LEUCADIA NATIONAL CORP
Form 10-Q
May 08, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 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	13-2615557
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
520 Madison Avenue, New York, New York	10022
(Address of principal executive offices)	(Zip Code)

(212) 460-1900
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES __X__ NO _____

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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

The number of shares outstanding of each of the issuer’s classes of common stock at April 23, 2015 was 366,658,918.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Financial Condition
March 31, 2015 and December 31, 2014
(Dollars in thousands, except par value)
(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$3,524,524	$4,276,775
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,186,319	3,444,674
Financial instruments owned, including securities pledged of $14,407,276 and $14,794,488:		
Trading assets, at fair value	20,971,087	19,612,490
Available for sale securities	974,430	1,608,769
Total financial instruments owned	21,945,517	21,221,259
Investments in managed funds	593,581	281,470
Loans to and investments in associated companies	1,762,711	1,712,568
Securities borrowed	6,566,376	6,853,103
Securities purchased under agreements to resell	3,745,688	3,926,858
Securities received as collateral	4,821	5,418
Receivables	4,354,707	3,934,825
Property, equipment and leasehold improvements, net	722,149	726,376
Intangible assets, net and goodwill	2,702,298	2,720,763
Deferred tax asset, net	1,506,968	1,712,535
Other assets	1,707,033	1,807,284
Total	$52,322,692	$52,623,908
LIABILITIES		
Short-term borrowings	$411,998	$12,000
Trading liabilities, at fair value	7,945,501	8,904,592
Securities loaned	3,173,512	2,598,487
Securities sold under agreements to repurchase	11,323,367	10,672,157
Other secured financings	950,377	705,126
Obligation to return securities received as collateral	4,821	5,418
Payables, expense accruals and other liabilities	8,940,421	10,516,491
Long-term debt	8,558,783	8,527,929
Total liabilities	41,308,780	41,942,200
Commitments and contingencies		
MEZZANINE EQUITY		
Redeemable noncontrolling interests	168,541	186,686
Mandatorily redeemable convertible preferred shares	125,000	125,000
EQUITY		

Common shares, par value $1 per share, authorized 600,000,000 shares; 366,721,455 and 367,498,615 shares issued and outstanding, after deducting 49,224,733 and 48,447,573 shares held in treasury	366,721	367,499
Additional paid-in capital	5,073,033	5,059,508
Accumulated other comprehensive income	427,118	447,082
Retained earnings	4,784,966	4,428,069
Total Leucadia National Corporation shareholders' equity	10,651,838	10,302,158
Noncontrolling interests	68,533	67,864
Total equity	10,720,371	10,370,022
Total	$52,322,692	$52,623,908

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the periods ended March 31, 2015 and 2014
(In thousands, except per share amounts)
(Unaudited)

	2015	2014
Revenues:		
Beef processing services	$1,852,311	$1,885,754
Commissions	166,922	162,063
Principal transactions	729,235	281,054
Investment banking	250,995	414,320
Interest income	237,599	257,660
Net realized securities gains	15,089	5,394
Other	124,370	132,832
Total revenues	3,376,521	3,139,077
Interest expense	191,838	196,553
Net revenues	3,184,683	2,942,524
Expenses:		
Cost of sales	1,922,223	1,945,675
Compensation and benefits	410,852	565,837
Floor brokerage and clearing fees	55,080	49,570
Interest	30,449	28,576
Depreciation and amortization	52,440	41,487
Selling, general and other expenses	166,983	174,319
	2,638,027	2,805,464
Income from continuing operations before income taxes and income related to associated companies	546,656	137,060
Income related to associated companies	40,451	20,036
Income from continuing operations before income taxes	587,107	157,096
Income tax provision	212,678	56,250
Income from continuing operations	374,429	100,846
Loss from discontinued operations, net of income tax (benefit) of $0 and $(4,796)	–	(8,909)
Net income	374,429	91,937
Net (income) loss attributable to the noncontrolling interests	234	(2,537)
Net loss attributable to the redeemable noncontrolling interests	7,112	5,932
Preferred stock dividends	(1,016)	(1,016)
Net income attributable to Leucadia National Corporation common shareholders	$380,759	$94,316

(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations, continued
For the periods ended March 31, 2015 and 2014
(In thousands, except per share amounts)
(Unaudited)

	2015	2014
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:		
Income from continuing operations	$1.00	$.27
Loss from discontinued operations	–	(.02)
Net income	$1.00	$.25
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:		
Income from continuing operations	$.99	$.27
Loss from discontinued operations	–	(.02)
Net income	$.99	$.25
Amounts attributable to Leucadia National Corporation common shareholders:		
Income from continuing operations, net of taxes	$380,759	$103,205
Loss from discontinued operations, net of taxes	–	(8,889)
Net income	$380,759	$94,316

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
For the periods ended March 31, 2015 and 2014
(In thousands)
(Unaudited)

	2015	2014
Net income	$374,429	$91,937
Other comprehensive income (loss):		
Net unrealized holding gains (losses) on investments arising during the period, net of income tax provision (benefit) of $(619) and $2,393	(1,115)	4,310
Less: reclassification adjustment for net (gains) losses included in net income (loss), net of income tax provision (benefit) of $2,944 and $(488)	(5,303)	878
Net change in unrealized holding gains (losses) on investments, net of income tax provision (benefit) of $(3,563) and $2,881	(6,418)	5,188
Net unrealized foreign exchange gains (losses) arising during the period, net of income tax provision (benefit) of $(5,768) and $62	(14,721)	13,897
Less: reclassification adjustment for foreign exchange (gains) losses included in net income (loss), net of income tax provision (benefit) of $0 and $0	–	–
Net change in unrealized foreign exchange gains (losses), net of income tax provision (benefit) of $(5,768) and $62	(14,721)	13,897
Net unrealized gains (losses) on derivatives arising during the period, net of income tax provision (benefit) of $0 and $92	–	165
Less: reclassification adjustment for derivative (gains) losses included in net income (loss), net of income tax provision (benefit) of $0 and $0	–	–
Net change in unrealized derivative gains (losses), net of income tax provision (benefit) of $0 and $92	–	165
Net pension gains (losses) arising during the period, net of income tax provision (benefit) of $0 and $0	–	–
Less: reclassification adjustment for pension (gains) losses included in net income (loss), net of income tax provision (benefit) of $(653) and $(422)	1,175	760
Net change in pension liability, net of income tax provision (benefit) of $653 and $422	1,175	760
Other comprehensive income (loss), net of income taxes	(19,964)	20,010
Comprehensive income	354,465	111,947
Comprehensive (income) loss attributable to the noncontrolling interests	234	(2,537)
Comprehensive loss attributable to the redeemable noncontrolling interests	7,112	5,932
Preferred stock dividends	(1,016)	(1,016)

Comprehensive income attributable to Leucadia National Corporation common shareholders	$360,795	$114,326

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the periods ended March 31, 2015 and 2014
(In thousands)
(Unaudited)

	2015	2014
Net cash flows from operating activities:		
Net income	$374,429	$91,937
Adjustments to reconcile net income to net cash used for operations:		
Deferred income tax provision	214,612	39,754
Depreciation and amortization of property, equipment and leasehold improvements	37,262	29,336
Other amortization	3,066	(265)
Share-based compensation	32,794	38,207
Provision for doubtful accounts	3,636	2,752
Net securities gains	(15,089)	(5,394)
Income related to associated companies	(61,140)	(40,663)
Distributions from associated companies	39,703	20,912
Net gains related to property and equipment, and other assets	(659)	(1,177)
Net change in:		
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	257,319	(183,710)
Trading assets	(1,095,937)	(1,968,227)
Investments in managed funds	(312,111)	(4,978)
Securities borrowed	285,891	(756,481)
Securities purchased under agreements to resell	179,290	(694,175)
Receivables from brokers, dealers and clearing organizations	(38,561)	(478,066)
Receivables from customers of securities operations	(94,841)	(227,813)
Other receivables	(28,557)	(72,241)
Other assets	(124,643)	(149,111)
Trading liabilities	(966,190)	2,282,870
Securities loaned	575,750	572,285
Securities sold under agreements to repurchase	654,705	(10,772)
Payables to brokers, dealers and clearing organizations	384,163	287,356
Payables to customers of securities operations	(1,481,640)	488,178
Trade payables, expense accruals and other liabilities	(487,782)	(294,047)
Other	(62,857)	(946)
Net cash used for operating activities	(1,727,387)	(1,034,479)
Net cash flows from investing activities:		
Acquisitions of property, equipment and leasehold improvements, and other assets	(62,821)	(75,057)
Proceeds from disposals of property and equipment, and other assets	3,103	2,681
Acquisitions, net of cash acquired	–	(10,178)
Cash paid and cash of real estate operations sold to HomeFed Corporation	–	(18,100)
Advances on notes and other receivables	(283,000)	–
Collections on notes, loans and other receivables	21,836	4,432
Loans to and investments in associated companies	(607,025)	(794,498)
Capital distributions and loan repayment from associated companies	560,043	780,503
Deconsolidation of asset management entities	–	(207,965)
Purchases of investments (other than short-term)	(400,484)	(402,451)

Proceeds from maturities of investments	139,988	282,760
Proceeds from sales of investments	897,246	1,007,243
Other	(966)	(1,883)
Net cash provided by investing activities	267,920	567,487

(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
For the periods ended March 31, 2015 and 2014
(In thousands)
(Unaudited)

	2015	2014
Net cash flows from financing activities:		
Issuance of debt, net of issuance costs	$127,486	$192,690
Change in short-term borrowings	399,998	–
Reduction of debt	(15,448)	(21,930)
Net proceeds from other secured financings	245,251	35,683
Issuance of common shares	616	592
Distributions to noncontrolling interests	–	(778)
Contributions from noncontrolling interests	533	8,604
Purchase of common shares for treasury	(27,010)	(46,710)
Dividends paid	(23,359)	(23,186)
Other	246	953
Net cash provided by financing activities	708,313	145,918
Effect of foreign exchange rate changes on cash	(1,097)	4,006
Net decrease in cash and cash equivalents	(752,251)	(317,068)
Cash and cash equivalents at January 1, including cash classified as assets of discontinued operations	4,276,775	3,907,595
Cash and cash equivalents at March 31, including cash classified as assets of discontinued operations	$3,524,524	$3,590,527
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$204,769	$266,179
Income tax payments (refunds), net	$828	$(1,359)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the periods ended March 31, 2015 and 2014
(In thousands, except par value and per share amounts)
(Unaudited)

	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, 2014	$364,541	$4,881,031	$ 538,050	$4,318,840	$10,102,462	$ 70,591	$10,173,053
Net income				94,316	94,316	2,537	96,853
Other comprehensive income, net of taxes			20,010		20,010		20,010
Contributions from noncontrolling interests					–	8,604	8,604
Distributions to noncontrolling interests					–	(778)	(778)
Deconsolidation of asset management entities					–	(77,475)	(77,475)
Share-based compensation expense		38,207			38,207		38,207
Change in fair value of redeemable noncontrolling interests		755			755		755
Issuance of common shares for debt conversion	1	11			12		12
Purchase of common shares for treasury	(1,714)	(44,996)			(46,710)		(46,710)
Dividends ($.0625 per common share)				(23,703)	(23,703)		(23,703)
Other	1,137	1,297			2,434		2,434
Balance, March 31, 2014	$363,965	$4,876,305	$ 558,060	$4,389,453	$10,187,783	$ 3,479	$10,191,262
Balance, January 1, 2015	$367,499	$5,059,508	$ 447,082	$4,428,069	$10,302,158	$ 67,864	$10,370,022

Net income				380,759	380,759	(234)	380,525
Other comprehensive loss, net of taxes			(19,964)		(19,964)		(19,964)
Contributions from noncontrolling interests					–	533	533
Change in interest in consolidated subsidiary		(370)			(370)	370	–
Share-based compensation expense		32,794			32,794		32,794
Change in fair value of redeemable noncontrolling interests		11,033			11,033		11,033
Purchase of common shares for treasury	(1,182)	(25,828)			(27,010)		(27,010)
Dividends ($.0625 per common share)				(23,862)	(23,862)		(23,862)
Other	404	(4,104)			(3,700)		(3,700)
Balance, March 31, 2015	$366,721	$5,073,033	$ 427,118	$4,784,966	$10,651,838	$ 68,533	$10,720,371

See notes to interim 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), FXCM (a publicly traded company providing online foreign exchange trading), HomeFed (a publicly traded real estate company), and Berkadia (commercial mortgage banking and servicing). We also own and have investments in a diverse array of other businesses, including National Beef (beef processing), HRG Group, 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 companies), and Golden Queen (a gold and silver mining project). The structure of each of our investments is tailored to the unique opportunity each transaction presents. Our investments may be reflected in our consolidated results as operating subsidiaries, equity investments, receivables, securities, or in other ways, depending on the structure of our holdings.

Jefferies is a global full service, integrated securities and investment banking firm. In March of 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, 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 and purchases commercial real estate loans throughout the United States.

Jefferies has a November 30th fiscal year, which it retains for standalone reporting purposes. We reflect Jefferies in our consolidated financial statements utilizing a one month lag. We have reviewed Jefferies business and internal operating results for the month of March 2015 for the purpose of evaluating whether additional financial statement disclosure or adjustments are required to this Quarterly Report on Form 10-Q, and we have concluded that no additional disclosures or adjustments are warranted.

Leucadia Asset Management seeds and develops focused funds managed by distinct management teams, each of which operates as a separate business unit.

Our investment in FXCM consists of a $300 million two-year senior secured term loan ($287.6 million outstanding at March 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 joint venture with Berkshire Hathaway, originates and brokers commercial real estate loans under various programs and services commercial real estate loans in the U.S.

We own approximately 65% of HomeFed, which owns and develops real estate projects. HomeFed is a public company traded on the NASD OTC Bulletin Board.

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

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

Vitesse Energy, LLC acquires and develops non-operated working and royalty oil and gas interests in the Bakken Shale oil field in North Dakota.

Juneau Energy, LLC engages in the exploration, development and production of oil and gas from onshore, unconventional resource areas. Juneau currently has interests in acreage in the Oklahoma and Texas Gulf Coast regions.

Garcadia is a joint venture that owned and operated 26 automobile dealerships in the U.S. as of March 31, 2015.

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

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

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

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

Note 2. Basis of Presentation and Significant Accounting Policies

Our unaudited interim consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes which are normally included in our Annual Report on Form 10-K. These financial statements reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes are necessary to fairly state results for the interim periods presented. Results of operations for interim periods are not necessarily indicative of annual results of operations.

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.

Fair Value Hierarchy

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

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

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

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

Financial instruments are valued at quoted market prices, if available. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current as of the measurement date. For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

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

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

Jefferies Valuation Process for Financial Instruments

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

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

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and

prepares a monthly summary of its valuation results. This process also forms the basis for the classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists management in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Jefferies Audit Committee.

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

Third Party Pricing Information. Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. Jefferies has a process whereby it challenges the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) in order to validate the data for consistency with the definition of a fair value exit price. Jefferies process includes understanding and evaluating the external data providers' valuation methodologies. For corporate, U.S. government and agency, 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.

Receivables

At March 31, 2015 and December 31, 2014, Receivables include receivables from brokers, dealers and clearing organizations of $2,222.3 million and $2,187.5 million, respectively, and receivables from customers of securities operations of $1,343.6 million and $1,250.5 million, respectively.

Payables, expense accruals and other liabilities

At March 31, 2015 and December 31, 2014, Payables, expense accruals and other liabilities include payables to brokers, dealers and clearing organizations of $2,663.0 million and $2,280.1 million, respectively, and payables to customers of securities operations of $4,757.5 million and $6,242.0 million, respectively.

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 will be effective for interim and annual periods beginning after December 15, 2016. In April 2015, the FASB announced a proposal to defer 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 to the extent applicable.

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 affect 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 will provide the additional disclosures in our consolidated financial statements.

Consolidation. In February 2015, the FASB issued new guidance that amends current consolidation guidance including changes to both the variable and voting interest models used to evaluate whether an entity should be consolidated. This guidance 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 are evaluating the impact this new guidance will have 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 balance sheet 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 statement of financial condition.

Note 3. Fair Value Disclosures

The following is a summary of our financial instruments, trading liabilities and investments in managed funds that are accounted for at fair value on a recurring basis by level within the fair value hierarchy at March 31, 2015 and December 31, 2014 (in thousands):

	March 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	$3,052,340	$209,338	$18,210	$–	$3,279,888
Corporate debt securities	–	3,399,249	30,735	–	3,429,984
Collateralized debt obligations	–	153,900	90,897	–	244,797
U.S. government and federal agency securities	3,783,645	106,427	–	–	3,890,072
Municipal securities	–	772,940	–	–	772,940
Sovereign obligations	1,522,227	1,057,623	333	–	2,580,183
Residential mortgage-backed securities	–	2,824,500	79,953	–	2,904,453
Commercial mortgage-backed securities	–	542,089	24,629	–	566,718
Other asset-backed securities	–	138,391	7,146	–	145,537
Loans and other receivables	–	1,349,201	111,410	–	1,460,611
Derivatives	96,660	5,083,829	46,136	(4,729,533)	497,092
Investments at fair value	–	3	193,094	–	193,097
Investment in FXCM	–	–	947,000	–	947,000
Physical commodities	–	58,715	–	–	58,715
Total trading assets	$8,454,872	$15,696,205	$1,549,543	$(4,729,533)	$20,971,087
Available for sale securities:					
Corporate equity securities	$73,993	$–	$–	$–	$73,993
Corporate debt securities	–	29,528	–	–	29,528
U.S. government securities	213,611	–	–	–	213,611
Residential mortgage-backed securities	–	498,876	–	–	498,876
Commercial mortgage-backed securities	–	27,914	–	–	27,914

Other asset-backed securities	–	130,508	–	–	130,508
Total available for sale securities	$287,604	$686,826	$–	$–	$974,430
Cash and cash equivalents	$3,524,524	$–	$–	$–	$3,524,524
Investments in managed funds	$–	$160,456	$433,125	$–	$593,581
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (3)	$3,186,319	$–	$–	$–	$3,186,319
Securities received as collateral	$4,821	$–	$–	$–	$4,821
Liabilities:					
Trading liabilities:					
Corporate equity securities	$2,031,013	$60,034	$38	$–	$2,091,085
Corporate debt securities	–	1,766,453	–	–	1,766,453
U.S. government and federal agency securities	1,366,689	99,422	–	–	1,466,111
Sovereign obligations	707,844	659,846	–	–	1,367,690
Residential mortgage-backed securities	–	11,925	–	–	11,925
Loans	–	910,569	9,327	–	919,896
Derivatives	71,707	5,011,935	49,450	(4,810,751)	322,341
Total trading liabilities	$4,177,253	$8,520,184	$58,815	$(4,810,751)	$7,945,501
Other secured financings	$–	$–	$65,602	$–	$65,602
Obligation to return securities received as collateral	$4,821	$–	$–	$–	$4,821

	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	–	3,342,276	55,918	–	3,398,194
Collateralized debt obligations	–	306,218	91,498	–	397,716
U.S. government and federal agency securities	2,694,268	81,273	–	–	2,775,541
Municipal securities	–	590,849	–	–	590,849
Sovereign obligations	1,968,747	790,764	–	–	2,759,511
Residential mortgage-backed securities	–	2,879,954	82,557	–	2,962,511
Commercial mortgage-backed securities	–	966,651	26,655	–	993,306
Other asset-backed securities	–	137,387	2,294	–	139,681
Loans and other receivables	–	1,458,760	97,258	–	1,556,018
Derivatives	65,145	5,046,278	54,190	(4,759,345)	406,268
Investments at fair value	–	73,152	119,212	–	192,364
Physical commodities	–	62,234	–	–	62,234
Total trading assets	$7,859,052	$15,962,237	$550,546	$(4,759,345)	$19,612,490
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	$683,126	$925,643	$–	$–	$1,608,769
Cash and cash equivalents	$4,276,775	$–	$–	$–	$4,276,775
Investments in managed funds	$–	$226,488	$54,982	$–	$281,470
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (3)	$3,444,674	$–	$–	$–	$3,444,674
Securities received as collateral	$5,418	$–	$–	$–	$5,418
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	$5,457,377	$8,239,570	$64,263	$(4,856,618)	$8,904,592
Other secured financings	$–	$–	$30,825	$–	$30,825
Obligation to return securities received as collateral	$5,418	$–	$–	$–	$5,418

(1) There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2015. During the year ended December 31, 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) Securities comprise U.S. government securities segregated for regulatory purposes with a fair value of $434.8 million and $453.7 million at March 31, 2015 and December 31, 2014, respectively, and Commodities Futures Trading Commission (“CFTC”) approved money market funds with a fair value of $810.0 million and $545.0 million at March 31, 2015 and December 31, 2014, respectively.

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

Corporate Equity Securities

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

Corporate Debt Securities

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

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 transitions of similar securities incorporates additional review and analysis of pricing inputs and comparability criteria including but not limited to collateral type, tranche type, rating, origination year, prepayment rates, default rates, and severities.

U.S. Government and Federal Agency Securities

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

Municipal Securities

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

Sovereign Obligations

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

Residential Mortgage-Backed Securities

- Agency Residential Mortgage-Backed Securities: Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations and interest-only and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.
- Agency Residential Interest-Only and Inverse Interest-Only Securities ("Agency Inverse IOs"): The fair value of Agency Inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency Inverse IOs are categorized within Level 2 or Level 3 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.
- Non-Agency Residential Mortgage-Backed Securities: Fair values are determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability and significance of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses. Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields.

Commercial Mortgage-Backed Securities

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

Other Asset-Backed Securities

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

Loans and Other Receivables

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

Derivatives

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

OTC options include OTC equity, foreign exchange and commodity options measured using various valuation models, such as the Black-Scholes, with key inputs impacting the valuation including the underlying security, foreign exchange spot rate or commodity price, implied volatility, dividend yield, interest rate curve, strike price and maturity date. Discounted cash flow models are utilized to measure certain OTC derivative contracts including the valuations

of our interest rate swaps, which incorporate observable inputs related to interest rate curves, valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates and forward curves and valuations of our commodity swaps and forwards, which incorporate observable inputs related to commodity spot prices and forward curves. Credit default swaps include both index and single-name credit default swaps. External prices are available as inputs in measuring index credit default swaps and single-name credit default swaps. For commodity and equity total return swaps, market prices are observable for the underlying asset and used as the basis for measuring the fair value of the derivative contracts. Total return swaps executed on other underlyings are measured based on valuations received from external pricing services.

Investment in FXCM

In January 2015, we entered into a credit agreement with FXCM Inc., 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 has 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 an amount equal to two times the balance outstanding on the term loan as of April 16, 2015 (not to be less than $500 million or more than $680 million); and 60% of all amounts thereafter. During the first quarter of 2015, we received $18.6 million of principal and interest payments from FXCM, and $287.6 million remained outstanding under the credit agreement as of March 31, 2015. As of May 7, 2015, we have received an additional $69.3 million, and $228.4 million remained outstanding under the credit agreement.

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 Statements 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 first quarter of 2015, we recorded in Principal transactions an aggregate $686.6 million of unrealized and realized gains and interest income 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 ($947.0 million at March 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 and volatility. A $0.30 change in the price of FXCM's shares alone (representing about 14% of the price at March 31, 2015), would result in a change of about $51 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 $29 million in this valuation, assuming no other change in any other factors. As we adjust to fair value each quarter, we anticipate 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.

Investments at Fair Value and Investments in Managed Funds

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

	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
March 31, 2015			
Equity Long/Short Hedge Funds (2)	$480,302	$ –	(2)
High Yield Hedge Funds (3)	196	–	–
Fund of Funds (4)	340	94	–
Equity Funds (5)	40,403	25,670	–
Convertible Bond Funds (6)	3,470	–	At Will
Multi-strategy Fund (7)	108,150	–	–
Total (8)	$632,861	$ 25,764	
December 31, 2014			
Equity Long/Short Hedge Funds (2)	$146,134	$ –	Monthly/Quarterly
High Yield Hedge Funds (3)	204	–	–
Fund of Funds (4)	323	94	–
Equity Funds (5)	65,216	26,023	–
Convertible Bond Funds (6)	3,355	–	At Will
Multi-strategy Fund (7)	105,954	–	–
Total (8)	$321,186	$ 26,117	

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

(2) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. At March 31, 2015, investments with a fair value of $78.0 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 $48.8 million and $117.2 million at March 31, 2015 and December 31, 2014, respectively. At March 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 March 31, 2015, our investments in these two funds had an aggregate fair value of $402.3 million.

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

(4) Includes investments in fund of funds that invest in various private equity funds. At March 31, 2015 and December 31, 2014, approximately 96% and 95%, respectively, of the fair value of investments in this category is managed by us and has no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in approximately two years. For the remaining investments, we have requested redemption; however, we are unable to estimate when these funds will be received.

(5)

At March 31, 2015 and December 31, 2014, investments representing approximately 99% and 99%, respectively, of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed; instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years. The remaining investments are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated.

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

(7) Investment in private asset management fund managed by us that employs a variety of investment strategies and can invest in U.S. and non-U.S. equity and equity related securities, futures, exchange traded funds, fixed income securities, preferred securities, options, forward contracts and swaps. Withdrawals from the fund prior to the first year anniversary of the investment are subject to a 5% withdrawal fee and withdrawals during any calendar quarter are limited to 25% of the fund's net asset value. Both of these restrictions can be waived by us, in our sole discretion.

(8) Investments at fair value in the Consolidated Statements of Financial Condition at March 31, 2015 and December 31, 2014, include $153.8 million and $152.6 million, respectively, of direct investments which do not have the characteristics of investment companies and therefore not included within this table.

Other Secured Financings

Other secured financings that are accounted for at fair value include notes issued by consolidated VIEs, which are classified as Level 2 or Level 3 within the fair value hierarchy. Fair value is based on recent transaction prices for similar assets. In addition, at March 31, 2015 and December 31, 2014, Other secured financings includes $5.6 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.

Pricing Information

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

	March 31, 2015		December 31, 2014	
	Trading Assets	Trading Liabilities	Trading Assets	Trading Liabilities
Exchange closing prices	14 %	25 %	16 %	20 %
Recently observed transaction prices	4 %	3 %	4 %	2 %
External pricing services	66 %	64 %	67 %	69 %
Broker quotes	4 %	4 %	4 %	3 %
Valuation techniques	12 %	4 %	9 %	6 %
	100%	100 %	100%	100 %

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended March 31, 2015 (in thousands):

Three Months Ended March 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, March 31, 2015	Changes in unrealized gains (losses) relating to instruments still held at March 31, 2015 (1)
Assets:									
Trading assets:									
Corporate equity securities	$20,964	$63	$–	$(168)	$–	$–	$(2,649)	$18,210	$243
Corporate debt securities	55,918	(1,930)	469	(533)	–	–	(23,189)	30,735	(1,577)
	91,498	(16,022)	–	(13,519)	(1,296)	–	30,236	90,897	(15,886)

Collateralized debt obligations									
Sovereign obligations	–	13	–	(1)	–	–	321	333	12
Residential mortgage-backed securities	82,557	(2,863)	2,100	(1,375)	(23)	–	(443)	79,953	783
Commercial mortgage-backed securities	26,655	(531)	–	(382)	(6,864)	–	5,751	24,629	(1,369)
Other asset-backed securities	2,294	(167)	26	(1)	–	–	4,994	7,146	(167)
Loans and other receivables	97,258	(5,033)	40,019	(16,122)	(15,448)	–	10,736	111,410	(3,262)
Investments at fair value	119,212	609	5,010	(594)	(277)	–	69,134	193,094	614
Investment in FXCM	–	686,627	279,000	–	(18,627)	–	–	947,000	686,627
Investments in managed funds	54,982	(22,211)	400,354	–	–	–	–	433,125	(22,210)
Liabilities:									
Trading liabilities:									
Corporate equity securities	$38	$–	$–	$–	$–	$–	$–	$38	$–
Corporate debt securities	223	(115)	(6,683)	6,698	–	–	(123)	–	–
Net derivatives (2)	(4,638)	6,938	–	–	(58)	1,072	–	3,314	(8,771)
Loans	14,450	(39)	(2,877)	825	–	–	(3,032)	9,327	39
Other secured financings	30,825	–	–	–	(2,218)	36,995	–	65,602	–

(1) Realized and unrealized gains (losses) are reported in Principal transactions in the Consolidated Statements of Operations, except for realized and unrealized gains (losses) on Investments in managed funds, which are included in Other revenues 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 three months ended March 31, 2015

During the three months ended March 31, 2015, transfers of assets of $205.2 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of $35.3 million, commercial mortgage-backed securities of $10.3 million and other asset-backed securities of $5.0 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of $16.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Collateralized debt obligations of $64.5 million which have little to no transparency related to trade activity;
- Corporate debt securities of $2.4 million, corporate equity securities of $1.7 million and investments at fair value of $69.2 million due to a lack of observable market transactions.

During the three months ended March 31, 2015, transfers of assets of $110.3 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of $35.7 million and commercial mortgage-backed securities of $4.5 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of $34.3 million and loans and other receivables of $5.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate debt securities of $25.6 million and corporate equity securities of $4.4 million due to an increase in observable market transactions.

During the three months ended March 31, 2015, there were transfers of loan liabilities of $3.0 million from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net gains on Level 3 assets were $638.6 million and net losses on Level 3 liabilities were $6.9 million for three months ended March 31, 2015. Net gains on Level 3 assets were primarily due to increased valuations of our investment in FXCM and certain investments at fair value partially offset by decreased valuations of certain investments in managed funds, collateralized debt obligations, loans and other receivables, residential and commercial mortgage-backed securities and corporate debt securities. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivatives.

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

	Balance, December 31, 2013	Total gains (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances	Net transfers into (out of) Level 3	Balance, March 31, 2014	Changes in unrealized gains (losses) relating to instruments still held at March 31, 2014 (1)
Assets:									
Trading assets:									

Corporate equity securities	$9,884	$(1,393)	$134	$–	$–	$–	$3,716	$12,341	$(1,319)
Corporate debt securities	25,666	(2,014)	4,136	(624)	–	–	2,151	29,315	193
Collateralized debt obligations	37,216	10,184	76,511	(78,081)	(144)	–	20,342	66,028	5,662
Residential mortgage-backed securities	105,492	(1,626)	9,637	(13,703)	(1,755)	–	18,947	116,992	(2,097)
Commercial mortgage-backed securities	17,568	(3,032)	8,933	(14,645)	(50)	–	8,712	17,486	(958)
Other asset-backed securities	12,611	72	2,250	(2,048)	(83)	–	(10,427)	2,375	7
Loans and other receivables	145,890	(3,902)	36,213	(49,475)	(935)	–	1,041	128,832	(3,807)
Investments at fair value	101,242	24,889	22,500	(9,012)	–	–	(776)	138,843	24,889
Investments in managed funds	57,285	(2,859)	5,102	–	–	–	–	59,528	(2,859)
Liabilities:									
Trading liabilities:									
Corporate equity securities	$38	$8	$–	$411	$–	$–	$558	$1,015	$(8)
Net derivatives (2)	6,905	1,267	(1,327)	2,169	197	–	(3,438)	5,773	(1,267)
Loans	22,462	(153)	(18,913)	4,887	–	–	1,977	10,260	(153)
Other secured financings	8,711	–	–	–	–	21,683	–	30,394	–

(1) Realized and unrealized gains (losses) are reported in Principal transactions in the Consolidated Statements of Operations, except for realized and unrealized gains (losses) on Investments in managed funds, which are included in Other revenues 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 three months ended March 31, 2014

During the three months ended March 31, 2014, transfers of assets of $91.0 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of $38.1 million, commercial mortgage-backed securities of $9.0 million and other asset-backed securities of $1.8 million for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of $8.9 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Corporate equity securities of $7.4 million and corporate debt securities of $2.3 million due to lack of observable market transactions;
- Collateralized debt obligations of $23.5 million which have little to no transparency in trade activity.

During the three months ended March 31, 2014, transfers of assets of $47.3 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of $19.1 million, commercial mortgage-backed securities of $0.2 million and other asset-backed securities of $12.2 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of $3.3 million, loans and other receivables of $7.9 million and investments at fair value of $0.8 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 $0.2 million due to an increase in observable market transactions.

During the three months ended March 31, 2014, there were transfers of loan liabilities of $2.9 million from Level 3 to Level 2 and transfers of $4.8 million from Level 2 to Level 3 due to an increase and decrease in observable inputs in the valuation, respectively. There were $3.4 million transfers of net derivative liabilities from Level 3 to Level 2 due to an increase in observable inputs used in the valuing of derivative contracts.

Net gains on Level 3 assets were $20.3 million and net losses on Level 3 liabilities were $1.1 million for the three months ended March 31, 2014. Net gains on Level 3 assets were primarily due to increased valuations of certain collateralized debt obligations and investments at fair value, partially offset by a decrease in valuation of certain corporate equity securities, corporate debt securities, residential and commercial mortgage-backed securities, loans and other receivables and investments in managed funds. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments, partially offset by decrease in valuation of certain 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 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.

March 31, 2015

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range	Weighted Average	
Corporate equity securities	$ 18,210					
Non-exchange traded securities		Market approach	EBITDA (a) multiple	3.5 to 8.6	4.4	
		Scenario analysis	Estimated recovery percentage	78%	–	
Corporate debt securities	$ 24,795	Convertible bond model	Discount rate/yield	32%	–	
Collateralized debt obligations	$ 51,095	Discounted cash flows	Constant prepayment rate	0% to 20%	14	%
			Constant default rate	0% to 2%	2	%
			Loss severity	0% to 70%	42	%
			Yield	6% to 20%	13	%
Residential mortgage-backed securities	$ 79,953	Discounted cash flows	Constant prepayment rate	2% to 50%	13	%
			Constant default rate	2% to 100%	21	%
			Loss severity	35% to 80%	52	%
			Yield	1% to 13%	6	%
Commercial mortgage-backed securities	$ 24,629	Discounted cash flows	Yield	8% to 22%	14	%
			Cumulative loss rate	1.9% to 73%	16	%
		Scenario analysis	Estimated recovery percentage	81%	–	
Other asset-backed securities	$ 7,146	Discounted cash flows	Constant prepayment rate	4% to 6%	4	%
			Constant default rate	3% to 4%	4	%
			Loss severity	50% to 60%	52	%
			Yield	6% to 7%	6	%
Loans and other receivables	$ 102,034	Comparable pricing	Comparable loan price	100 to $101	$ 100.5	
		Market approach	Yield	3% to 9%	7	%
			EBITDA (a) multiple	8.2	–	
		Scenario analysis	Estimated recovery percentage	10% to 81%	37	%
				20%	–	

		Discounted cash flows	Constant prepayment rate			
			Constant default rate	2%	–	
			Loss severity	25%	–	
			Yield	11%	–	
Derivatives	$ 46,136					
Foreign exchange options		Option model	Volatility	12% to 23%	15	%
Commodity forwards		Discounted cash flows	Discount rate	20%	–	
Loan commitments		Comparable pricing	Comparable loan price	71 to $$100	$ 99.0	
			Yield	8%	–	
Investments at fair value						
Private equity securities	$ 32,312	Market approach	Transaction Level	$57	–	
		Market approach	Discount rate	15% to 30%	23	%
Investment in FXCM						
Term loan	$ 310,000	Discounted cash flows	Term based on the pay off	6 months to 1.8 years	.8 years	
Rights	637,000	Option pricing model	Volatility	65%	–	
	$ 947,000					

Trading Liabilities	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range	Weighted Average	
Derivatives	$ 49,450					
FX options		Option model	Volatility	12% to 23%	15	%
Unfunded commitments		Comparable pricing	Comparable loan price	71 to $$100	$ 78.6	
		Market approach	Yield	5% to 8%	8	%
		Discounted cash flows	Constant prepayment rate	20%	–	
			Constant default rate	2%	–	
			Loss severity	25%	–	
			Yield	11%	–	
Loans	$ 9,327	Comparable pricing	Comparable loan price	$100	–	
Other secured financings	$ 65,602	Comparable pricing	Comparable loan price	82 to $$100	$ 98.9	

December 31, 2014

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range	Weighted Average	
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	%

Trading Liabilities	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range		Weighted Average	
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 table. At March 31, 2015 and December 31, 2014, asset exclusions consisted of $618.5 million and $180.0 million, respectively, primarily comprised of investments in non-exchange traded securities, private equity securities, investments in reinsurance contracts, certain corporate loans and at March 31, 2015, investments in managed funds. At March 31, 2015 and December 31, 2014, liability exclusions consisted of $0 million and $0.3 million, respectively, of corporate loan commitments.

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

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

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

Fair Value Option Election

We have elected the fair value option for all loans and loan commitments made by Jefferies capital markets businesses. These loans and loan commitments include loans entered into by Jefferies investment banking division in connection with client bridge financing and loan syndications, loans purchased by Jefferies leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by Jefferies leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Trading assets and loan commitments are included in Trading assets and 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 three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Financial Instruments Owned:		
Loans and other receivables	$5,389	$4,467
Financial Instruments Sold:		
Loans	$(1,022)	$(462)
Loan commitments	$(7,166)	$(2,357)

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):

	March 31, 2015	December 31, 2014
Loans and other receivables (1)	$426,425	$403,119
Loans and other receivables greater than 90 days past due (1)	$28,829	$5,594
Loans and other receivables on nonaccrual status (1) (2)	$(36,471)	$(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) Amounts include all loans and other receivables greater than 90 days past due.

The aggregate fair value of loans and other receivables that were greater than 90 days past due was $14.1 million and $0 million at March 31, 2015 and December 31, 2014, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 days past due, was $285.7 million and $274.6 million at March 31, 2015 and December 31, 2014, respectively.

We have elected the fair value option for Jefferies investment in KCG Holdings, Inc. The change in the fair value of this investment was $34.6 million and $(1.0) million for three months ended March 31, 2015 and 2014, respectively.

At March 31, 2015 and December 31, 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 $581.6 million and $659.9 million at March 31, 2015 and December 31, 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 $(78.3) million during the three month period ended March 31, 2015 which is included in other merchant banking businesses and $32.6 million during the three months ended March 31, 2014, of which $12.7 million is included in other merchant banking businesses and $19.9 million is included in Jefferies results of operations for the period it owned certain of these shares. We currently have two directors on 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 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.

Note 4. 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 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 3 and 21 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 10 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 March 31, 2015 and December 31, 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):

	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
March 31, 2015				
Interest rate contracts	$2,688,316	78,835	$2,633,960	124,133
Foreign exchange contracts	1,366,539	14,138	1,327,400	12,867
Equity contracts	836,053	1,909,862	838,598	1,889,424
Commodity contracts	245,818	941,231	215,191	948,122
Credit contracts: centrally cleared swaps	79,540	102	84,075	88
Credit contracts: other credit derivatives	10,359	38	33,868	42
Total	5,226,625		5,133,092	
Counterparty/cash-collateral netting	(4,729,533)		(4,810,751)	
Total per Consolidated Statement of Financial Condition	$497,092		$322,341	
December 31, 2014				
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 per Consolidated Statement of Financial Condition	$406,268	$363,515

The following table presents unrealized and realized gains (losses) on derivative contracts for the three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Interest rate contracts	$(42,793)	$(5,118)
Foreign exchange contracts	15,172	6,067
Equity contracts	71,041	(96,236)
Commodity contracts	14,491	16,186
Credit contracts	(6,042)	(3,878)
Total	$51,869	$(82,979)

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 March 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	$57,079	$2,674	$23,599	$(2,915)	$80,437
Equity swaps and options	8,894	31,585	5,657	–	46,136
Credit default swaps	–	–	7,442	(254)	7,188
Total return swaps	10,135	377	–	(299)	10,213
Foreign currency forwards, swaps and options	376,842	48,591	90	(23,179)	402,344
Interest rate swaps, options and forwards	45,809	178,897	125,598	(68,866)	281,438
Total	$498,759	$262,124	$162,386	$(95,513)	827,756
Cross product counterparty netting					(21,605)
Total OTC derivative assets included in Trading assets					$806,151

(1) At March 31, 2015, we held exchange traded derivative assets and other credit agreements with a fair value of $67.9 million, which are not included in this table.

(2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received in the Consolidated Statements of Financial Condition. At March 31, 2015 cash collateral received was $377.0 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.

	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	$68,406	$254	$5,377	$ (2,915)	$71,122
Equity swaps and options	4,670	59,118	19,452	–	83,240
Credit default swaps	254	6,242	2,103	(254)	8,345
Total return swaps	15,733	1,412	–	(299)	16,846
Foreign currency forwards, swaps and options	326,435	60,213	–	(23,179)	363,469

Fixed income forwards	431	–	–	–	431
Interest rate swaps, options and forwards	50,381	106,084	143,283	(68,866)	230,882
Total	$466,310	$233,323	$170,215	$ (95,513)	774,335
Cross product counterparty netting					(21,605)
Total OTC derivative liabilities included in Trading liabilities					$752,730

(1) At March 31, 2015, we held exchange traded derivative liabilities and other credit agreements with a fair value of $28.0 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 March 31, 2015, cash collateral pledged was $458.4 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.

At March 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	$508,060
BBB- to BBB+	107,645
BB+ or lower	94,772
Unrated	95,674
Total	$806,151

(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.

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 March 31, 2015 and December 31, 2014 is $298.6 million and $269.0 million, respectively, for which Jefferies has posted collateral of $279.0 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 March 31, 2015 and December 31, 2014, Jefferies would have been required to post an additional $36.5 million and $55.1 million, respectively, of collateral to its counterparties.

Note 5. Collateralized Transactions

Jefferies enters into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance trading asset inventory positions, meet customer needs or re-lend as part of dealer operations. Jefferies monitors the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and requests additional collateral or returns excess collateral, as appropriate. Jefferies pledges financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Jefferies agreements with counterparties generally contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged securities owned that can be sold or repledged by the counterparty are included within Financial instruments owned and noted parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

Jefferies receives securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. Jefferies also receives securities as collateral in connection with securities-for-securities transactions in which it is the lender of securities. In many instances, Jefferies is permitted by contract or custom to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending transactions, satisfy margin requirements on derivative transactions or cover short positions. At March 31, 2015 and December 31, 2014, the approximate fair value of securities received as collateral by Jefferies that may be sold or repledged was $23.1 billion and $25.8 billion, respectively. A substantial portion of these securities have been sold or repledged.

In instances where Jefferies receives securities as collateral in connection with securities-for-securities transactions in which Jefferies is the lender of securities and is permitted to sell or repledge the securities received as collateral, it reports the fair value of the collateral received and the related obligation to return the collateral in the Consolidated Statements of Financial Condition. At March 31, 2015 and December 31, 2014, $4.8 million and $5.4 million, respectively, were reported as Securities received as collateral and as Obligation to return securities received as collateral.

Note 6. Securitization Activities

Jefferies engages in securitization activities related to corporate loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. In securitization transactions, Jefferies transfers assets to special purpose entities ("SPEs") and acts as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of the securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. These SPEs generally meet the criteria of variable interest entities; however, the SPEs are generally not consolidated as Jefferies is not considered the primary beneficiary for these SPEs. Beginning in the third quarter of 2014, another of our subsidiaries utilized an SPE to securitize automobile loans receivable. This SPE is a variable interest entity and our subsidiary is the primary beneficiary; the related assets and the secured borrowings are recognized in the Consolidated Statement of Financial Condition. These secured borrowings do not have recourse to our subsidiary's general credit. See Note 8 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 is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities in the form of mortgage- and other asset-backed securities or collateralized loan obligations), which are included within Trading assets and are generally initially categorized as Level 2 within the fair value hierarchy. We apply fair value accounting to the securities. If Jefferies has not relinquished control over the transferred assets, the assets continue to be recognized in Trading assets and a corresponding liability is recognized in Other secured financings. The related liabilities do not have recourse to Jefferies general credit.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement during the three months ended March 31, 2015 and 2014 (in millions):

	2015	2014
Transferred assets	$1,562.9	$1,626.9
Proceeds on new securitizations	1,564.5	1,628.1
Cash flows received on retained interests	2.4	8.5

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 March 31, 2015 and December 31, 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):

	March 31, 2015		December 31, 2014	
Securitization Type	Total Assets	Retained Interests	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	$11,742.9	$ 403.7	$19,196.9	$ 226.9
U.S. government agency commercial mortgage-backed securities	3,519.5	97.9	5,848.5	204.7
Collateralized loan obligations	4,169.9	53.3	4,511.8	108.4

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 8.

Note 7. Available for Sale Securities

The amortized cost, gross unrealized gains and losses and estimated fair value of investments classified as available for sale at March 31, 2015 and December 31, 2014 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015				
Bonds and notes:				
U.S. government securities	$213,621	$ 3	$ 13	$213,611
Residential mortgage-backed securities	490,171	9,156	451	498,876
Commercial mortgage-backed securities	27,534	400	20	27,914
Other asset-backed securities	130,584	286	362	130,508
All other corporates	29,410	139	21	29,528
Total fixed maturities	891,320	9,984	867	900,437
Equity securities:				
Common stocks:				
Banks, trusts and insurance companies	24,687	14,696	–	39,383
Industrial, miscellaneous and all other	19,092	15,518	–	34,610
Total equity securities	43,779	30,214	–	73,993
	$935,099	$ 40,198	$ 867	$974,430
December 31, 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	1,510,248	12,155	2,987	1,519,416
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	52,208	37,145	–	89,353
	$1,562,456	$ 49,300	$ 2,987	$1,608,769

The amortized cost and estimated fair value of investments classified as available for sale at March 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.

	Amortized	Estimated

	Cost	Fair Value
	(In thousands)	
Due within one year	$228,255	$228,292
Due after one year through five years	14,776	14,847
Due after five years through ten years	–	–
Due after ten years	–	–
	243,031	243,139
Mortgage-backed and asset-backed securities	648,289	657,298
	$891,320	$900,437

At March 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.

Note 8. Variable Interest Entities

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

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

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

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

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

Consolidated VIEs

The following tables present information about the assets and liabilities of our consolidated VIEs, which are presented within our Consolidated Statements of Financial Condition in the respective asset and liability categories, as of March 31, 2015 and December 31, 2014.

	Securitization Vehicles	
	March 31, 2015	December 31, 2014
	(In millions)	
Cash	$.4	$ .5
Financial instruments owned	65.6	62.7
Securities purchased under agreement to resell (1)	795.4	575.2
Other	97.2	107.1
Total assets	$958.6	$ 745.5
Other secured financings (2)	$950.4	$ 737.0
Other	8.2	8.5
Total liabilities	$958.6	$ 745.5

(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 $5.6 million and $39.7 million of the secured financing represents an amount held by Jefferies in inventory and eliminated in consolidation at March 31, 2015 and December 31, 2014, respectively.

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

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

At March 31, 2015 and December 31, 2014, another of our subsidiaries is the primary beneficiary of an SPE it utilized to securitize automobile loans receivable. Our subsidiary acts as the servicer for which it receives a fee, and owns the equity interest in this SPE. The notes issued by the SPE are secured solely by the assets of the SPE and do not have recourse to our subsidiary's general credit and the assets of the VIE are not available to satisfy any other debt.

Nonconsolidated VIEs

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

	Variable Interests		
	Financial Statement Carrying Amount (3) Assets	Maximum Exposure to Loss	VIE Assets
	(In millions)		
March 31, 2015			
Collateralized loan obligations	$75.4	$817.9	$8,125.2
Consumer loan financing vehicles	175.3	758.8	411.6
Asset management vehicles (1)	6.0	6.0	199.6
Private equity vehicles (2)	23.7	48.3	70.8
Total	$280.4	$1,631.0	$8,807.2
December 31, 2014			
Collateralized loan obligations	$134.0	$926.9	$7,737.1
Consumer loan financing vehicles	170.6	797.8	485.2
Asset management vehicles (1)	11.3	11.3	432.3
Private equity vehicles (2)	44.3	59.2	92.8
Total	$360.2	$1,795.2	$8,747.4

(1) Assets consist of equity interests, which are included within Investments in managed funds, and accrued management and performance fees, which are included in Receivables.
(2) Assets consist of equity interests, which are included in Investment in managed funds.
(3) There were no significant liabilities at March 31, 2015 and 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 unaffiliated sponsors and provides advisory services to the unaffiliated sponsors. Jefferies may also sell corporate loans to the CLOs. Jefferies variable interests in connection with collateralized loan obligations where it has been involved in providing underwriting and/or advisory services consist of the following:

- Forward sale agreements whereby we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to CLOs
- Warehouse funding arrangements in the form of participation interests in corporate loans held by CLOs and commitments to fund such participation interests
- Trading positions in securities issued in a CLO transaction
- Investments in variable funding notes issued by CLOs
- A guarantee to a CLO managed by Jefferies Finance, whereby we guarantee certain of the obligations of Jefferies Finance to the CLO

In addition, Jefferies owns variable interests in CLOs previously managed by Jefferies. These variable interests consist of debt securities and a right to a portion of the CLOs' management and incentive fees. Jefferies exposure to loss from these CLOs is limited to its investments in the debt securities held. Management and 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 Financing 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 installment 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 Vehicles. Jefferies manages the Jefferies Umbrella Fund, an "umbrella structure" company that invests primarily in convertible bonds and enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. Accounting changes to consolidation standards under GAAP have been deferred for entities that are considered to be investment companies; accordingly, consolidation continues to be determined under a risk and reward model. The Jefferies Umbrella Fund is subject to the deferral guidance and Jefferies is not the primary beneficiary under the risk and reward model. Jefferies variable interests in the Jefferies Umbrella Fund consist of equity interests, management fees and performance fees. See Note 2 for a discussion of new FASB guidance which will eliminate the deferral guidance upon adoption.

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 March 31, 2015 and December 31, 2014, Jefferies funded approximately $60.4 million and $60.1 million, respectively, of its commitment. The carrying amount of Jefferies equity investment was $22.7 million and $43.1 million at March 31, 2015 and December 31, 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 $1.0 million and $1.2 million at March 31, 2015 and December 31, 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 March 31, 2015, the carrying value and maximum exposure to loss of the guarantee were $0 and $10.0 million, respectively. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

Mortgage- and Asset-Backed Vehicles. In connection with Jefferies secondary trading and market-making activities, Jefferies buys and sells agency and nonagency mortgage- and asset-backed securities, which are issued by third party securitization SPEs and are generally considered variable interests in VIEs. Securities issued by securitization SPEs are backed by residential mortgage loans, U.S. agency collateralized mortgage obligations, commercial mortgage loans, collateralized debt obligations and CLOs and other consumer loans, such as installment receivables, auto loans and student loans. These securities are accounted for at fair value and included in Trading assets in our Consolidated Statements of Financial Condition. Jefferies has no other involvement with the related SPEs and therefore does not consolidate these entities.

Jefferies also engages in underwriting, placement and structuring activities for third-party-sponsored securitization trusts generally through agency (Fannie Mae, Freddie Mac and Ginnie Mae) or nonagency sponsored SPEs and may purchase loans or mortgage-backed securities from third parties that are subsequently transferred into the securitization trusts. The securitizations are backed by residential and commercial mortgage, home equity and auto loans. Jefferies does not consolidate agency sponsored securitizations as it does not have the power to direct the activities of the SPEs that most significantly impact their economic performance. Further, Jefferies is not the servicer of nonagency-sponsored securitizations and therefore does not have power to direct the most significant activities of the SPEs and accordingly, does not consolidate these entities. Jefferies may retain unsold senior and/or subordinated interests at the time of securitization in the form of securities issued by the SPEs.

Jefferies transfers existing securities, typically mortgage-backed securities, into resecuritization vehicles. These transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests occur in connection with both agency and nonagency sponsored VIEs. The consolidation analysis is largely dependent on Jefferies role and interest in the resecuritization trusts. Most resecuritizations in which Jefferies is involved are in connection with investors seeking securities with specific risk and return characteristics. As such, we have concluded

that the decision-making power is shared between Jefferies and the investor(s), considering the joint efforts involved in structuring the trust and selecting the underlying assets as well as the level of security interests the investor(s) hold in the SPE; therefore, Jefferies does not consolidate the resecuritization VIEs.

At March 31, 2015 and December 31, 2014, Jefferies held $2,729.5 million and $3,186.9 million of agency mortgage-backed securities, respectively, and $930.1 million and $1,120.0 million of nonagency mortgage- and other asset-backed securities, respectively, as a result of its secondary trading and market-making activities, underwriting, placement and structuring activities and resecuritization activities. Jefferies maximum exposure to loss on these securities is limited to the carrying value of its investments in these securities. Mortgage- and other asset-backed securitization vehicles discussed within this section are not included in the above table containing information about Jefferies variable interests in nonconsolidated VIEs.

We also have a variable interest in a nonconsolidated VIE consisting of our equity interest in an associated company, Golden Queen Mining Company, LLC. See Note 9 for further discussion.

In addition, at March 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 3 for further discussion.

Note 9. Loans to and Investments in Associated Companies

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

	March 31, 2015	December 31, 2014
Jefferies Finance, LLC	$520,203	$508,891
Jefferies LoanCore LLC	301,549	258,947
Berkadia	219,017	208,511
Garcadia companies	170,876	167,939
HomeFed	269,684	271,782
Linkem S.p.A.	144,813	159,054
Golden Queen Mining Company, LLC [1]	103,311	103,598
Other	33,258	33,846
Total	$1,762,711	$1,712,568

(1) At March 31, 2015 and December 31, 2014, the balance reflects $33.6 million and $33.7 million, respectively, related to a noncontrolling interest.

Income (losses) related to associated companies includes the following for the three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Berkadia	$32,343	$13,973
Garcadia companies	15,253	11,259
Linkem	(4,788)	(5,836)
HomeFed	(2,098)	(618)
Golden Queen	(287)	–
Other	28	1,258
Total	$40,451	$20,036

Income (losses) related to associated companies classified as Other revenues includes the following for the three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Jefferies Finance	$11,311	$17,601
Jefferies LoanCore	9,858	2,482
Other	(480)	544
Total	$20,689	$20,627

Jefferies Finance

In October 2004, Jefferies entered into an agreement with Massachusetts Mutual Life Insurance Company ("MassMutual") and Babson Capital Management LLC ("Babson Capital") 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 have equity commitments to Jefferies Finance of $600.0 million. At March 31, 2015, approximately $506.7 million of Jefferies commitment was funded. The investment commitment is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party.

In addition, Jefferies and MassMutual have entered into a Secured Revolving Credit Facility, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total Secured Revolving Credit Facility is $1.0 billion, comprised of committed and discretionary amounts totaling $700.0 million and $300.0 million, respectively, at March 31, 2015. Committed advances are shared equally between Jefferies and MassMutual, while discretionary advances may be funded disproportionately if so agreed between MassMutual and Jefferies. The facility is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party. At March 31, 2015 and December 31, 2014, $0 million and $0 million, respectively, of Jefferies $350.0 million commitment 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 $15.6 million and $47.6 million during the three months ended March 31, 2015 and 2014, 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 $.7 million and $4.3 million during the three months ended March 31, 2015 and 2014, respectively, which are recognized within Selling, general and other expenses in the Consolidated Statements of Operations.

During the three months ended March 31, 2015, Jefferies acted as placement agent in connection with a CLO managed by Jefferies Finance, for which Jefferies recognized fees of $.4 million, which are included in Investment banking revenues in the Consolidated Statement of Operations. At March 31, 2015 and December 31, 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 a derivative contract with Jefferies Finance whose underlying is based on certain securities issued by the CLO. There were no significant revenues recognized by Jefferies in connection with its roles related to the execution of the CLO.

Under a service agreement, Jefferies charged Jefferies Finance $27.8 million and $21.7 million for services provided during the three months ended March 31, 2015 and 2014, respectively. Receivables from Jefferies Finance, included within Other assets in the Consolidated Statements of Financial Condition, were $15.5 million and $41.5 million at March 31, 2015 and December 31, 2014, respectively.

Jefferies LoanCore

In February 2011, Jefferies entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. Jefferies LoanCore originates and purchases commercial real estate loans throughout the U.S. 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 March 31, 2015 and December 31, 2014, Jefferies had funded $237.0 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. 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 March 31, 2015, cumulative cash distributions received from this investment aggregated $322.5 million. Berkadia originates commercial/multifamily real estate loans that are sold to U.S. government agencies, and originates and brokers commercial mortgage loans which are not part of government agency programs. Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other financial institutions.

Berkadia uses all of the proceeds from the commercial paper sales of an affiliate of Berkadia to fund new mortgage loans, servicer advances, investments and other working capital requirements. Repayment of the commercial paper is supported by a $2.5 billion surety policy issued by a Berkshire Hathaway insurance subsidiary and corporate guaranty, and we have agreed to reimburse Berkshire Hathaway for one-half of any losses incurred thereunder. As of March 31, 2015, the aggregate amount of commercial paper outstanding was $2.47 billion.

Linkem

We have acquired approximately 42% of the common shares of Linkem, a fixed wireless broadband services provider in Italy, for aggregate cash consideration of $142.9 million. In addition, we have purchased 5% convertible notes issued by Linkem for $101.0 million (€78.9 million principal amount, including interest in kind) which if converted, would increase our ownership to approximately 55% of Linkem's common equity. The excess of our investment in Linkem's common shares over our share of underlying book value is being amortized to expense over 12 years.

HomeFed

At March 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 is engaged, directly and through subsidiaries, in the investment in and development of real estate projects. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD). As a result of a 1998 distribution to all of our shareholders, approximately 4.8% of HomeFed is beneficially owned by our Chairman at March 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, we invested $70.9 million, net in cash in a limited liability company (Gauss LLC) to partner with the Clay family and Golden Queen Mining Co. Ltd., to jointly fund, develop and operate the Soledad Mountain gold and silver mine project. Previously 100% owned by Golden Queen Mining Co. Ltd., the project is a fully-permitted, open pit, heap leach gold and silver project located in Kern County, California. Construction has started on site and commissioning is planned for late 2015. In exchange for a noncontrolling ownership interest in Gauss LLC, the Clay family contributed $34.1 million, net in cash. Gauss LLC invested both our and the Clay family's net contributions totaling $105 million to the joint venture, Golden Queen Mining Company, LLC, in exchange for a 50% ownership interest. Golden Queen Mining Co. Ltd. contributed the Soledad Mountain project to the joint venture in exchange for the other 50% interest.

As a result of our consolidating Gauss LLC, our Loans to and investments in associated companies reflects Gauss LLC's net investment of $105 million in the joint venture, which includes both the amount we contributed and the amount contributed by the Clay family. The joint venture, Golden Queen Mining Company, LLC, is considered a VIE as the voting rights of the investors are not proportional to their obligations to absorb the expected losses and their rights to receive the expected residual returns, given the provision of services to the joint venture by Golden Queen Mining Co. Ltd. Golden Queen Mining Co. Ltd. has entered into an agreement with the joint venture for the provision of executive officers, financial, managerial, administrative and other services, and office space and

equipment. We have determined that we are not the primary beneficiary of the joint venture and are therefore not consolidating its results.

We have committed to invest during the nine months after our initial investment up to an additional approximately $27 million to fully develop the project.

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

Note 10. 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.

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

The following table provides information regarding derivative contracts, repurchase agreements and securities borrowing and lending arrangements that are recognized in the Consolidated Statements of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our consolidated financial position.

(In thousands)	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
Assets at March 31, 2015						
Derivative contracts	$5,226,625	$(4,729,533)	$497,092	$–	$–	$497,092
Securities borrowing arrangements	$6,566,376	$–	$6,566,376	$(526,142)	$(766,832)	$5,273,402
Reverse repurchase agreements	$11,109,009	$(7,363,321)	$3,745,688	$(236,325)	$(3,450,577)	$58,786
Liabilities at March 31, 2015						
Derivative contracts	$5,133,092	$(4,810,751)	$322,341	$–	$–	$322,341
Securities lending arrangements	$3,173,512	$–	$3,173,512	$(526,142)	$(2,616,154)	$31,216
Repurchase agreements	$18,686,688	$(7,363,321)	$11,323,367	$(236,325)	$(10,039,131)	$1,047,911

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 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 March 31, 2015, amounts include $5,241.5 million of securities borrowing arrangements, for which we have received securities collateral of $5,093.8 million, and $1,038.8 million of repurchase agreements, for which we have pledged securities collateral of $1,073.4 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 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 11. Intangible Assets, Net and Goodwill

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

	March 31, 2015	December 31, 2014
Indefinite-lived intangibles:		
Exchange and clearing organization membership interests and registrations	$14,501	$14,528
Amortizable intangibles:		
Customer and other relationships, net of accumulated amortization of $165,060 and $155,548	483,408	493,501
Trademarks and tradename, net of accumulated amortization of $51,254 and $47,101	343,459	347,883
Supply contracts, net of accumulated amortization of $32,997 and $30,433	116,998	119,562
Other, net of accumulated amortization of $4,808 and $4,703	2,795	2,900
Total intangible assets, net	961,161	978,374
Goodwill:		
National Beef	14,991	14,991
Jefferies	1,717,595	1,718,847
Other operations	8,551	8,551
Total goodwill	1,741,137	1,742,389
Total intangible assets, net and goodwill	$2,702,298	$2,720,763

Amortization expense on intangible assets was $16.3 million and $16.6 million for the three months ended March 31, 2015 and 2014, respectively. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2015 (for the remaining nine months) - $47.6 million; 2016 - $63.0 million; 2017 - $63.1 million; 2018 - $63.3 million; and 2019 - $63.1 million.

Note 12. Inventory

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

	March 31, 2015	December 31, 2014
Finished goods	$364,875	$343,959
Work in process	40,773	40,951
Raw materials, supplies and other	39,184	37,993
	$444,832	$422,903

Note 13. Short-Term Borrowings

Short-term borrowings represent Jefferies bank loans that are payable on demand and generally bear interest at a spread over the federal funds rate. Unsecured bank loans are typically overnight loans used to finance trading assets or clearing related balances, but are not part of Jefferies systemic funding model. At March 31, 2015 and December 31, 2014, $412.0 million and $12.0 million, respectively, was outstanding. At March 31, 2015, the interest rate on short-term borrowings outstanding is 1.34% per annum.

Note 14. Long-Term Debt

The principal amount (net of unamortized discounts and premiums), stated interest rate and maturity date of outstanding debt at March 31, 2015 and December 31, 2014 are as follows (dollars in thousands):

	March 31, 2015	December 31, 2014
Parent Company Debt:		
Senior Notes:		
8.125% Senior Notes due September 15, 2015, $458,641 principal	$458,040	$457,723
5.50% Senior Notes due October 18, 2023, $750,000 principal	740,953	740,748
6.625% Senior Notes due October 23, 2043, $250,000 principal	247,000	246,991
Total long-term debt – Parent Company	1,445,993	1,445,462
Subsidiary Debt (non-recourse to Parent Company):		
Jefferies:		
3.875% Senior Notes, due November 9, 2015, $500,000 principal	505,851	507,944
5.5% Senior Notes, due March 15, 2016, $350,000 principal	360,702	363,229
5.125% Senior Notes, due April 13, 2018, $800,000 principal	839,383	842,359
8.5% Senior Notes, due July 15, 2019, $700,000 principal	826,229	832,797
2.375% Euro Senior Notes, due May 20, 2020, $559,850 principal	558,601	620,725
6.875% Senior Notes, due April 15, 2021, $750,000 principal	849,568	853,091
2.25% Euro Medium Term Notes, due July 13, 2022, $4,479 principal	3,956	4,379
5.125% Senior Notes, due January 20, 2023, $600,000 principal	622,716	623,311
6.45% Senior Debentures, due June 8, 2027, $350,000 principal	381,073	381,515
3.875% Convertible Senior Debentures, due November 1, 2029, $345,000 principal	348,276	348,568
6.25% Senior Debentures, due January 15, 2036, $500,000 principal	512,969	513,046
6.50% Senior Notes, due January 20, 2043, $400,000 principal	421,885	421,960
Secured credit facility, due June 26, 2017	205,000	170,000
National Beef Term Loan	336,250	345,000
National Beef Revolving Credit Facility	181,916	135,144
Other	158,415	119,399
Total long-term debt – subsidiaries	7,112,790	7,082,467
Long-term debt	$8,558,783	$8,527,929

Subsidiary Debt:

Jefferies 3.875% Convertible Senior Debentures due 2029 are convertible into our common shares; each $1,000 are convertible into 22.2523 common shares (equivalent to a conversion price of approximately $44.94). 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 March 31, 2015, Jefferies has 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 contains certain financial covenants, including, but not limited to, restrictions on future indebtedness of Jefferies subsidiaries, minimum tangible net worth and liquidity requirements amounts and minimum capital requirements. Interest is based on, in the case of U.S. dollar borrowings, the Federal funds rate or the London Interbank Offered Rate or, in the case of non-U.S. dollar borrowings, is based on the London Interbank Offered Rate. The obligations of each borrower under the Credit Facility are secured by substantially all the assets of such borrower, but none of the borrowers is responsible for any obligations of any other borrower. At March 31, 2015, borrowings under the Jefferies Credit Facility were denominated in U.S. dollars and Jefferies is in compliance with debt covenants under the Jefferies Credit Facility.

At March 31, 2015, National Beef's credit facility consisted of a $375.0 million term loan and a revolving credit facility of $300.0 million, which matures in October 2018. In April 2015, National Beef increased its revolving credit facility to $375.0 million. 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 0.75% to 2.75% depending upon certain financial ratios and the rate selected. At March 31, 2015, the interest rate on the outstanding term loan was 2.9% and the interest rate on the outstanding revolving credit facility was 2.9%. The credit facility contains a minimum tangible net worth covenant; at March 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 $20.1 million were outstanding at March 31, 2015. Amounts available under the revolver are subject to a borrowing base calculation primarily comprised of receivable and inventory balances. At March 31, 2015, after deducting outstanding amounts and issued letters of credit, $98.0 million of the unused revolver was available to National Beef.

Note 15. 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 three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
As of January 1,	$184,333	$241,075
Loss allocated to redeemable noncontrolling interests	(7,059)	(5,939)
Decrease in fair value of redeemable noncontrolling interests credited to additional paid-in capital	(11,033)	(755)
Balance, March 31,	$166,241	$234,381

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 March 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 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 (13.0%) and the terminal growth rate (2.0%) used to calculate the capitalization rate of the terminal value.

The table below is a sensitivity analysis which shows the fair value of the redeemable noncontrolling interests using the assumed discount and the terminal growth rates and fair values under different rate assumptions as of March 31, 2015 (dollars in millions):

	Discount Rates		
Terminal Growth Rates	12.75%	13.00%	13.25%
1.75 %	$170.0	$164.2	$158.6
2.00 %	$172.2	$166.2	$160.5
2.25 %	$174.5	$168.4	$162.5

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 March 31, 2015 and December 31, 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

In connection with our acquisition of Jefferies in March 2013, 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 16. Common Shares and Compensation Plans

Prior to the acquisition of Jefferies, we had two share-based compensation plans: a fixed stock option plan and a senior executive warrant plan. The fixed stock option plan provides for the issuance of stock options and stock appreciation rights to non-employee directors and certain employees at not less than the fair market value of the underlying stock at the date of grant. Options granted to employees under this plan are intended to qualify as incentive stock options to the extent permitted under the Internal Revenue Code and become exercisable in five equal annual instalments starting one year from date of grant. Options granted to non-employee directors become exercisable in four equal annual instalments starting one year from date of grant. No stock appreciation rights have been granted. At March 31, 2015, 5,233,906 of our common shares were reserved for stock options and warrants.

Compensation and benefits expense included $32.8 million and $38.2 million for the three months ended March 31, 2015 and 2014, respectively, for share-based compensation expense relating to grants made under our share-based compensation plans. Total compensation cost includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. The total tax benefit recognized in results of operations related to share-based compensation expenses was $11.9 million and $14.0 million for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, total unrecognized compensation cost related to nonvested share-based compensation plans was $88.2 million; this cost is expected to be recognized over a weighted-average period of 1.7 years.

The net tax detriment related to share-based compensation plans recognized in additional paid-in capital was $5.3 million during the three months ended March 31, 2015 and was not significant during the 2014 period. 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 three months ended March 31, 2015 and 2014 were not significant.

At March 31, 2015, there were 2,572,000 shares of restricted stock outstanding with future service required, 4,065,000 RSUs outstanding with future service required, 8,563,000 RSUs outstanding with no future service required and 866,000 shares issuable under other plans. Excluding shares issuable pursuant to outstanding stock options and warrants, the maximum potential increase to common shares outstanding resulting from these outstanding awards is 13,494,000.

Note 17. 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 March 31, 2015 and December 31, 2014 is as follows (in thousands):

	March 31, 2015	December 31, 2014
Net unrealized gains on available for sale securities	$571,170	$577,588
Net unrealized foreign exchange losses	(41,492)	(26,771)
Net minimum pension liability	(102,560)	(103,735)
	$427,118	$447,082

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

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statements of Operations
	2015	2014	
Net unrealized gains (losses) on available for sale securities, net of income tax provision (benefit) of $2,944 and $(488)	$5,303	$(878)	Net realized securities gains
Amortization of defined benefit pension plan actuarial gains (losses), net of income tax benefit of $(653) and $(422)	(1,175)	(760)	Compensation and benefits, which includes pension expense. See the pension footnote for information on this component.
Total reclassifications for the period, net of tax	$4,128	$(1,638)	

Note 18. Pension Plans and Postretirement Benefits

The following table summarizes the components of net periodic pension cost charged to operations for the three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Components of net periodic pension cost:		
Interest cost	$3,476	$3,774
Service cost	–	11
Expected return on plan assets	(2,690)	(2,536)
Actuarial losses	1,912	1,208

Net periodic pension cost	$2,698	$2,457

No employer contributions were paid during the three months ended March 31, 2015.

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 not significant for the 2015 and 2014 periods.

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 19. Income Taxes

The aggregate amount of unrecognized tax benefits related to uncertain tax positions at March 31, 2015 was $178.4 million (including $37.5 million for interest), of which $148.6 million was related to Jefferies. If recognized, such amounts would lower our effective tax rate.

The statute of limitations with respect to our federal income tax returns has expired for all years through 2010. Our New York State and New York City income tax returns are currently being audited for the 2009 to 2011 period. Prior to becoming a wholly-owned subsidiary, Jefferies filed a consolidated U.S. federal income tax return with its qualifying subsidiaries and was subject to income tax in various states, municipalities and foreign jurisdictions. Jefferies is currently under examination by the Internal Revenue Service and other major tax jurisdictions. The statute of limitations with respect to Jefferies federal income tax returns has expired for all years through 2005.

We do not expect that resolution of these examinations will have a significant effect on our consolidated financial position, but could have a significant impact on the consolidated results of operations for the period in which resolution occurs.

For the three months ended March 31, 2015 and 2014, the provision for income taxes includes $8.9 million and $15.1 million, respectively, for state income taxes and $2.7 million and $6.0 million, respectively, for foreign income taxes.

Note 20. 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 three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Numerator for earnings (loss) per share:		
Net income attributable to Leucadia National Corporation common shareholders	$380,759	$94,316
Allocation of earnings to participating securities (1)	(7,086)	(2,397)
Net income attributable to Leucadia National Corporation common shareholders for basic earnings (loss) per share	373,673	91,919
Adjustment to allocation of earnings to participating securities related to diluted shares (1)	54	–
Mandatorily redeemable convertible preferred share dividends	1,016	1,016
Interest on 3.75% Convertible Notes	–	640
Net income attributable to Leucadia		

National Corporation common shareholders for diluted earnings (loss) per share	$374,743	$93,575
Denominator for earnings (loss) per share:		
Denominator for basic earnings (loss) per share – weighted average shares	373,541	368,487
Stock options	10	101
Warrants	–	–
Mandatorily redeemable convertible preferred shares	4,162	4,162
3.875% Convertible Senior Debentures	–	–
3.75% Convertible Notes	–	4,598
Denominator for diluted earnings (loss) per share	377,713	377,348

(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 7,114,000 and 9,704,400 for the three months ended March 31, 2015 and 2014, respectively. Dividends declared on participating securities during the three months ended March 31, 2015 and 2014 were $0.4 million and $0.6 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 1,311,000 and 773,000 weighted-average shares of common stock were outstanding during the three months ended March 31, 2015 and 2014, respectively, but were not included in the computation of diluted per share amounts as the effect was antidilutive.

For each period 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 three months ended March 31, 2015 and 2014, 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.

Note 21. Commitments, Contingencies and Guarantees

Commitments

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

	Expected Maturity Date					
	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	Maximum Payout
Equity commitments (1)	$–	$9.2	$.8	$–	$171.8	$ 181.8
Loan commitments (1)	44.6	421.7	188.9	48.3	–	703.5
Mortgage-related and other purchase commitments	1,123.1	1,315.6	126.2	–	–	2,564.9
Forward starting reverse repos and repos	2,034.9	–	–	–	–	2,034.9
Other unfunded commitments (1)	30.0	–	–	–	21.9	51.9
	$3,232.6	$1,746.5	$315.9	$48.3	$193.7	$ 5,537.0

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

The table below presents Jefferies credit exposure from loan commitments, including funded amounts, summarized by period of expiration as of March 31, 2015. Credit exposure is based on the external credit ratings of the underlying or referenced assets of the loan commitments. Since commitments associated with these business activities may expire unused, they do not necessarily reflect the actual future cash funding requirements (in millions):

Credit Ratings	0 - 12 Months	1 - 5 Years	Greater Than 5 Years	Total Corporate Lending Exposure (1)	Corporate Lending Exposure at Fair Value (2)	Corporate Lending Commitments (3)
Non-investment grade	$–	$167.6	$ –	$ 167.6	$ 2.8	$ 164.8
Unrated	128.0	643.0	–	771.0	232.3	538.7

Total	$ 128.0	$ 810.6	$ –	$ 938.6	$ 235.1	$ 703.5

(1) Total corporate lending exposure represents the potential loss assuming the fair value of funded loans and lending commitments were zero.

(2) The corporate lending exposure at fair value includes $262.0 million of funded loans included in Trading assets and a $26.9 million net liability related to lending commitments recorded in Trading liabilities in the Consolidated Statement of Financial Condition as of March 31, 2015.

(3) Amounts represent the notional amount of unfunded lending commitments.

Equity Commitments. Equity commitments include commitments to invest in Jefferies joint ventures, Jefferies Finance and Jefferies LoanCore, and commitments to invest in private equity funds and in Jefferies Capital Partners, LLC, the manager of the private equity funds, which are managed by a team led by Brian P. Friedman, our President and a Director. As of March 31, 2015, Jefferies outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds were $30.0 million.

See Note 9 for additional information regarding Jefferies investments in Jefferies Finance and Jefferies LoanCore.

In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC ("Folger Hill"); we 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 March 31, 2015, $8.3 million has been provided to Folger Hill under the revolving credit facility.

Additionally, as of March 31, 2015, Jefferies had other equity commitments to invest up to $4.5 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 March 31, 2015, Jefferies has $353.5 million of outstanding loan commitments to clients.

Loan commitments outstanding as of March 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 March 31, 2015 was $154.9 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

Jefferies Group Inc. Acquisition -- Seven class-action lawsuits had been filed in New York and Delaware on behalf of a class consisting of Jefferies Group's stockholders concerning the transaction through which Jefferies Group Inc. became our wholly-owned subsidiary. The class actions named as defendants the Company, Jefferies Group, certain members of our board of directors, certain members of Jefferies Group's board of directors and, in certain of the actions, certain transaction-related subsidiaries. On October 31, 2014, the remaining defendants in the Delaware litigation entered into a settlement agreement with the plaintiffs in the Delaware litigation. The terms of that agreement provide for an aggregate payment of $70.0 million to certain former equity holders of Jefferies Group Inc., other than the defendants and certain of their affiliates, along with attorneys' fees to be determined and approved by the court; we have accrued for this aggregate payment and attorneys' fees. The settlement resolves all of the class-action claims in Delaware, and releases the claims brought in New York. The Delaware court approved the settlement on March 25, 2015, but has not yet determined the amount of attorneys' fees to be awarded. Plaintiffs have sought $27.5 million in fees and $1.1 million in expenses. While the defendants continue to deny each of the plaintiffs' claims and deny any liability, the defendants have entered into the settlement solely to settle and resolve their disputes, to avoid the costs and risks of further litigation and to avoid further distractions to our management.

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., 09 Civ. 8486 (DC), in the United States District Court for the Southern District of New York. The named defendants also include the Mel Harris law firm, certain individuals and members associated with the law firm, and a process server, Samserv, Inc. and certain of its employees. The complaint alleges that default judgments obtained by the law firm against approximately 124,000 individuals in New York 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.

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 expensed $3.2 million in the fourth quarter. This amount is in addition to the $20.0 million previously accrued for this matter and the $22.8 million in deferred revenue. The settlement agreement will be submitted to the District Court for its approval upon completion of the drafting of related documents.

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 settlement has been agreed by the parties that does not provide for any payment by the Company and includes, among other things, additional disclosures by Harbinger. A term sheet reflecting the settlement was signed on October 15, 2014. On December 19, 2014, final settlement papers were submitted to the Court. A settlement hearing was scheduled for April 6, 2015 and is now scheduled for June 8, 2015.

Other Contingencies -- During the first quarter of 2014, Jefferies reached a non-prosecution agreement with the United States Attorney for the District of Connecticut and a settlement agreement with the SEC relating to an investigation of purchases and sales of mortgage-backed securities. That investigation arose from a matter that came to light in late 2011, at which time Jefferies terminated a mortgage-backed securities trader who was then indicted by the United States Attorney for the District of Connecticut in January 2013 and separately charged in a civil complaint by the SEC. Those agreements included an aggregate $25.0 million in payments, of which approximately $11.0 million constituted payments to trading counterparties impacted by those activities, approximately $10.0 million of which was a fine payable to the U.S. Attorney's Office, and approximately $4.0 million of which is a fine payable to the SEC. At March 31, 2015, Jefferies outstanding reserve with respect to remaining payments to be made under the agreements was approximately $1.0 million. Additionally, in April 2014, pursuant to an undertaking required by the SEC settlement, Jefferies retained an Independent Compliance Consultant ("ICC"). The ICC's review concluded in January 2015 upon the submission of its final report to the SEC and our adoption of the recommendations contained therein.

We and our subsidiaries are parties to other legal and regulatory proceedings that are considered to be either ordinary, routine litigation incidental to their business or not significant to our consolidated financial position. We and our subsidiaries are also involved, from time to time, in other exams, investigations and similar reviews (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions. We do not believe that any of these actions will have a significant adverse effect on our consolidated financial position or liquidity, but any amounts paid could be significant to results of operations for the period.

Guarantees

Derivative Contracts. Jefferies dealer activities cause it to make markets and trade in a variety of derivative instruments. Certain derivative contracts that Jefferies has entered into meet the accounting definition of a guarantee under GAAP, including credit default swaps, written foreign currency options and written equity put options. On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest or foreign exchange rates are not contractually limited by the terms of the contract. As such, we have disclosed notional values as a measure of Jefferies maximum potential payout under these contracts.

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under GAAP (in millions):

	Expected Maturity Date					
Guarantee Type	2015	2016	2017 and 2018	2019 and 2020	2021 and Later	Notional/ Maximum Payout
Derivative contracts – non-credit related	$37,182.4	$2,241.6	$561.4	$699.1	$438.9	$41,123.4
Written derivative contracts – credit related	2.0	–	–	2,762.2	84.0	2,848.2
Total derivative contracts	$37,184.4	$2,241.6	$561.4	$3,461.3	$522.9	$43,971.6

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

	External Credit Rating						
	AAA/ Aaa	AA/ Aa	A	BBB/Baa	Below Investment Grade	Unrated	Notional/ Maximum Payout
Credit related derivative contracts:							
Index credit default swaps	$2,772.2	$ –	$–	$ –	$ –	$ –	$2,772.2
Single name credit default swaps	$–	$ –	$–	$ 12.0	$ 64.0	$ –	76.0

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 $567.1 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 March 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 March 31, 2015, the maximum amount payable under these guarantees is $31.0 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 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 March 31, 2015 was approximately $38.0 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 March 31, 2015, Jefferies provided guarantees to certain counterparties in the form of standby letters of credit in the amount of $45.9 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 $22.6 million at March 31, 2015.

Note 22. Net Capital Requirements

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"), Jefferies LLC and Jefferies Execution Services, Inc. ("Jefferies Execution"), are subject to the SEC Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital and have elected to calculate minimum capital requirements under the alternative method as permitted by Rule 15c3-1 in calculating net capital. Jefferies is also registered as an FCM, and 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 are as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies LLC	$954,261	$837,399
Jefferies Execution	7,132	6,882

FINRA is the designated self-regulatory organization ("DSRO") for our U.S. broker-dealers and the Chicago Mercantile Exchange is the DSRO for Jefferies LLC as an FCM.

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

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

Note 23. 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):

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other Assets:				
Notes and loans receivable (a)	$249,385	$262,956	$213,174	$217,171

Financial Liabilities:				
Short-term borrowings (b)	411,998	411,998	12,000	12,000
Long-term debt (b)	8,558,783	8,662,603	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 24. 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 March 31, 2015 and December 31, 2014 are loans to and/or equity investments in Private Equity Related Funds of $35.9 million and $60.7 million, respectively. Net losses aggregating $25.2 million and $2.5 million were recorded related to the Private Equity Related Funds for the three months ended March 31, 2015 and 2014, respectively. For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 21.

Berkadia Commercial Mortgage, LLC. At March 31, 2015 and December 31, 2014, Jefferies has commitments to purchase $356.4 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 $248.1 million and $232.0 million at March 31, 2015 and December 31, 2014, respectively. Our Chairman also serves as HRG's Chairman.

Officers, Directors and Employees. We have $23.3 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 March 31, 2015 and December 31, 2014, respectively. Receivables from and payables to customers include 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. At March 31, 2015 and December 31, 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 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 22% and 20% of its cattle requirements under this agreement during the three months ended March 31, 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 three months ended March 31, 2015, sales to this affiliate were $9.4 million and purchases were $3.6 million. During the three months ended March 31, 2014, sales to this affiliate were $7.4 million and purchases were $2.4 million. At March 31, 2015 and December 31, 2014, amounts due from and payable to these related parties were not significant. Both of these arrangements are based on what we believe to be competitive market prices.

HomeFed. As more fully described in Note 9, 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 9, as a result of a 1998 distribution to all of our shareholders, approximately 4.8% of HomeFed is beneficially owned by our Chairman at March 31, 2015. Our Chairman also serves as HomeFed's Chairman and our President is a Director of HomeFed.

See Note 9 for information on transactions with Jefferies Finance and Jefferies LoanCore.

Note 25. Discontinued Operations

Discontinued operations for the three month 2014 period primarily consists of the Lake Charles clean energy project and Premier.

A summary of the results of discontinued operations is as follows for the three months ended March 31, 2014 (in thousands):

Revenues and other income:	
Gaming entertainment	$31,004
Investment and other income	810
	31,814
Expenses:	
Direct operating expenses – Gaming entertainment	23,429
Compensation and benefits	1,172
Depreciation and amortization	2,224
Selling, general and other expenses	18,694
	45,519
Loss from discontinued operations before income taxes	(13,705)
Income tax (benefit)	(4,796)
Loss from discontinued operations after income taxes	$(8,909)

Note 26. Segment Information

Our operating segments consist of our consolidated businesses, which offer different products and services and are managed separately. Our reportable segments, based on qualitative and quantitative requirements, are Jefferies, National Beef, and Corporate and other. Jefferies is a global full-service, integrated securities and investment banking firm. National Beef processes and markets fresh boxed beef, case-ready beef, beef by-products and wet blue leather for domestic and international markets. All other consists of our other financial services businesses and our other merchant banking businesses. Our other financial services businesses include the Leucadia asset management platform, specialty finance companies, the commercial mortgage banking investment, the investment in HomeFed and the investment in FXCM. Our other merchant banking businesses primarily include manufacturing, oil and gas exploration and development, real estate, and our investments in fixed wireless broadband services, automobile dealerships, and our gold and silver mining project.

Corporate and other assets primarily consist of financial instruments owned, the deferred tax asset (exclusive of Jefferies deferred tax asset), cash and cash equivalents and corporate and other revenues primarily consist of interest, other income and net realized securities gains and losses. We do not allocate Corporate and other revenues or overhead expenses to the operating units.

Certain information concerning our segments for the three months ended March 31, 2015 and 2014 is presented in the following table. Consolidated subsidiaries are reflected as of the date a majority controlling interest was acquired. As discussed above, Jefferies is reflected in our consolidated financial statements utilizing a one month lag.

	2015	2014
	(In thousands)	
Net Revenues:		
Reportable Segments:		
Jefferies	$591,441	$930,512
National Beef	1,856,019	1,887,378
Corporate and other	20,316	13,684
Total net revenues related to reportable segments	2,467,776	2,831,574
All other	737,907	110,950
Intercompany eliminations	(21,000)	–
Total consolidated net revenues	$3,184,683	$2,942,524
Pre-tax income (loss) from continuing operations:		
Reportable Segments:		
Jefferies	$12,924	$196,370
National Beef	(33,585)	(28,013)
Corporate and other	(9,864)	(19,231)
Pre-tax income (loss) from continuing operations related to reportable segments	(30,525)	149,126
All other	641,932	33,147
Parent Company interest	(24,300)	(25,177)
Total consolidated pre-tax income from continuing operations	$587,107	$157,096

Depreciation and amortization expenses:

Reportable Segments:		
Jefferies	$22,250	$17,031
National Beef	21,787	20,760
Corporate and other	970	1,337
Total depreciation and amortization expenses related to reportable segments	45,007	39,128
All other	7,433	2,359
Total consolidated depreciation and amortization expenses	$52,440	$41,487

All other revenue and pre-tax income from continuing operations in the above table include $686.6 million of unrealized and realized gains relating to our investment in FXCM for the three months ended March 31, 2015.

Interest expense classified as a component of Net revenues relates to Jefferies. For the three months ended March 31, 2015 and 2014, interest expense classified as a component of Expenses was primarily comprised of National Beef ($4.2 million and $3.1 million, respectively) and parent company interest ($24.3 million and $25.2 million, respectively).

Note 27. Subsequent Events

Jefferies Bache. On April 9, 2015, Jefferies Group LLC, our wholly-owned subsidiary, entered into an agreement with Société Générale S.A. 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 agreed to enter into a total return swap with respect to other over-the-counter transactions which will not be transferred, which is intended to replicate the economics of such non-transferred over-the-counter transactions. The transfer is subject to customary closing conditions for a transaction of this nature. Jefferies anticipates that the completion of this transaction will occur during its second quarter of 2015. Jefferies is not able to estimate, at this time, the total assets and liabilities that will be transferred as such amounts will fluctuate based on daily client activity through the date of closing.

In addition, Jefferies expects to terminate its $750.0 million credit facility shortly after the closing of the above transaction. Upon termination of the credit facility, unamortized deferred origination costs of $5.4 million will be expensed.

Concurrently, Jefferies initiated a plan to exit the remaining aspects of its existing futures business and to terminate the remaining client agreements with respect to exchange transactions. Jefferies estimates that it will incur the pre-tax costs set forth below that aggregate approximately $91.2 million in connection with this plan, primarily over the remainder of its 2015 fiscal year. Jefferies expects the effect of these costs to be approximately $65.8 million on an after-tax basis. Of the total estimated costs, approximately $23.0 million are of a non-cash nature and approximately $68.2 million will result in future cash expenditures.

	(In millions)
Compensation and benefits (including severance costs, retention awards and amortization expense for existing restricted stock and restricted cash compensation awards)	$ 39.8
Accelerated capitalized software amortization	20.8
Technology and communications service agreements	24.5
Impairment of exchange memberships	2.5
Other expenses	3.6
Total	$ 91.2

All of the above costs will be incurred by us in our consolidated financial statements. All of the above costs associated with the plan to exit the futures business, the nature of such costs and the effect of such costs are estimates only and are subject to change.

FXCM Holdings, LLC. On April 1, 2015, Jefferies entered into an agreement (the “Agreement”) with FXCM Holdings, LLC and FXCM’s subsidiary, Faros Trading, LLC (“Faros”) to acquire their agency foreign exchange business and, in connection therewith, to hire certain employees of Faros. The Agreement, the consideration for which is contingent on net profits, if any, from the operation of the business through November 30, 2017, is expected to close during the second quarter of 2015. We do not believe this transaction will have a material impact on our financial position or results of operations.

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

Statements included in this report may contain forward-looking statements. See "Cautionary Statement for Forward-Looking Information" below. The following should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and the description of our businesses included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 10-K").

Results of Operations

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

A summary of results of continuing operations for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Pre-tax income (loss) from continuing operations:		
Jefferies	$12,924	$196,370
National Beef	(33,585)	(28,013)
Corporate and other	(9,864)	(19,231)
Other Financial Services Businesses	710,977	14,434
Other Merchant Banking Businesses	(69,045)	18,713
Parent Company Interest	(24,300)	(25,177)
Total consolidated pre-tax income from continuing operations	$587,107	$157,096

Jefferies

Jefferies 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 three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Net revenues	$591,441	$930,512
Expenses:		
Compensation and benefits	366,212	526,774
Floor brokerage and clearing fees	55,080	49,513
Depreciation and amortization	22,250	17,031
Selling, general and other expenses	134,975	140,824
	578,517	734,142
Income before income taxes	$12,924	$196,370

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 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.

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 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 our three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Equities	$203,526	$219,506
Fixed income	125,941	286,729
Total sales and trading	329,467	506,235
Investment banking:		
Capital markets:		
Equities	79,071	94,738
Debt	60,876	173,038
Advisory	132,048	146,544
Total investment banking	271,995	414,320
Other	(10,021)	9,957
Total net revenues	$591,441	$930,512

Net Revenues

The decrease in net revenues for Jefferies first quarter of 2015 primarily reflects lower revenues in its fixed income and investment banking businesses as a result of fewer new issuances in leveraged finance capital markets and lower levels of trading activity due to challenging market conditions and global economic pressures. Jefferies investment banking revenues for the 2015 period were down compared with the prior year quarter due to a decrease in debt and equity capital markets revenues, as well as lower advisory revenues. Overall, its capital markets revenues decreased from the prior year quarter, primarily due to lower transaction volume, primarily in the leveraged finance capital markets. Fixed income revenues for its first quarter of 2015 were down compared with the prior year quarter, primarily due to tighter trading conditions across most core businesses, partially offset by solid performance from Jefferies international rates business. Revenues in Jefferies equities business in the 2015 period include an unrealized gain of $34.6 million from its investment in KCG Holdings, Inc. (“KCG”) compared with aggregate unrealized gains of $18.9 million from its investments in KCG and HRG Group, Inc. (“HRG”) in the 2014 period. Jefferies European revenues were the highest quarter on record and Asian revenues were the third highest quarter on record for Jefferies first quarter of 2014.

Equities Revenue

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

Equities revenue for the three months ended March 31, 2015 and 2014 include an unrealized gain of $34.6 million and an unrealized loss of $1.0 million, respectively, from Jefferies investment in KCG, and for the three month 2014 period, an unrealized gain of $19.9 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.

During the first quarter of 2015, U.S. equity market conditions were characterized by a continual upward trend in U.S. stock prices, with economic data largely meeting expectations and the outlook for monetary policy remaining favorable. In Europe and Asia, the recovery remains gradual and economic developments vary across regions. The performance from Jefferies electronic trading platform has contributed to the increase in commission revenues, partially offset by a decrease in customer flows on its U.S. and Europe equity cash desks as a result of reduced trading volumes, which was in line with a decrease in exchange trading volumes. The first quarter of 2014 was characterized by market volatility and stock prices generally rallied. As a result, commission revenues for the 2014 period were driven by customer flows on Jefferies U.S and Europe equity cash, electronic trading, equity options and convertible desks.

Equities revenue from the Jefferies Finance joint venture during the three months ended March 31, 2015 decreased as compared to the same period in 2014 due to fewer loan closings and syndications, while revenues from the LoanCore joint venture increased during the three month 2015 period as compared to the same period in 2014 due to higher loan closings and securitizations.

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.

The decrease in total fixed income revenue for the 2015 period compared to the same period in 2014 was primarily due to tighter trading conditions across most core businesses, partially offset by increased revenues in Jefferies international rates business.

During the three month 2015 period, the fixed income markets were impacted at various points by geopolitical concerns in the Middle East, a new government in Greece raising the specter of Greek default, and economic uncertainty caused by volatility in currency and energy markets. This added uncertainty with respect to growth of the U.S. economy and uncertainty as to timing of potential interest rate increases by the Federal Reserve. Additionally, this, combined with extremely low rates globally, drove investors to seek spread and yield primarily in more liquid instruments. As a result, transaction volumes and revenues improved in Jefferies international rates business. Other of its fixed income businesses have been slower to rebound as investors have been concentrating on the most liquid securities. Additionally, credit spread tightening and expectations of future rate increases resulted in lower trading volumes and revenues from Jefferies U.S. and international mortgages and municipal securities businesses. The uncertainty in the global economy coupled with lower energy prices put downward pressure on global high yield bonds, especially less liquid and higher yielding bonds. Jefferies also experienced a decline in trading volumes as investor focus was centered on liquidity at the expense of yield. The global market uncertainty also drove lower revenues in emerging markets, particularly for markets with dependence on the energy economy. Futures sales and trading revenues during the first quarter of 2015 increased slightly, primarily with respect to foreign currency trading, as directional volatility returned.

Investment Banking Revenue

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

The decrease in investment banking revenue was primarily due to a decrease in Jefferies debt and equity capital markets revenues. Overall, capital markets revenues decreased in the first quarter of 2015 compared to the same period in 2014, primarily due to lower transaction volume in key segments of the leveraged finance market. Advisory revenues for the three month 2015 period decreased from the prior year quarter, due in part to lower transaction activity in the energy sector driven by the volatility in oil prices.

During the three months ended March 31, 2015, from equity and debt capital raising activities, Jefferies generated $79.1 million and $60.9 million in revenues, respectively. During the 2015 period, Jefferies completed 232 public and private debt financings that raised $42.9 billion in aggregate and completed 42 public equity financings and five convertible offerings that raised $7.5 billion (40 of which it acted as sole or joint bookrunner). Financial advisory revenues totaled $132.0 million, including revenues from 35 merger and acquisition transactions with an aggregate transaction value of $27.0 billion.

During the three months ended March 31, 2014, from equity and debt capital raising activities, Jefferies generated $94.7 million and $173.0 million in revenues, respectively. During the 2014 period, Jefferies completed 129 public and private debt financings that raised $53.1 billion in aggregate and Jefferies completed 37 public equity financings and three convertible offerings that raised $11.4 billion (33 of which it acted as sole or joint bookrunner). Financial advisory revenues totaled $146.5 million, including revenues from 28 merger and acquisition transactions with an aggregate transaction value of $21.2 billion.

Compensation and Benefits

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

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in 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 $81.8 million and $75.0 million for the three months ended March 31, 2015 and 2014, respectively. In addition, compensation and benefits expense includes $3.4 million and $3.6 million for the three months ended March 31, 2015 and 2014, 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 61.9% and 56.6% for the 2015 and 2014 periods, respectively.

Non-Compensation Expenses

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

Floor brokerage and clearing expenses 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, as well as accelerated depreciation on capitalized software related to its Jefferies Bache business. Business development costs for the first quarter of 2015 reflect a decline in Jefferies 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.

National Beef

A summary of results of operations for National Beef for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Net revenues	$1,856,019	$1,887,378
Expenses:		
Cost of sales	1,848,161	1,874,963
Compensation and benefits	8,626	10,699
Interest	4,238	3,110
Depreciation and amortization	21,787	20,760
Selling, general and other expenses	6,792	5,859
	1,889,604	1,915,391
Loss before income taxes	$(33,585)	$(28,013)

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

The USDA reports market values for cattle, beef, offal and other products produced by ranchers, farmers and beef processors. Generally, National Beef expects its profitability to improve as the ratio of the USDA comprehensive boxed beef cutout (a weekly reported measure of the total value of all USDA inspected primal cuts, grind and trim produced from fed cattle) to the USDA 5-area weekly average slaughter cattle price increases and for profitability to decline as the ratio decreases. The ratio during the first quarter of 2015 was largely unchanged from the comparable 2014 period.

Revenues in the three month 2015 period decreased in comparison to the same period in 2014, due primarily to lower sales volume, as fewer cattle were processed, partially offset by higher selling prices. The change in cost of sales during 2015 compared to 2014 reflects higher cattle prices tempered by the lower volume. As a result, gross margin was compressed and pre-tax results were adversely impacted.

Compensation and benefits for the first quarter of 2014 include $2.1 million related to employee separation in connection with closing the Brawley facility.

Corporate and other Results

A summary of results of operations for corporate and other for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Net revenues	$20,316	$13,684
Expenses:		
Compensation and benefits	19,779	20,743
Depreciation and amortization	970	1,337
Selling, general and other expenses	9,825	12,694
	30,574	34,774
Loss before income taxes and income related to associated companies	(10,258)	(21,090)
Income related to associated companies	394	1,859
Pre-tax loss from continuing operations	$(9,864)	$(19,231)

Net revenues include net realized securities gains of $15.1 million and $4.8 million for the three months ended March 31, 2015 and 2014, respectively. Net revenues also include interest income of $4.8 million and $6.0 million for the 2015 and 2014 periods, respectively.

For the three months ended March 31, 2015 and 2014, compensation and benefits includes accrued estimated incentive bonus expense of $5.5 million and $7.2 million, respectively, of which $2.0 million for 2014 related to our Senior Executive Annual Incentive Bonus Plan, which no longer is in effect. Share-based compensation expense was $6.3 million and $6.4 million in the three months ended March 31, 2015 and 2014, respectively.

Income related to associated companies is comprised by our share of various investee's underlying net income or loss, none of which is significant during the three month 2015 and 2014 periods.

Other Financial Services Businesses

A summary of results for other financial services businesses for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Net revenues	$717,984	$5,824
Expenses:		
Compensation and benefits	10,178	2,629
Interest	1,319	289
Depreciation and amortization	1,822	61
Selling, general and other expenses	23,933	1,663
	37,252	4,642
Income before income taxes and income		

related to associated companies	680,732	1,182
Income related to associated companies	30,245	13,252
Pre-tax income from continuing operations	$710,977	$14,434

Our other financial services businesses include the consolidated results of certain Leucadia asset management fund managers, the returns on our investments in these funds, our investment in FXCM and our share of the income of Berkadia and HomeFed.

As more fully discussed in Note 3 to our consolidated financial statements, in January 2015, we entered into a credit agreement with FXCM Inc., for a $300 million two-year senior secured term loan with rights to 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 the three months ended March 31, 2015, we recognized with respect to our investment in FXCM $686.6 million of unrealized and realized gains, including the component related to interest income on the loan. 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. The valuation is most significantly impacted by the inputs and assumptions related to the publicly traded stock price and volatility. A $0.30 change in the price of FXCM's shares alone (representing about 14% of the price at March 31, 2015), would result in a change of about $51 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 $29 million in this valuation, assuming no other change in any other factors. As we adjust to fair value each quarter, we anticipate volatility in the FXCM valuation, which could materially impact our results in a given period.

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.

Revenues for other financial services businesses also reflect revenues generated by Leucadia asset management totaling $24.8 million and $4.0 million for the three month 2015 and 2014 periods, respectively. Pre-tax income for Leucadia asset management was $22.9 million and $1.0 million for the 2015 and 2014 periods, respectively.

For the three months ended March 31, 2015 and 2014, income related to Berkadia was $32.3 million and $14.0 million, respectively. Our share of HomeFed's results was not significant during these periods.

Other Merchant Banking Businesses

A summary of results for other merchant banking businesses for the three months ended March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Net revenues	$19,923	$105,126
Expenses:		
Cost of sales	74,062	70,712
Compensation and benefits	6,057	4,992
Interest	592	–
Depreciation and amortization	5,611	2,298
Selling, general and other expenses	12,458	13,336
	98,780	91,338
Income (loss) before income taxes and income related to associated companies	(78,857)	13,788
Income related to associated companies	9,812	4,925
Pre-tax income (loss) from continuing operations	$(69,045)	$18,713

Our other merchant banking operations reflect the results of a variety of other businesses including manufacturing and our oil and gas exploration and development businesses, which were begun during the first half of 2014. Other operations also include our real estate operations, substantially all of which were sold to HomeFed during March 2014 in exchange for HomeFed common shares.

Net revenues for the three months ended March 31, 2015 and 2014 include principal transactions related to unrealized gains (losses) of $(78.3) million and $12.7 million, respectively, from the change in value of our investment in HRG, which is classified as a trading asset for which the fair value option election was elected.

For the three months ended March 31, 2015 and 2014, net revenues for manufacturing were $86.2 million and $85.3 million, respectively. Net revenues during the 2015 period for our oil and gas exploration and production businesses were $10.0 million and were not significant during the 2014 period. Net revenues for real estate were $5.6 million during the 2014 period.

For the three months ended March 31, 2015 and 2014, depreciation and amortization expenses for manufacturing were $1.2 million and $1.1 million, respectively. Depreciation and amortization expenses for our oil and gas exploration

and development businesses were $3.6 million during the first quarter of 2015. Depreciation and amortization expenses for real estate were $1.0 million during 2014.

For the three months ended March 31, 2015 and 2014, selling, general and other expenses for manufacturing were $2.0 million and $1.7 million, respectively. Selling, general and other expenses for real estate were $4.6 million during 2014.

For the three months ended March 31, 2015 and 2014, pre-tax profits for manufacturing were $3.7 million and $7.4 million, respectively. Pre-tax income (losses) for the oil and gas exploration and development businesses were $0.4 million and $(1.8) million for the three months ended March 31, 2015 and 2014, respectively. Pre-tax losses for the Oregon LNG project were $2.0 million and $2.4 million for the three months ended March 31, 2015 and 2014, respectively. Pre-tax results for the real estate businesses were not significant.

Income related to associated companies primarily relates to our investments in Linkem and Garcadia. For the three months ended March 31, 2015 and 2014, losses related to Linkem were $4.8 million and $5.8 million, respectively, and income related to Garcadia was $15.3 million and $11.3 million, respectively.

Income Taxes

For the three months ended March 31, 2015, our provision for income taxes was $212.7 million, representing an effective tax rate of about 36%. For the three months ended March 31, 2014, our provision for income taxes was $56.3 million, representing an effective tax rate of about 36%.

Discontinued Operations

Our loss from discontinued operations, net of income tax, totaled $8.9 million in the 2014 period and consisted primarily of $11.3 million in losses related to our Lake Charles clean energy project, offset by income of about $2.8 million from Premier.

For further information, see Note 25 to our consolidated financial statements.

Liquidity and Capital Resources

Parent Company Liquidity

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

In addition to cash and cash equivalents, we have certain other investments that are easily convertible into cash within a relatively short period of time. These are classified as trading assets, available for sale securities, and investments in managed funds. Together these total $1.4 billion at March 31, 2015, with the largest portion comprised of cash and short-term bonds and notes of the U.S. Government and its agencies, and other publicly traded debt and equity securities. Our available liquidity, and the investment income realized from cash, cash equivalents and marketable securities is used to meet our short-term recurring cash requirements, which are principally the payment of interest on our debt and corporate overhead expenses.

The parent company's only long-term cash requirement is to make principal payments on its long-term debt ($1,458.6 million principal outstanding as of March 31, 2015), of which $458.6 million is due in 2015, $750.0 million 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 cost cannot be predicted.

As of March 31, 2015, we own approximately 46.6 million common shares of HRG, representing approximately 23% of its outstanding common shares, which are accounted for under the fair value option. The shares were acquired at an aggregate cost of $475.6 million, are classified as Trading Assets and carried at fair value of $581.6 million at March 31, 2015. In addition, we currently have two directors on HRG's board, one of which serves as its Chairman. We have agreed not to increase our interest in HRG above 27.5% through March 17, 2016.

In August 2014, we and Solomon Kumin established Folger Hill Asset Management LLC ("Folger Hill"); we committed to invest $400 million in its funds which were expected to be launched in the first quarter of 2015. 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 March 31, 2015, $8.3 million has been provided.

During the first quarter of 2015, we 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 3 to our consolidated financial statements. We received $18.6 million of principal and interest payments from FXCM during the first quarter of 2015. As of May 7, 2015, we have received an additional $69.3 million.

During the first quarter of 2015, we paid a quarterly dividend of $0.0625 per share which aggregated $23.4 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 March 31, 2015, we had outstanding 366,721,455 common shares and 13,494,000 share based awards that do not require the holder to pay any exercise price (potentially an aggregate of 380,215,455 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 March 31, 2015 we are authorized to repurchase 24,295,194 common shares.

In connection with presentations made to credit rating agencies with respect to the Jefferies acquisition, we advised the agencies that we would target specific concentration, leverage and liquidity principles in the future, expressed in the form of certain ratios and percentages, although there is no legal requirement to do so. These thresholds and calculations of the actual ratios and percentages are detailed below at March 31, 2015 (dollars in thousands):

Total equity	$10,651,838	
Less, investment in Jefferies	(5,477,065)	
Equity excluding Jefferies	5,174,773	
Less, our two largest investments:		
National Beef	(781,006)	
HRG, at cost	(475,600)	
Equity in a stressed scenario	3,918,167	
Less, net deferred tax asset excluding Jefferies amount	(1,106,941)	
Equity in a stressed scenario less net deferred tax asset	$2,811,226	
Balance sheet amounts:		
Available liquidity	$1,441,725	
Parent company debt (see Note 14 to our Consolidated financial statements)	$1,445,993	
Ratio of parent company debt to stressed equity:		
Maximum	.50	x
Actual, equity in a stressed scenario	.37	x
Actual, equity in a stressed scenario excluding net deferred tax asset	.51	x
Liquidity reserve:		
Minimum	$953,000	
Actual	$1,441,725	

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

Jefferies Liquidity

General

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

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

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

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

Substantially all trading assets and trading liabilities are valued on a daily basis and balance sheet limits for the various businesses are monitored and employed. The overall securities inventory is continually monitored, including the inventory turnover rate, which confirms the liquidity of overall assets. As a Primary Dealer in the U.S. and with a similar role in several European jurisdictions, Jefferies carries inventory and makes an active market for its clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries. For further detail on Jefferies outstanding sovereign exposure to Greece, Ireland, Italy, Portugal and Spain, refer to Quantitative and Qualitative Disclosures about Market Risk below.

Of Jefferies total trading assets, approximately 76.3% 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 March 31, 2015, our Consolidated Statement of Financial Condition includes Jefferies Level 3 trading assets that are approximately 2.8% 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):

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Securities purchased under agreements to resell:		
Period end	$3,746	$ 3,927
Month end average	5,566	5,788
Maximum month end	6,602	8,081
Securities sold under agreements to repurchase:		
Period end	$11,323	$ 10,672
Month end average	13,448	13,291
Maximum month end	15,261	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):

	March 31, 2015	Average Balance First Quarter 2015 (1)	December 31, 2014
Cash and cash equivalents:			
Cash in banks	$773,594	$763,884	$1,083,605
Certificate of deposit	75,000	75,000	75,000
Money market investments	2,491,371	1,834,443	2,921,363
Total cash and cash equivalents	3,339,965	2,673,327	4,079,968
Other sources of liquidity:			
Debt securities owned and securities purchased under agreements to resell (2)	910,750	964,150	1,056,766
Other (3)	396,181	505,502	363,713
Total other sources	1,306,931	1,469,652	1,420,479
Total cash and cash equivalents and other liquidity sources	$4,646,896	$4,142,979	$5,500,447

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

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

(3) Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that could be reasonably expected to be obtained from financial instruments owned that are currently not pledged after considering reasonable financing haircuts and additional funds available under the committed senior secured revolving credit facility available for working capital needs of Jefferies 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 76.3% of inventory at haircuts of 10% or less, which reflects the liquidity of the inventory. Jefferies continually assesses the liquidity of its inventory based on the level at which Jefferies could obtain financing in the marketplace for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes Jefferies trading assets by asset class that are considered to be of a liquid nature and the amount of such assets that have not been pledged as collateral as reflected in the Consolidated Statements of Financial Condition (in thousands):

	March 31, 2015	December 31, 2014

	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	$2,188,332	$ 314,287	$2,191,288	$ 297,628
Corporate debt securities	2,094,556	4,614	2,583,779	11,389
U.S. Government, agency and municipal securities	4,470,608	250,023	3,124,780	250,278
Other sovereign obligations	2,483,031	833,419	2,671,807	877,366
Agency mortgage-backed securities (1)	3,270,050	—	3,395,771	—
Physical commodities	58,714	—	62,234	—
	$14,565,291	$ 1,402,343	$14,029,659	$ 1,436,661

(1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These securities include pass-through securities, securities backed by adjustable rate mortgages ("ARMs"), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been.

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

Sources of Funding

Secured Financing

Readily available secured funding is used to finance Jefferies financial instruments inventory. The ability of Jefferies to support increases in total assets is largely a function of the ability to obtain short and intermediate term secured funding, primarily through securities financing transactions. Repurchase or reverse repurchase agreements (collectively "repos"), respectively, are used to finance a portion of long inventory and cover a portion of short inventory through pledging and borrowing securities. Approximately 77.5% of Jefferies repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of Jefferies total repo activity that is eligible for central clearing reflects the high quality and liquid composition of its trading inventory. The tenor of repurchase and reverse repurchase agreements generally exceeds the expected holding period of the financed assets. A significant portion of Jefferies financing of European Sovereign inventory is executed using central clearinghouse financing arrangements rather than via bi-lateral repo agreements. For those asset classes not eligible for central clearinghouse financing, bi-lateral financings are sought on an extended term basis.

In addition to the above financing arrangements, Jefferies issues notes backed by eligible collateral under a master repurchase agreement. The outstanding amount of the notes issued under the program was $795.0 million in aggregate, which is presented within Other secured financings in the Consolidated Statement of Financial Condition at March 31, 2015. Of the $795.0 million aggregate notes, $85.0 million matures in 2015, $200.0 million matures in July 2016, $80.0 million matures in August 2016 and $60.0 million in December 2016, all bearing interest at a spread over one month LIBOR. The remaining $220.0 million and $150.0 million mature in January 2016 and February 2016, respectively, and bear interest at a spread over three month LIBOR. $515.0 million of the $795.0 million aggregate notes are redeemable within 90 days at the option of the noteholders.

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months. Jefferies ability to finance inventory via central clearinghouses and bi-lateral arrangements is augmented by Jefferies ability to draw bank loans on an uncommitted basis under various banking arrangements. As of March 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 $412.0 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily short-term borrowings for Jefferies for the three month 2015 period was $39.0 million.

Long-Term Debt

Jefferies long-term debt reflected in the Consolidated Statement of Financial Condition at March 31, 2015 is $6.2 billion, which excludes $205.0 million of outstanding borrowings under a long-term revolving Credit Facility. Jefferies long-term debt has a weighted average maturity of approximately 8 years, excluding the Jefferies Credit Facility. Jefferies next scheduled maturity is the $500.0 million principal amount of 3.875% Senior Notes that mature in November 2015.

The Jefferies Credit Facility is a committed senior secured revolving credit facility with a group of commercial banks in Dollars, Euros and Sterling, for an aggregate committed amount of $750.0 million, with availability subject to one or more borrowing bases and of which $250.0 million can be borrowed by Jefferies Bache Limited without a borrowing base requirement. The borrowers under the facility are Jefferies Bache Financial Services, Inc., Jefferies Bache, LLC and Jefferies Bache Limited, with a guarantee from Jefferies Group LLC. On September 1, 2014, Jefferies Bache, LLC merged with and into Jefferies LLC. Jefferies LLC is the surviving entity, and therefore, is a borrower under the Credit Facility. Interest is based on, in the case of U.S. dollar borrowings, either the Federal funds rate or the London Interbank Offered Rate, or in the case of non-U.S. dollar borrowings, is based on the London Interbank Offered Rate. The facility is guaranteed by Jefferies Group LLC and contains financial covenants that, among other things, imposes restrictions on future indebtedness of its subsidiaries, requires Jefferies Group LLC to maintain specified levels of tangible net worth and liquidity amounts, and requires certain of its subsidiaries to maintain specified levels of regulated capital. Jefferies is currently in compliance with the facility and expects to remain in compliance given its current liquidity and anticipated additional funding requirements given its business plan and profitability expectations. For further information with respect to use of the Credit Facility, see Note 27 in our consolidated financial statements and Part II, Item 5. Other Information contained in this Form 10-Q.

Jefferies long-term debt ratings are as follows:

	Rating	Outlook
Moody's Investors Service	Baa3	Negative
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 $81.2 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management's best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements is considered in Jefferies Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

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

Net Capital

Jefferies operates broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"). Jefferies LLC and Jefferies Execution are subject to the Securities and Exchange Commission Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital and which may limit distributions from the broker-dealers. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17. FINRA is the designated self-regulatory organization for the U.S. broker-dealers and the Chicago Mercantile Exchange is the designee for Jefferies LLC as an FCM.

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

	Net Capital	Excess Net Capital
Jefferies LLC	$954,261	$837,399
Jefferies Execution	7,132	6,882

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

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

Consolidated Statements of Cash Flows

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

Net cash of $1,727.4 million and $1,034.5 million was used for operating activities in the three months ended March 31, 2015 and 2014, respectively. Jefferies used funds of $1,328.7 million and $352.0 million during the 2015 and 2014 periods, respectively. National Beef used funds of $22.0 million and $107.7 million during the 2015 and 2014 periods, respectively; manufacturing used funds of $10.2 million and $4.7 million during the 2015 and 2014 periods, respectively; and discontinued operations used funds of $2.6 million and $17.8 million in 2015 and 2014, respectively. During 2015 and 2014, net cash of $325.0 million and $268.5 million was used to make additional investments in the Leucadia asset management platform and, in 2014, $253.0 million was used to acquire our investment in HRG, both of which are classified as a use of cash for operating activities. The change in operating cash flows also reflects lower interest payments in 2015 as compared to 2014. During 2015, distributions from associated companies principally were received from Berkadia ($18.5 million), Garcadia ($11.4 million) and Jefferies associated companies ($9.8 million). During 2014, distributions from associated companies principally were received from Berkadia ($10.0 million), Garcadia ($8.5 million) and Jefferies associated companies ($2.4 million).

Net cash of $267.9 million and $567.5 million was provided by investing activities in the 2015 and 2014 periods, respectively. Acquisitions of property, equipment and leasehold improvements, and other assets include amounts primarily related to Jefferies ($17.4 million and $40.4 million in 2015 and 2014, respectively); National Beef ($9.1 million and $15.4 million in 2015 and 2014, respectively); other financial services businesses ($10.0 million in 2015); other merchant banking businesses, primarily oil and gas exploration and development businesses, ($19.8 million and $11.1 million in 2015 and 2014, respectively); corporate ($6.5 million in 2015); and discontinued operations ($7.0 million in 2014). Advances on notes and other receivables in 2015 include the investment in FXCM ($279.0 million). Loans to and investments in associated companies includes Linkem ($5.9 million) and Jefferies associated companies ($600.8 million) for 2015, and Garcadia ($4.7 million) and Jefferies associated companies ($784.8 million) for 2014. Capital distributions and loan repayment from associated companies includes Jefferies associated companies ($558.3 million and $779.6 million in 2015 and 2014, respectively).

Net cash of $708.3 million and $145.9 million was provided by financing activities in the three month periods ended March 31, 2015 and 2014, respectively. During 2015, issuance of debt primarily reflects increases in Jefferies debt ($35.0 million), borrowings by National Beef under its bank credit facility ($46.8 million) and borrowings by the other financial services businesses ($45.7 million). During 2014, issuance of debt primarily reflects increases in Jefferies debt ($50.0 million), borrowings by National Beef under its bank credit facility ($120.9 million) and borrowings by the other financial services businesses ($21.7 million). Reduction of debt for 2015 includes $12.2 million related to National Beef's debt and $2.8 million of debt related to other merchant banking businesses' debt. Reduction of debt for 2014 includes $6.9 million related to National Beef's debt and $15.0 million of debt related to

other financial services businesses' debt. Purchases of common shares for treasury relate to shares received from participants in our stock compensation plans.

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," "int 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 the following: potential acquisitions and dispositions of our operations and investments could change our risk profile and if unsuccessful could reduce the value of our common shares; economic downturns, including a downgrade of the U.S. credit rating or a recession; risks associated with the increased volatility in raw material prices and the availability of key raw materials; outbreaks of disease affecting livestock; product liability due to contaminated beef; volatility in the volume and prices at which beef products are sold; political and economic risks in foreign countries as well as foreign currency fluctuations; costs to comply with environmental regulations; failure to replace Walmart's consumer-ready business; failure to comply with government laws and regulations and costs associated with compliance; unfavorable labor relations with its employees; declines in the U.S. housing and commercial real estate markets; risks of loss relating to our oil and gas exploration and development investments; changes in existing government and government-sponsored mortgage programs and the loss of or changes in Berkadia's relationships with the related governmental bodies; the inability of Berkadia to repay its commercial paper borrowings; uncertainties in HRG's business and operations; uncertainties relating to FXCM's revenue and profitability; volatility in the value of our investment in FXCM; revenue from new and used car sales at dealerships; investment in illiquid securities subject to standstill or otherwise restricted agreements; the failure of our technology systems and vulnerability to unauthorized access, computer hacking or computer viruses; our ability to pay dividends; transfer restrictions on our common shares; intensified competition in the operation of our businesses or for skilled management and other employees; an inability to generate sufficient taxable income to fully realize our net deferred tax asset; an inability to successfully defend any challenges to our tax filing positions; weather related conditions and significant natural disasters, including hurricanes, tornadoes, windstorms, earthquakes and hailstorms; an inability to insure certain risks economically; dividend payments on our common shares; new financial legislation that could affect the market value of certain of our investments, impose additional costs on operations or require changes in business practices; credit-rating agency downgrades; volatility in the value of our investment portfolio; the effect of recent legislation and new pending regulation under the Dodd-Frank Act on Jefferies; extensive international regulation of Jefferies business; international legal, regulatory, political and economic and other risks associated with Jefferies international operations; price volatility and price declines in Jefferies debt securities and loss of revenues, clients and employees as a result of unfounded allegations; risks of loss relating to Jefferies principal trading and investments; a disruption of Jefferies business due to operational failures; credit risk associated with Jefferies business; risk associated with Jefferies hedging and derivative transactions; and liability associated with legal proceedings. For additional information, see Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K (our "2014 10-K") and Part II, Item 1A. Risk Factors contained in this Form 10-Q.

Undue reliance should not be placed on these forward-looking statements, which are applicable only as of the date hereof. The Company undertakes 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.

Item 3. 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. Information related thereto required under this Item is contained in Item 7A in our 2014 10-K, and is incorporated by reference herein.

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 $581.6 million at March 31, 2015. Assuming a decline of 10% in market prices, the value of our investment in HRG could decrease by approximately $58 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 at fair value, which is included within Trading Assets at fair value of $947.0 million at March 31, 2015. Our market risk with respect to our investment in FXCM primarily relates to our rights; changes to the significant input with respect to our loan did not have a significant impact on the risk of loss. The market risks surrounding our FXCM rights are primarily related to FXCM's underlying common stock price and its volatility. Assuming a decline of $0.30 (approximately 14%) in FXCM's market price, as of March 31, 2015, the value of our FXCM rights would decrease by approximately $51 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 $29 million, assuming no other change in any other factors.

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

Value-at-Risk

Within Jefferies, Value-at-Risk (VaR) is used as a measurement of market risk using a model that simulates revenue and loss distributions on substantially all financial instruments by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss in value of our financial instruments over a specified time horizon at a given confidence level. Jefferies calculates a one-day VaR using a one year look-back period measured at a 95% confidence level.

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

future positions.

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

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

Daily VaR (1)
Value-at-Risk In Trading Portfolios

(In millions)

Risk Categories	VaR at February 28, 2015	Daily VaR for the Three Months Ended February 28, 2015			VaR at November 30, 2014	Daily VaR for the Three Months Ended November 30, 2014		
		Average	High	Low		Average	High	Low
Interest Rates	$ 5.23	$5.60	$7.37	$4.19	$ 5.56	$4.29	$5.56	$3.16
Equity Prices	11.10	11.40	13.61	9.16	10.53	10.71	13.84	9.14
Currency Rates	0.34	0.70	3.32	0.27	0.87	2.27	4.50	0.87
Commodity Prices	0.56	0.35	0.69	0.11	0.19	0.39	0.91	0.07
Diversification Effect (2)	(5.38)	(4.78)	N/A	N/A	(3.87)	(4.91)	N/A	N/A
Firmwide	$ 11.85	$13.27	$17.31	$10.10	$ 13.28	$12.75	$14.57	$11.14

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

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

Average daily VaR increased to $13.27 million for the three months ended February 28, 2015 from $12.75 million for the three months ended November 30, 2014. The slight increase was primarily driven by slightly higher credit spreads and interest rate risk exposure from slightly higher inventory and fixed income market volatility, partially offset by lower currency exposure due to a decrease in foreign exchange option activities. Commodity prices risk and the diversification benefit across asset classes did not change significantly from the prior fiscal quarter. Excluding the investments in KCG and HRG for the three months ended February 28, 2015 and the three months ended November 30, 2014, average VaR was $9.29 million and $8.77 million, respectively.

The primary method used to test the efficacy of the VaR model is to compare actual daily net revenue for those positions included in the VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio, from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e., no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e., once in every 20 days). During the three months ended February 28, 2015, results of the evaluation at the aggregate level demonstrated no 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 February 28, 2015 (in thousands):

	10% Sensitivity
Private investments	$ 41,295

Corporate debt securities in default	10,843
Trade claims	1,997

There were 11 days with trading losses out of a total of 61 days in the three months ended February 28, 2015. Excluding trading losses associated with the daily marking to market of the position in KCG in the three months ended February 28, 2015, there were nine 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 Statement of Financial Condition 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 March 31, 2015 and December 31, 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

	At March 31, 2015	December 31, 2014	At March 31, 2015	December 31, 2014	At March 31, 2015	December 31, 2014	At March 31, 2015	December 31, 2014	At March 31, 2015	December 31, 2014	At March 31, 2015	Decemb 31, 2014
AAA Range	$—	$—	$1.5	$1.9	$—	$—	$1.5	$1.9	$2,241.4	$2,921.4	$2,242.9	$2,923.
AA Range	1.8	2.7	152.6	134.6	13.3	7.1	167.7	144.4	50.1	412.9	217.8	557.3
A Range	6.6	7.6	546.6	586.9	163.4	218.1	716.6	812.6	786.4	731.3	1,503.0	1,543.
BBB Range	75.3	132.3	74.5	73.6	36.2	34.8	186.0	240.7	0.5	2.8	186.5	243.5
BB or Lower	189.9	189.9	86.7	127.9	29.2	45.2	305.8	363.0	—	—	305.8	363.0
Unrated	157.4	139.6	—	—	—	—	157.4	139.6	11.7	11.5	169.1	151.1
Total	$431.0	$472.1	$861.9	$924.9	$242.1	$305.2	$1,535.0	$1,702.2	$3,090.1	$4,079.9	$4,625.1	$5,782.

Counterparty Credit Exposure by Region

	Loans and Lending At		Securities and Margin Finance At		OTC Derivatives At		Total At		Cash and Cash Equivalents At		Total with Cash and Cash Equivalents At	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	Decem 31, 2014
Asia/Latin America/ Other	$48.2	$48.8	$58.3	$55.7	$29.0	$24.6	$135.5	$129.1	$186.6	$221.0	$322.1	$350.1
Europe	0.9	8.5	173.7	218.2	56.8	76.1	231.4	302.8	169.8	617.5	401.2	920.3
North America	381.9	414.8	629.9	651.0	156.3	204.5	1,168.1	1,270.3	2,733.7	3,241.4	3,901.8	4,511
Total	$431.0	$472.1	$861.9	$924.9	$242.1	$305.2	$1,535.0	$1,702.2	$3,090.1	$4,079.9	$4,625.1	$5,782

Counterparty Credit Exposure by Industry

	Loans and Lending At		Securities and Margin Finance At		OTC Derivatives At		Total At		Cash and Cash Equivalents At		Total with C and Cash Equiva At	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	D 31, 20
Asset Managers	$—	$—	$112.1	$91.8	$0.9	$—	$113.0	$91.8	$2,241.5	$2,921.4	$2,354.5	$1
Banks, Broker-dealers	1.7	10.7	438.7	482.2	189.8	251.4	630.2	744.3	848.6	1,158.5	1,478.8	
Commodities	—	—	46.9	59.9	29.8	24.8	76.7	84.7	—	—	76.7	8
Other	429.3	461.4	264.2	291.0	21.6	29.0	715.1	781.4	—	—	715.1	7
Total	$431.0	$472.1	$861.9	$924.9	$242.1	$305.2	$1,535.0	$1,702.2	$3,090.1	$4,079.9	$4,625.1	$1

For additional information regarding credit exposure to OTC derivative contracts, see Note 4 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 March 31, 2015 and December 31, 2014 (in millions):

	March 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
Spain	$640.5	$(211.3)	$ —	$0.7	$ 2.5	$ 0.2	$ 0.2	$432.6	$ 432.8
Great Britain	441.2	(167.7)	17.0	—	19.7	29.0	74.3	339.2	413.5
France	698.7	(220.4)	(144.1)	0.1	11.0	10.7	—	356.0	356.0
Canada	147.3	(63.8)	(12.3)	—	144.3	66.3	2.8	281.8	284.6
Italy	963.1	(541.7)	(223.5)	—	—	0.1	—	198.0	198.0
Hong Kong	15.4	(11.9)	(1.5)	—	4.9	—	118.2	6.9	125.1
Ireland	128.6	(15.9)	—	—	—	—	—	112.7	112.7
Puerto Rico	106.2	—	—	—	—	0.7	—	106.9	106.9
Netherlands	177.0	(114.5)	2.9	—	14.3	0.1	—	79.8	79.8
Austria	86.3	(14.9)	—	—	—	—	—	71.4	71.4
Total	$3,404.3	$(1,362.1)	$ (361.5)	$0.8	$ 196.7	$ 107.1	$ 195.5	$1,985.3	$ 2,180.8

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

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

The table below reflects not only Jefferies exposure to the sovereign debt and economic derivative positions in Greece, Ireland, Italy, Portugal, and Spain but also includes its exposure to the securities of corporations, financial institutions and mortgage-backed securities collateralized by assets domiciled in these countries, as reflected in our Consolidated Statement of Financial Condition at March 31, 2015. This table is presented in a manner consistent with how Jefferies management views and monitors these exposures as part of its risk management framework. Issuer exposure to these European countries arises primarily in the context of Jefferies market making activities and its role as a major dealer in the debt securities of these countries. While the economic derivative positions are presented on a notional basis, Jefferies believes this best reflects the reduction in the underlying market risk due to interest rates or the issuer's credit as a result of its positions. Long and short financial instruments are offset against each other for determining net exposure although they do not represent identical offsetting positions of the same debt security. Components of risk embedded in the securities will generally offset, however, basis risk due to duration and the specific issuer may still exist. Economic hedges as represented by the notional amounts of the derivative contracts may not be perfect offsets for the risk represented by the net fair value of the debt securities.

(In millions)	Fair Value			Notional Amount			
	Long Debt Securities (1) (2)	Short Debt Securities (2) (3)	Net Cash Inventory	Long Derivatives	Short Derivatives	Net Derivatives	Total Net Exposure
Greece:							
Sovereigns	$4.3	$ 1.5	$ 2.8	$—	$ —	$ —	$ 2.8
Corporations	12.8	5.9	6.9	—	—	—	6.9
Financial Institutions	2.5	—	2.5	—	—	—	2.5
Structured Products	1.2	—	1.2	—	—	—	1.2
Total Greece	20.8	7.4	13.4	—	—	—	13.4
Ireland:							
Sovereigns	117.3	9.0	108.3	—	—	—	108.3
Corporations	1.7	3.5	(1.8)	—	—	—	(1.8)
Financial Institutions	4.0	3.3	0.7	—	—	—	0.7
Structured Products	5.7	—	5.7	—	—	—	5.7
Total Ireland	128.7	15.8	112.9	—	—	—	112.9
Italy:							
Sovereigns (4)	808.3	517.2	291.1	121.0	344.7	(223.7)	67.4
Corporations (5)	41.7	12.4	29.3	0.4	0.2	0.2	29.5
Financial Institutions	80.9	12.1	68.8	—	—	—	68.8
Structured Products	32.3	—	32.3	—	—	—	32.3
Total Italy	963.2	541.7	421.5	121.4	344.9	(223.5)	198.0
Portugal:							
Sovereigns	93.5	47.0	46.5	—	—	—	46.5
Corporations	—	0.6	(0.6)	—	—	—	(0.6)
Financial Institutions	2.6	—	2.6	—	—	—	2.6
Structured Products	10.5	—	10.5	—	—	—	10.5
Total Portugal	106.6	47.6	59.0	—	—	—	59.0
Spain:							
Sovereigns	454.1	201.4	252.7	—	—	—	252.7
Corporations	7.6	6.5	1.1	—	—	—	1.1
Financial Institutions	32.9	3.5	29.4	—	—	—	29.4
Structured Products	146.0	—	146.0	—	—	—	146.0
Total Spain	640.6	211.4	429.2	—	—	—	429.2
Total	$1,859.9	$ 823.9	$ 1,036.0	$121.4	$ 344.9	$ (223.5)	$ 812.5
Total Sovereign	$1,477.5	$ 776.1	$ 701.4	$121.0	$ 344.7	$ (223.7)	$ 477.7
Total Non-sovereign	$382.4	$ 47.8	$ 334.6	$0.4	$ 0.2	$ 0.2	$ 334.8

(1) Long securities represent the fair value of debt securities and are presented within Trading assets on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

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

statement presentation in the Consolidated Statement of Financial Condition classifies a debt security solely by the direct issuer and the domicile of the direct issuer.

(3) Short securities represent the fair value of debt securities sold short and are presented within Trading liabilities on the face of the Consolidated Statement of Financial Condition and are accounted for at fair value with changes in fair value recognized in Principal transactions revenues.

(4) Derivative positions are comprised of bond futures executed on exchanges outside Italy.

(5) Derivative contract positions are comprised of listed equity options.

For the first quarter of 2015, Jefferies exposure to the sovereign debt of Greece, Ireland, Italy, Portugal and Spain calculated on an average daily basis was as follows (in millions):

	Remaining Maturity Less Than One Year	Remaining Maturity Greater Than or Equal to One Year		Total Average Balance
Financial instruments owned - Debt securities				
Greece	$ —	$ 2.7		$ 2.7
Ireland	0.8	56.9		57.7
Italy	602.9	1,182.9		1,785.8
Portugal	0.9	102.1		103.0
Spain	19.5	484.9		504.4
Total average fair value of long debt securities [1]	624.1	1,829.5		2,453.6
Financial instruments sold - Debt securities				
Greece	—	1.7		1.7
Ireland	0.3	1.8		2.1
Italy	305.2	974.8		1,280.0
Portugal	0.2	39.3		39.5
Spain	45.6	240.4		286.0
Total average fair value of short debt securities	351.3	1,258.0		1,609.3
Total average net fair value of debt securities	272.8	571.5		844.3
Derivative contracts - long notional exposure Italy	—	29.2	[2]	29.2
Total average notional amount – long	—	29.2		29.2
Derivative contracts - short notional exposure Italy	—	216.5	[2]	216.5
Total average notional amount – short	—	216.5		216.5
Total average net derivative notional exposure	—	(187.3	)	(187.3)
Total average net exposure to select European countries	$ 272.8	$ 384.2		$ 657.0

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

(2) These positions are comprised of bond futures executed on exchanges outside Italy.

In addition, non-U.S. sovereign obligations recorded in trading assets and trading liabilities are routinely financed through reverse repurchase agreements and repurchase agreements, of which a significant portion is executed with central clearing organizations. Accordingly, foreign sovereign obligations are utilized as underlying collateral for our repurchase financing arrangements. Repurchase financing arrangements that are used to finance the debt securities presented above had underlying collateral of issuers domiciled in Greece, Ireland, Italy, Portugal and Spain as follows (in millions):

	Reverse Repurchase Agreements (1)	Repurchase Agreements (1)	Net
Greece	$ 2.8	$ 5.1	$(2.3)
Ireland	82.2	195.8	(113.6)
Italy	651.7	680.2	(28.5)
Portugal	72.0	148.7	(76.7)
Spain	250.9	681.6	(430.7)
Total	$ 1,059.6	$ 1,711.4	$(651.8)

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

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

Item 4. 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 March 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 March 31, 2015.

No change in our internal control over financial reporting occurred during the quarter ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

The information set forth in response to this Item 1 is incorporated by reference from the “Contingencies” section in Note 21, Commitments, Contingencies and Guarantees, in the notes to consolidated financial statements in Item 1 of Part I of this Quarterly Report, which is incorporated herein by reference.

Item 1A. Risk Factors.

The following updates our discussion of risk factors contained in our 2014 10-K:

Uncertainties relating to the revenue and profitability 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 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 at www.sec.gov.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.

(c) Issuer Purchases of Equity Securities

The following table presents information on our purchases of our common shares during the three months ended March 31, 2015:

	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2015 to January 31, 2015	193,553	$ 23.15	–	24,295,194
February 1, 2015 to February 28, 2015	970,833	$ 22.78	–	24,295,194
March 1, 2015 to March 31, 2015	17,930	$ 23.13	–	24,295,194
Total	1,182,316		–	

(1) Includes an aggregate of 1,182,316 shares repurchased other than as part of our publicly announced Board authorized repurchase program. We repurchased these securities 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.

(2) In November 2012, our Board of Directors authorized the repurchase, from time to time, of up to an aggregate of 25,000,000 of our common shares, inclusive of prior authorizations.

Item 5. Other Information.

Subsequent Event:

On April 9, 2015, Jefferies Group LLC, our wholly-owned subsidiary, entered into an agreement with Société Générale S.A. 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 agreed to enter into a total return swap with respect to other over-the-counter transactions which will not be transferred, which is intended to replicate the economics of such non-transferred over-the-counter transactions. The transfer is subject to customary closing conditions for a transaction of this nature. Jefferies anticipates that the completion of this transaction will occur during its second quarter of 2015. Jefferies is not able to estimate, at this time, the total assets and liabilities that will be transferred as such amounts will fluctuate based on daily client activity through the date of closing.

In addition, Jefferies expects to terminate its $750.0 million credit facility shortly after the closing of the above transaction. Upon termination of the credit facility, unamortized deferred origination costs of $5.4 million will be expensed.

Concurrently, Jefferies initiated a plan to exit the remaining aspects of its existing futures business and to terminate the remaining client agreements with respect to exchange transactions. Jefferies estimates that it will incur the pre-tax costs set forth below that aggregate approximately $91.2 million in connection with this plan, primarily over the remainder of its 2015 fiscal year. Jefferies expects the effect of these costs to be approximately $65.8 million on an after-tax basis. Of the total estimated costs, approximately $23.0 million are of a non-cash nature and approximately $68.2 million will result in future cash expenditures.

	(In millions)
Compensation and benefits (including severance costs, retention awards and amortization expense for existing restricted stock and restricted cash compensation awards)	$ 39.8
Accelerated capitalized software amortization	20.8
Technology and communications service agreements	24.5
Impairment of exchange memberships	2.5
Other expenses	3.6
Total	$ 91.2

All of the above costs will be incurred by us in our consolidated financial statements. All of the above costs associated with the plan to exit the futures business, the nature of such costs and the effect of such costs are estimates only and are subject to change.

Item 6. Exhibits.

3.1	Amended and Restated By-Laws of Leucadia National Corporation (filed as Exhibit 3 to the Current Report on Form 8-K filed on March 2, 2015).*
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 Quarterly Report on Form 10-Q of Leucadia National Corporation for the quarter ended March 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.

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* Incorporated by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEUCADIA NATIONAL CORPORATION
(Registrant)

Date: May 8, 2015 By: /s/ Barbara L. Lowenthal
Name: Barbara L. Lowenthal
Title: Vice President and Comptroller
(Chief Accounting Officer)

Exhibit Index

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