 of restricted stock or restricted stock units. 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, 2015, 289,044 common shares were issuable upon settlement of outstanding restricted stock units and 398,550 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, 2015, the remaining unamortized amount of these awards was \$258.3 million and is included within Other assets in the Consolidated Statements of Financial Condition.

Notes to Consolidated Financial Statements, continued

Note 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, 2015, 2014 and 2013 is as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net unrealized gains on available for sale securities	\$557,601	\$ 577,588	\$589,393
Net unrealized foreign exchange gains (losses)	(63,248)	(26,771)	16,803
Net unrealized losses on derivative instruments	—	—	(169)
Net minimum pension liability	(55,560)	(103,735)	(67,977)
	<u>\$438,793</u>	<u>\$ 447,082</u>	<u>\$538,050</u>

For the years ended December 31, 2015 and 2014, significant amounts reclassified out of accumulated other comprehensive income to net income (loss) are as follows (in thousands):

<u>Details about Accumulated Other Comprehensive Income Components</u>	<u>Amount Reclassified from Accumulated Other Comprehensive Income</u>		<u>Affected Line Item in the Consolidated Statement of Operations</u>
	<u>2015</u>	<u>2014</u>	
Net unrealized gains (losses) on available for sale securities, net of income tax provision of \$6,068 and \$1,631	\$ 10,930	\$ 2,939	Net realized securities gains
Net unrealized foreign exchange gains, net of income tax provision of \$0 and \$149.	—	267	Loss from discontinued operations, net of income tax (benefit)
Net unrealized losses on derivatives, net of income tax (benefit) of \$0 and \$(95)	—	(169)	Income related to associated companies
Amortization of defined benefit pension plan actuarial gains (losses), net of income tax (benefit) of \$(17,159) and \$(1,676).	(31,102)	(3,201)	Compensation and benefits, which includes pension expense. See Note 21 for information on this component.
Total reclassifications for the period, net of tax	<u>\$(20,172)</u>	<u>\$ (164)</u>	

Note 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.

Late in 2015, we launched a limited time voluntary lump sum offer to approximately 4,000 of the deferred vested participants of the WilTel plan. Approximately 2,400 participants accepted the lump sum offer and benefit payments totaling \$110.7 million were paid out of plan assets. We also recorded a \$40.7 million settlement charge in 2015 related to the participant acceptances.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

A summary of activity with respect to both plans is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 352,126	\$ 295,044
Interest cost	12,958	14,239
Actuarial (gains) losses	(35,799)	52,125
Benefits paid	<u>(122,260)</u>	<u>(9,282)</u>
Projected benefit obligation, end of year	<u>\$ 207,025</u>	<u>\$ 352,126</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 240,010	\$ 239,080
Actual return on plan assets	(250)	11,175
Employer contributions	1,000	-
Benefits paid	<u>(122,260)</u>	<u>(9,282)</u>
Administrative expenses	<u>(781)</u>	<u>(963)</u>
Fair value of plan assets, end of year	<u>\$ 117,719</u>	<u>\$ 240,010</u>
Funded status at end of year	<u>\$ (89,306)</u>	<u>\$(112,116)</u>

As of December 31, 2015 and 2014, \$54.0 million and \$126.2 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 \$89.3 million and \$112.1 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>2015</u>	<u>2014</u>	<u>2013</u>
Components of net periodic pension cost:			
Interest cost	\$ 12,958	\$ 14,239	\$ 12,286
Expected return on plan assets	(10,581)	(10,115)	(9,746)
Settlement charge	40,973	-	-
Actuarial losses	<u>6,963</u>	<u>4,634</u>	<u>7,464</u>
Net periodic pension cost	<u>\$ 50,313</u>	<u>\$ 8,758</u>	<u>\$ 10,004</u>
Amounts recognized in other comprehensive income (loss):			
Net (gain) loss arising during the period	\$(24,186)	\$ 52,027	\$(31,952)
Settlement charge	(40,973)	-	-
Amortization of net loss	<u>(6,963)</u>	<u>(4,634)</u>	<u>(7,464)</u>
Total recognized in other comprehensive income (loss) . .	<u>\$(72,122)</u>	<u>\$ 47,393</u>	<u>\$(39,416)</u>
Net amount recognized in net periodic benefit cost and other comprehensive income (loss)	<u>\$ (21,809)</u>	<u>\$ 56,151</u>	<u>\$(29,412)</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 2016 is \$2.0 million.

\$20.0 million of employer contributions are expected to be paid in 2016.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

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>2015</u>	<u>2014</u>
<i>WilTel Plan</i>		
Discount rate used to determine benefit obligation	4.00%	3.76%
Weighted-average assumptions used to determine net pension cost:		
Discount rate	3.76%	4.71%
Expected long-term return on plan assets	4.00%	4.00%
<i>Jefferies Plan</i>		
Discount rate used to determine benefit obligation	4.10%	4.30%
Weighted-average assumptions used to determine net pension cost:		
Discount rate	4.30%	5.10%
Expected long-term return on plan assets	6.75%	6.75%

The following pension benefit payments are expected to be paid (in thousands):

2016	\$10,503
2017	8,818
2018	9,962
2019	10,001
2020	10,506
2021 – 2025	65,960

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.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

WilTel Plan Assets. At December 31, 2015 and 2014, the WilTel plan assets at fair value consisted of the following (in thousands):

	Total	Fair Value Measurements Using	
		Level 1	Level 2
2015			
Cash and cash equivalents	\$ 3,026	\$ 3,026	\$ –
Fixed income securities:			
U.S. government and agencies	5,988	5,988	–
Public utilities	8,978	–	8,978
All other corporates	52,696	–	52,696
Total	<u>\$ 70,688</u>	<u>\$ 9,014</u>	<u>\$ 61,674</u>
2014			
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>

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.

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 2015.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

Jefferies Plan Assets. At December 31, 2015 and 2014, the Jefferies plan assets at fair value consisted of the following (in thousands):

	Total	Fair Value Measurements Using	
		Level 1	Level 2
2015			
Cash and cash equivalents	\$ 487	\$ 487	\$ –
Listed equity securities	29,156	29,156	–
Fixed income securities:			
Corporate debt securities	6,598	–	6,598
Foreign corporate debt securities	2,140	–	2,140
U.S. government securities	3,975	3,975	–
Agency mortgage-backed securities	3,504	–	3,504
Commercial mortgage-backed securities	425	–	425
Asset-backed securities	746	–	746
Total	<u>\$47,031</u>	<u>\$33,618</u>	<u>\$13,413</u>
2014			
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>

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 2016 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 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.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

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 Statements of Financial Condition in the amounts of \$15.3 million and \$18.1 million at December 31, 2015 and 2014, 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, 2015.

The following tables summarize the changes in the projected benefit obligation and the components of net periodic pension cost for the years ended December 31, 2015 and 2014 and for the period from the acquisition of Jefferies to December 31, 2013 (in thousands):

	<u>2015</u>	<u>2014</u>	
Change in projected benefit obligation:			
Projected benefit obligation, beginning of year	\$28,434	\$26,368	
Service cost	-	40	
Interest cost	523	801	
Actuarial losses	(40)	4,630	
Currency adjustment	(4,303)	(2,212)	
Benefits paid	(1,069)	(1,193)	
Projected benefit obligation, end of year	<u>\$23,545</u>	<u>\$28,434</u>	
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Components of net periodic pension cost:			
Service cost	\$ -	\$ 40	\$ 51
Interest cost	523	801	685
Net amortization	325	244	179
Net periodic pension cost	<u>\$848</u>	<u>\$1,085</u>	<u>\$915</u>

The amounts in accumulated other comprehensive income at December 31, 2015 and 2014 are charges of \$4.9 million and \$5.3 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 years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation		
Discount rate	2.20%	2.10%
Rate of compensation increase (1)	N/A	3.00%
Net periodic pension benefit cost		
Discount rate	2.10%	3.40%
Rate of compensation increase (1)	N/A	3.00%

(1) There were no active participants in the plan at December 31, 2015.

Notes to Consolidated Financial Statements, continued

Note 21. Pension Plans and Postretirement Benefits, continued:

The following pension benefit payments are expected to be paid (in thousands):

2016	\$1,143
2017	1,124
2018	1,133
2019	1,110
2020	1,159
2021 – 2025	5,831

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 \$9.6 million, \$9.3 million and \$6.3 million for the years ended December 31, 2015, 2014 and 2013.

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.

Note 22. Income Taxes:

The principal components of deferred taxes at December 31, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Deferred tax asset:		
NOL carryover	\$1,375,759	\$1,266,972
Compensation	284,761	334,576
Long-term debt	89,160	134,079
Other assets	162,393	160,586
Securities valuation reserves	32,141	25,499
Intangible assets, net and goodwill	6,855	13,842
Other liabilities	40,393	57,006
	<u>1,991,462</u>	<u>1,992,560</u>
Valuation allowance	<u>(97,177)</u>	<u>(110,404)</u>
	<u>1,894,285</u>	<u>1,882,156</u>
Deferred tax liability:		
Unrealized gains on investments	(153,035)	(10,406)
Amortization of intangible assets	(103,561)	(97,268)
Property and equipment	(4,151)	(866)
Other	(58,170)	(61,081)
	<u>(318,917)</u>	<u>(169,621)</u>
Net deferred tax asset	<u>\$1,575,368</u>	<u>\$1,712,535</u>

As of December 31, 2015, we have consolidated U.S. federal NOLs of \$1.6 billion that may be used to offset the taxable income of any member of our consolidated tax group. In addition, we have \$2.1 billion of U.S. federal NOLs that are only available to offset the taxable income of certain subsidiaries. Federal NOLs begin to expire in 2017, with a substantial amount expiring between 2022 and 2025. Approximately \$575.3 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

Notes to Consolidated Financial Statements, continued

Note 22. Income Taxes, continued:

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 \$74.4 million. There is a valuation allowance with respect to \$7.2 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, 2015, we had approximately \$205.0 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 \$59.0 million has not been recorded with respect to these earnings.

The provision for income taxes for continuing operations for each of the three years in the period ended December 31, 2015 was as follows (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current taxes:			
Federal	\$ 709	\$ 746	\$ 2,900
State and local	(25,308)	17,232	22,006
Foreign	3,504	12,375	9,050
Total current income taxes	<u>(21,095)</u>	<u>30,353</u>	<u>33,956</u>
Deferred taxes:			
Federal	134,590	97,190	82,173
State and local	4,552	30,707	23,198
Foreign	(8,100)	7,721	(2,846)
Total deferred income taxes	<u>131,042</u>	<u>135,618</u>	<u>102,525</u>
Provision for income taxes	<u>\$109,947</u>	<u>\$165,971</u>	<u>\$136,481</u>

For the year ended December 31, 2015, we recorded a benefit related to certain state and local net operating loss carryforwards which we now believe are more likely than not to be realized in the future, a significant portion of which results from recently enacted state and local tax law changes. 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 for 2013 as a result of the valuation allowance required for Jefferies net deferred tax assets at the date of acquisition.

Notes to Consolidated Financial Statements, continued

Note 22. Income Taxes, continued:

The table below reconciles the expected statutory federal income tax to the actual income tax provision (benefit) (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Expected federal income tax	\$124,788	\$133,428	\$190,955
State income taxes, net of federal income tax benefit	(6,928)	31,160	21,396
Increase (decrease) in valuation allowance	(13,227)	(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	(10,130)	(14,305)	(4,750)
Permanent differences	8,064	6,181	13,210
Tax exempt income	(6,789)	(6,812)	(4,033)
Income allocated to noncontrolling interest, not subject to tax . .	11,039	3,270	3,655
Nondeductible settlements	—	24,500	—
Foreign taxes	(2,989)	2,542	4,033
Other	6,119	8,210	(2,348)
Actual income tax provision	<u>\$109,947</u>	<u>\$165,971</u>	<u>\$136,481</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

Note 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):

	<u>Gross Unrecognized Tax Benefits</u>	<u>Interest</u>	<u>Total</u>
As of January 1, 2013	\$ 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	<u>145,520</u>	<u>28,170</u>	<u>173,690</u>
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>
Increases based on tax positions related to current period . .	3,475	–	3,475
Increases based on tax positions related to prior periods . .	22,030	–	22,030
Decreases based on tax positions related to prior periods . .	(15,349)	(4,884)	(20,233)
Interest expense recognized	–	10,336	10,336
Audit payments	–	–	–
Reductions as a result of the lapse of the statute of limitations	<u>(7,879)</u>	<u>(3,641)</u>	<u>(11,520)</u>
Balance, December 31, 2015	<u>\$150,867</u>	<u>\$39,081</u>	<u>\$189,948</u>

The statute of limitations with respect to our federal income tax returns has expired for all years through 2011. Our New York State and New York City income tax returns are currently being audited for the 2009 to 2011 period and 2009 to 2012 period, respectively. 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 2006.

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 \$4.3 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

Note 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, 2015 (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net realized gains on securities	\$14,112	\$30,686	\$245,262
Write-down of investments (a)	-	(111)	(1,621)
Other (b)	48,845	(181)	316
	<u>\$62,957</u>	<u>\$30,394</u>	<u>\$243,957</u>

(a) Consists of provisions to write down investments resulting from declines in fair values believed to be other than temporary.

(b) In 2015, primarily relates to a recovery of \$35.0 million of an investment in a non-public security written off in prior years.

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, \$1.9 billion and \$1.8 billion during 2015, 2014 and 2013, respectively. Gross gains of \$16.9 million, \$12.6 million and \$240.4 million were realized on these sales during 2015, 2014 and 2013, respectively; gross losses were \$2.8 million during 2015 and not significant during 2014 and 2013.

Note 24. Other Results of Operations Information:

Other income for each of the three years in the period ended December 31, 2015 consists of the following (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Manufacturing revenues	\$391,920	\$379,274	\$310,624
Dividend income	5,482	7,379	5,553
Income from associated companies classified as other revenues	75,717	90,242	92,180
Revenues of oil and gas exploration and production businesses	45,939	19,373	-
Gain on sale of equity interest	-	22,714	-
Rental income	1,872	5,877	13,158
Winery revenues	-	-	8,301
Other	28,298	45,606	55,676
	<u>\$549,228</u>	<u>\$570,465</u>	<u>\$485,492</u>

Taxes, other than income or payroll, amounted to \$21.9 million, \$17.0 million and \$17.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Advertising costs amounted to \$18.1 million, \$14.5 million and \$14.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements, continued

Note 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, 2015, 2014 and 2013 (in thousands):

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Numerator for earnings (loss) per share:			
Net income attributable to Leucadia National Corporation common shareholders	\$279,587	\$204,306	\$369,240
Less: Allocation of earnings to participating securities (1)	(4,711)	(4,761)	(4,919)
Net income attributable to Leucadia National Corporation common shareholders for basic earnings (loss) per share	274,876	199,545	364,321
Less: Adjustment to allocation of earnings to participating securities related to diluted shares (1)	(34)	(75)	(110)
Mandatorily redeemable convertible preferred share dividends	-	-	3,397
Interest on 3.75% Convertible Notes	-	739	2,635
Net income attributable to Leucadia National Corporation common shareholders for diluted earnings (loss) per share	<u>\$274,842</u>	<u>\$200,209</u>	<u>\$370,243</u>
Denominator for earnings (loss) per share:			
Denominator for basic earnings (loss) per share – weighted-average shares	372,430	371,889	339,673
Stock options	1	29	55
Warrants	-	-	-
Mandatorily redeemable convertible preferred shares	-	-	3,468
3.875% Convertible Senior Debentures	-	-	-
3.75% Convertible Notes	-	1,415	4,538
Denominator for diluted earnings (loss) per share	<u>372,431</u>	<u>373,333</u>	<u>347,734</u>

(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 6,500,000, 9,040,900 and 9,353,400 for the years ended December 31, 2015, 2014 and 2013, respectively. Dividends declared on participating securities during the years ended December 31, 2015, 2014 and 2013 were \$1.5 million, \$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 1,000,137, 1,572,777 and 1,711,096 weighted-average shares of common stock were outstanding during the years ended December 31, 2015, 2014 and 2013, respectively, but were not included in the computation of diluted per share amounts as the effect was antidilutive.

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, 2015, 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 years ended December 31, 2015 and 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.

Notes to Consolidated Financial Statements, continued

Note 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 \$84.0 million, \$79.6 million and \$63.9 million for the years ended December 31, 2015, 2014 and 2013, 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, 2015 are as follows (in thousands):

2016	\$ 83,230
2017	80,167
2018	75,785
2019	66,339
2020	57,198
Thereafter	<u>409,417</u>
	772,136
Less: sublease income	<u>(10,854)</u>
	<u>\$761,282</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 \$6.6 million remains as of December 31, 2015. Payments under the commitment will be approximately \$0.8 million in each of the years 2016 through 2018, with the remaining balance of \$4.1 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, 2015 was \$68.5 million.

The following table summarizes commitments associated with certain business activities (in millions):

	Expected Maturity Date					Maximum Payout
	2016	2017	2018 and 2019	2020 and 2021	2022 and Later	
Equity commitments (1)	\$ 106.8	\$ 25.3	\$ 43.9	\$35.9	\$189.5	\$ 401.4
Loan commitments (1)	247.3	170.7	81.4	—	—	499.4
Mortgage-related and other purchase commitments	1,571.4	312.5	1,013.7	—	—	2,897.6
Forward starting reverse repos and repos	1,635.0	—	—	—	—	1,635.0
Other unfunded commitments (1)	87.0	186.9	20.2	5.7	35.6	335.4
	<u>\$3,647.5</u>	<u>\$695.4</u>	<u>\$1,159.2</u>	<u>\$41.6</u>	<u>\$225.1</u>	<u>\$5,768.8</u>

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

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, 2015, Jefferies outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$23.6 million.

See Note 11 for additional information regarding Jefferies investments in Jefferies Finance and Jefferies LoanCore.

Notes to Consolidated Financial Statements, continued

Note 26. Commitments, Contingencies and Guarantees, continued:

In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC (“Folger Hill”); we committed to provide Folger Hill with a three-year, \$20 million revolving credit facility to fund its start-up and initial operating expenses. As of December 31, 2015, \$7.4 million has been provided to Folger Hill under the revolving credit facility.

During 2015, we expanded our asset management business to include 54 Madison Capital, LLC. We made a capital commitment of \$225.0 million to this new fund, which will target real estate projects. In 2015, we invested \$38.4 million in 54 Madison Capital, LLC.

Additionally, as of December 31, 2015, Jefferies had other equity commitments to invest up to \$4.4 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, 2015, Jefferies has \$268.7 million of outstanding loan commitments to clients.

Loan commitments outstanding as of December 31, 2015, also include Jefferies portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance.

Mortgage-Related and Other Purchase Commitments. 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, 2015 was \$238.6 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

Sykes v. Mel Harris & Associates, LLC. – 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.*, 9 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 courts 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.

Notes to Consolidated Financial Statements, continued

Note 26. Commitments, Contingencies and Guarantees, continued:

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. On February 10, 2015, the Second Circuit affirmed the certification of these classes. None of these decisions addresses the ultimate merits of the case.

On March 18, 2015, we and plaintiffs executed a settlement agreement that provided additional detail regarding the terms of a settlement set out in a December 14, 2014 binding term sheet pursuant to which we have previously accrued approximately \$50 million. On November 12, 2015, plaintiffs executed a settlement agreement with the other defendants in the case, and we and plaintiffs executed a first amendment to our settlement agreement to modify the agreement to reflect that settlement of all claims as to all parties had been reached. Both our settlement agreement and that of the other defendants were submitted to the Court on November 12, 2015. On November 16, 2015, the Court entered an order that, among other things, preliminarily approved the settlement agreements, authorized the parties to send notice to the settlement class members and set a fairness hearing for May 11, 2016.

Haverhill Retirement System v. Asali, et al. – 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 term sheet reflecting a settlement among the parties, that did not provide for any payment by the Company, was signed on October 15, 2014. On December 19, 2014, final settlement papers were submitted to the Court. On June 8, 2015, a settlement hearing took place, at which the Court rejected the settlement. The parties then negotiated a stipulation under which the case will be dismissed. The court approved the stipulation and proposed dismissal on January 7, 2016. Following notice to Harbinger’s stockholders of the proposed dismissal, Harbinger will notify the court that the notice has been provided and we expect that the case will be dismissed.

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.

Notes to Consolidated Financial Statements, continued

Note 26. Commitments, Contingencies and Guarantees, continued:

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
	2016	2017	2018 and 2019	2020 and 2021	2022 and Later	
Derivative contracts – non-credit related	\$11,840.6	\$584.6	\$142.8	\$ –	\$414.4	\$12,982.4
Written derivative contracts – credit related . . .	–	–	115.4	955.4	10.0	1,080.8
Total derivative contracts	<u>\$11,840.6</u>	<u>\$584.6</u>	<u>\$258.2</u>	<u>\$955.4</u>	<u>\$424.4</u>	<u>\$14,063.2</u>

The external credit ratings of the underlying or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating						Notional/ Maximum Payout
	AAA/ Aaa	AA/ Aa	A	BBB/Baa	Below Investment Grade	Unrated	
Credit related derivative contracts:							
Index credit default swaps	\$698.4	\$ –	\$ –	\$ –	\$ –	\$ –	\$698.4
Single name credit default swaps	–	–	10.0	57.5	264.3	50.6	382.4

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 \$394.8 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, 2015, the aggregate amount of commercial paper outstanding was \$2.47 billion.

Loan Guarantee. Jefferies has provided a guarantee to Jefferies Finance that matures in January 2021, whereby Jefferies is required to make certain payments to a SPE sponsored by Jefferies Finance in the event that Jefferies Finance is unable to meet its obligations to the SPE and a guarantee of a credit agreement with an indefinite term for a fund owned by employees. At December 31, 2015, the maximum amount payable under these guarantees is \$21.8 million.

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

Notes to Consolidated Financial Statements, continued

Note 26. Commitments, Contingencies and Guarantees, continued:

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, 2015 was approximately \$30.7 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, 2015, Jefferies provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$33.1 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 \$23.1 million at December 31, 2015.

Note 27. Net Capital Requirements:

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 have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1 in calculating net capital. Jefferies, as a dually-registered U.S. broker-dealer and futures commission merchant (“FCM”), is also subject to Rule 1.17 of the Commodity 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.

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	\$1,556,602	\$1,471,663
Jefferies Execution	9,647	9,397

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. Effective September 21, 2015, the National Futures Association is the DSRO for Jefferies 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.

Notes to Consolidated Financial Statements, continued

Note 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):

	December 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other Assets:				
Notes and loans receivable (a)	\$ 488,690	\$ 490,208	\$ 213,174	\$ 217,171
Financial Liabilities:				
Short-term borrowings (b)	310,659	310,659	12,000	12,000
Long-term debt (b)	7,407,594	7,299,405	8,527,929	8,806,700

(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.

Note 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, 2015 and 2014 are loans to and/or equity investments in Private Equity Related Funds of \$39.6 million and \$60.7 million, respectively. Net losses aggregating \$26.2 million and \$14.9 million were recorded related to the Private Equity Related Funds for the years ended December 31, 2015 and 2014, respectively, and net gains aggregating \$10.1 million were recorded related to the Private Equity Related Funds for the period from the acquisition 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, 2015 and 2014, Jefferies has commitments to purchase \$752.4 million and \$344.8 million, respectively, in agency commercial mortgage-backed securities from Berkadia.

HRG 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 HRG of \$261.6 million and \$232.0 million at December 31, 2015 and 2014, respectively. Our Chairman also serves as HRG’s Chairman.

Officers, Directors and Employees. We have \$28.3 million and \$20.1 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, 2015 and 2014, 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. At December 31, 2015 and 2014, Jefferies provided a guarantee of a credit agreement for a private equity fund owned by Jefferies employees.

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

Notes to Consolidated Financial Statements, continued

Note 29. Related Party Transactions, continued:

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 28% and 23% of its cattle requirements under this agreement during 2015 and 2014, 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, 2015, sales to this affiliate were \$31.0 million and purchases were \$15.1 million. During the year ended December 31, 2014, sales to this affiliate were \$43.2 million and purchases were \$12.7 million. At December 31, 2015 and 2014, amounts due from and payable to these related parties were not significant.

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, 2015. Our Chairman also serves as HomeFed's Chairman and our President is a Director of HomeFed.

54 Madison. \$115.7 million of long-term debt held by 54 Madison is owed to minority owners of 54 Madison. This long-term debt earns interest at 6% and matures in 2017 and 2018.

See Note 11 for information on transactions with Jefferies Finance and Jefferies LoanCore.

Note 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 fossil fuels 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.

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.

Notes to Consolidated Financial Statements, continued

Note 30. Discontinued Operations and Assets Held for Sale, continued:

A summary of the results of discontinued operations for the clean energy project, Premier, Sangart, and the small power production business is as follows for the years ended December 31, 2014 and 2013; discontinued operations for the year ended December 31, 2015 were not significant (in thousands):

	<u>2014</u>	<u>2013</u>
Revenues and other income:		
Gaming entertainment	\$ 67,739	\$114,844
Investment and other income	4,700	4,691
	<u>72,439</u>	<u>119,535</u>
Expenses:		
Direct operating expenses – Gaming entertainment	48,877	85,233
Compensation and benefits	4,503	19,534
Depreciation and amortization	5,208	8,919
Selling, general and other expenses	41,378	98,178
	<u>99,966</u>	<u>211,864</u>
Loss from discontinued operations before income taxes	(27,527)	(92,329)
Income tax (benefit)	<u>(9,634)</u>	<u>(32,303)</u>
Loss from discontinued operations after income taxes	<u>\$(17,893)</u>	<u>\$ (60,026)</u>

During 2013, we sold our subsidiary, Empire Insurance Company, which had been undergoing a voluntary liquidation, 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.

Gain on disposal of discontinued operations for the year ended December 31, 2015, primarily relates to additional consideration received related to the 2012 sale of our small Caribbean-based telecommunications provider, and a reversal of a legal reserve.

Note 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.

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.

All other consists of our other financial services businesses and investments and our other merchant banking businesses and investments. Our other financial services businesses and investments include the Leucadia asset management platform, specialty finance companies, the commercial mortgage banking investment, the investment in HomeFed and the investment in FXCM. Our other merchant banking businesses and investments primarily include manufacturing, oil and gas exploration and development, real estate, and our investments in HRG, fixed wireless broadband services, automobile dealerships, and our gold and silver mining project.

Certain information concerning our segments for the years ended December 31, 2015, 2014 and 2013 is presented in the following table. Consolidated subsidiaries are reflected as of the date a majority controlling interest was acquired.

Notes to Consolidated Financial Statements, continued

Note 31. Segment Information, continued:

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.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
		(In thousands)	
Net Revenues:			
Reportable Segments:			
Jefferies	\$ 2,476,133	\$ 2,986,325	\$ 2,134,002
National Beef	7,402,419	7,832,424	7,487,724
Corporate and other	<u>78,122</u>	<u>60,720</u>	<u>50,190</u>
Total net revenues related to reportable segments	9,956,674	10,879,469	9,671,916
All other (1)	950,784	607,016	753,830
Intercompany eliminations (2)	<u>(21,000)</u>	<u>—</u>	<u>—</u>
Total consolidated net revenues	<u>\$10,886,458</u>	<u>\$11,486,485</u>	<u>\$10,425,746</u>
Pre-tax income (loss) from continuing operations:			
Reportable Segments:			
Jefferies	\$ 119,165	\$ 358,396	\$ 260,984
National Beef	(123,915)	(40,303)	(42,358)
Corporate and other	<u>(45,592)</u>	<u>(144,508)</u>	<u>(91,917)</u>
Pre-tax income (loss) from continuing operations related to reportable segments	(50,342)	173,585	126,709
All other (1)	492,762	305,752	491,093
Parent Company interest	<u>(85,884)</u>	<u>(98,115)</u>	<u>(72,217)</u>
Total consolidated pre-tax income from continuing operations ...	<u>\$ 356,536</u>	<u>\$ 381,222</u>	<u>\$ 545,585</u>
Depreciation and amortization expenses:			
Reportable Segments:			
Jefferies	\$ 92,165	\$ 78,566	\$ 59,631
National Beef	89,317	85,305	88,484
Corporate and other	<u>3,744</u>	<u>5,627</u>	<u>9,924</u>
Total depreciation and amortization expenses related to reportable segments	185,226	169,498	158,039
All other	<u>38,907</u>	<u>16,495</u>	<u>9,386</u>
Total consolidated depreciation and amortization expenses ...	<u>\$ 224,133</u>	<u>\$ 185,993</u>	<u>\$ 167,425</u>
Identifiable assets employed:			
Reportable Segments:			
Jefferies (3)	\$38,608,956	\$44,563,808	\$40,168,572
National Beef	1,516,130	1,718,521	1,703,662
Corporate and other	<u>1,778,987</u>	<u>3,240,561</u>	<u>4,515,768</u>
Identifiable assets employed related to reportable segments	41,904,073	49,522,890	46,388,002
All other	4,585,462	3,154,423	1,561,997
Intercompany eliminations	<u>(149,723)</u>	<u>(53,405)</u>	<u>(83,218)</u>
Total consolidated assets	<u>\$46,339,812</u>	<u>\$52,623,908</u>	<u>\$47,866,781</u>

(1) All other revenue and pre-tax income from continuing operations include \$491.3 million of realized and unrealized gains relating to our investment in FXCM for the year ended December 31, 2015.

(2) Revenue intercompany elimination relates to investment banking and advisory fee paid to Jefferies in connection with our entering into the agreement with FXCM.

Notes to Consolidated Financial Statements, continued

Note 31. Segment Information, continued:

(3) At December 31, 2015, 2014 and 2013, includes \$320.2 million, \$399.6 million and \$524.8 million, respectively, of Jefferies deferred tax asset, net.

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 years ended December 31, 2015 and 2014 and for the period from the Jefferies acquisition through December 31, 2013 were as follows (in thousands):

	For the year ended December 31, 2015	For the year ended December 31, 2014	For the period from the Jefferies acquisition through December 31, 2013
Americas (1)	\$1,887,899	\$2,257,870	\$1,645,110
Europe (2)	510,044	634,358	441,795
Asia	78,190	94,097	47,097
	<u>\$2,476,133</u>	<u>\$2,986,325</u>	<u>\$2,134,002</u>

(1) Substantially all relates to United States results.

(2) Substantially all relates to United Kingdom results.

Consolidated net revenues exclusive of Jefferies principally relate to the United States for 2015, 2014 and 2013.

Net realized securities gains for Corporate and other aggregated \$63.0 million, \$30.4 million and \$16.0 million during 2015, 2014 and 2013, respectively. In 2013, All other includes realized security gains of \$227.6 million related to the sale of Inmet.

Interest expense classified as a component of Net revenues relates to Jefferies. For the years ended December 31, 2015, 2014 and 2013, interest expense classified as a component of Expenses was primarily comprised of National Beef (\$16.0 million, \$14.5 million and \$12.3 million, respectively) and parent company interest (\$85.9 million, \$98.1 million and \$72.2 million, respectively).

Note 32. Exit Costs:

Jefferies Bache. On April 9, 2015, Jefferies entered into an agreement with Société Générale S.A. (the "Agreement") to transfer certain client exchange and over-the-counter transactions associated with Jefferies futures business for the net book value of the over-the-counter transactions, calculated in accordance with certain principles set forth in the Agreement, plus the repayment of certain margin loans in respect of certain exchange transactions. In addition, Jefferies initiated a plan to substantially exit the remaining aspects of its futures business. At December 31, 2015, Jefferies has transferred all of its client accounts to Société Générale S.A. and other brokers. Jefferies substantially completed the exit of the Bache business during its third quarter of 2015.

In addition, Jefferies terminated its \$750.0 million credit facility on July 31, 2015. During the year ended December 31, 2015, Jefferies recognized costs of \$3.8 million related to the Credit Facility.

Notes to Consolidated Financial Statements, continued

Note 32. Exit Costs, continued:

During the year ended December 31, 2015, Jefferies recorded restructuring and impairment costs as follows (in thousands):

Severance costs	\$30,327
Accelerated amortization of restricted stock and restricted cash awards	7,922
Accelerated amortization of capitalized software	19,745
Contract termination costs	11,247
Selling, general and other expenses	3,853
Total	<u>\$73,094</u>

Of the above costs, \$28.7 million for the year ended December 31, 2015 are of a non-cash nature.

Severance costs and amortization of restricted stock and restricted cash awards are recorded as Compensation and benefits, amortization of capitalized software is recorded as Depreciation and amortization and contract termination costs are recorded as Selling, general and other expenses on the Consolidated Statements of Operations for the year ended December 31, 2015.

Jefferies expects to incur approximately an additional \$3.1 million of restructuring and exit costs in 2016 in connection with its exit activities comprised of severance and related benefits, including additional amortization for restricted stock and restricted cash awards, contract termination costs and additional amortization of capitalized software.

The following summarizes Jefferies restructuring reserve activity (in thousands):

	<u>Severance costs</u>	<u>Other costs</u>	<u>Contract termination costs</u>	<u>Total restructuring costs</u>	<u>Accelerated amortization of restricted stock and restricted cash awards</u>	<u>Accelerated amortization of capitalized software</u>	<u>Impairments</u>	<u>Total</u>
Balance at								
March 31, 2015	\$ -	\$ -	\$ -	\$ -				
Expenses	30,327	2,774	11,247	44,348	\$7,922	\$19,745	\$1,079	\$73,094
Payments	<u>(25,522)</u>	<u>(2,774)</u>	<u>(11,247)</u>	<u>(39,543)</u>				
Liability at								
December 31, 2015 .	<u>\$ 4,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,805</u>				

Notes to Consolidated Financial Statements, continued

Note 33. 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)			
2015				
Net revenues	<u>\$3,184,683</u>	<u>\$2,839,463</u>	<u>\$2,366,096</u>	<u>\$2,496,216</u>
Income (loss) from continuing operations	<u>\$ 374,429</u>	<u>\$ 15,034</u>	<u>\$ (181,912)</u>	<u>\$ 39,038</u>
Income from discontinued operations, net of taxes . . .	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 429</u>	<u>\$ –</u>
Gain on disposal of discontinued operations, net of taxes	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,300</u>	<u>\$ 3,793</u>
Net loss attributable to the noncontrolling interest . . .	<u>\$ 234</u>	<u>\$ 356</u>	<u>\$ 1,238</u>	<u>\$ 3,168</u>
Net loss attributable to the redeemable noncontrolling interests	<u>\$ 7,112</u>	<u>\$ 2,031</u>	<u>\$ 6,788</u>	<u>\$ 10,612</u>
Preferred stock dividends	<u>\$ (1,016)</u>	<u>\$ (1,015)</u>	<u>\$ (1,016)</u>	<u>\$ (1,016)</u>
Net income (loss) attributable to Leucadia National Corporation common shareholders	<u>\$ 380,759</u>	<u>\$ 16,406</u>	<u>\$ (173,173)</u>	<u>\$ 55,595</u>
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	<u>\$1.00</u>	<u>\$0.04</u>	<u>\$(0.47)</u>	<u>\$0.14</u>
Income from discontinued operations	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Gain on disposal of discontinued operations	<u>–</u>	<u>–</u>	<u>–</u>	<u>0.01</u>
Net income (loss)	<u>\$1.00</u>	<u>\$0.04</u>	<u>\$(0.47)</u>	<u>\$0.15</u>
Number of shares used in calculation	<u>373,541</u>	<u>373,654</u>	<u>372,547</u>	<u>369,840</u>
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	<u>\$0.99</u>	<u>\$0.04</u>	<u>\$(0.47)</u>	<u>\$0.14</u>
Income from discontinued operations	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Gain on disposal of discontinued operations	<u>–</u>	<u>–</u>	<u>–</u>	<u>0.01</u>
Net income (loss)	<u>\$0.99</u>	<u>\$0.04</u>	<u>\$(0.47)</u>	<u>\$0.15</u>
Number of shares used in calculation	<u>377,713</u>	<u>373,662</u>	<u>372,547</u>	<u>369,840</u>

Notes to Consolidated Financial Statements, continued

Note 33. Selected Quarterly Financial Data (Unaudited), continued:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(In thousands, except per share amounts)			
<u>2014</u>				
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	\$ 0.27	\$ 0.18	\$ 0.14	\$(0.01)
Income (loss) from discontinued operations	(0.02)	(0.01)	(0.02)	—
Gain (loss) on disposal of discontinued operations	—	—	0.02	(0.02)
Net income (loss)	<u>\$ 0.25</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$(0.03)</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	\$ 0.27	\$ 0.18	\$ 0.14	\$(0.01)
Income (loss) from discontinued operations	(0.02)	(0.01)	(0.02)	—
Gain (loss) on disposal of discontinued operations	—	—	0.02	(0.02)
Net income (loss)	<u>\$ 0.25</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$(0.03)</u>
Number of shares used in calculation	<u>377,348</u>	<u>373,179</u>	<u>373,375</u>	<u>373,617</u>

In 2015 and 2014, 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^{1,3}
Retired Group Vice President of BP plc

Robert D. Beyer^{2,3}
Chairman of Chaparal Investments LLC

Francisco L. Borges^{1,3}
Chairman of Landmark Partners, LLC

W. Patrick Campbell¹
*Independent Consultant, Former Chairman
and CEO of Magex Limited*

Robert E. Joyal^{2,3}
*Retired President of Babson Capital
Management LLC*

Jeffrey C. Keil^{1,3}
*Retired President of Republic
New York Corporation*

Michael T. O’Kane^{1,2}
*Retired Senior Managing Director of
TIAA-CREF*

Stuart H. Reese¹
*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

John M. Dalton
*Vice President, Controller and
Chief Accounting Officer*

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.”

¹ Audit Committee

² Compensation Committee

³ Nominating and Corporate Governance Committee



Leucadia National Corporation

520 Madison Avenue
New York, New York 10022