

LEUCADIA NATIONAL CORP
Form 10-Q
August 06, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 1-5721

LEUCADIA NATIONAL CORPORATION
(Exact name of registrant as specified in its Charter)

New York
(State or other jurisdiction of
incorporation or organization)

13-2615557
(I.R.S. Employer
Identification Number)

520 Madison Avenue, New York, New York
(Address of principal executive offices)

10022
(Zip Code)

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

315 Park Avenue South, New York, New York 10010
(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 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	<input checked="" type="checkbox"/>		Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

YES NO

The number of shares outstanding of each of the issuer’s classes of common stock at July 24, 2013 was 364,428,159.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

June 30, 2013 and December 31, 2012

(Dollars in thousands, except par value)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	\$3,553,645	\$145,960
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,056,141	–
Financial instruments owned, including securities pledged of \$12,903,430 and \$406,828:		
Trading assets, at fair value	15,270,288	1,077,172
Available for sale securities	2,664,101	3,356,992
Total financial instruments owned	17,934,389	4,434,164
Investments in managed funds	55,141	–
Loans to and investments in associated companies	991,979	807,474
Securities borrowed	5,357,672	–
Securities purchased under agreements to resell	3,467,625	–
Securities received as collateral	36,202	–
Receivables from brokers, dealers and clearing organizations	3,314,278	6,824
Receivables from customers of brokerage operations	1,188,265	–
Property, equipment and leasehold improvements, net	930,486	857,360
Intangible assets, net	1,059,860	829,831
Goodwill	1,722,548	24,195
Deferred tax asset, net	1,839,932	1,214,615
Other assets	1,671,113	1,028,695
Total	\$46,179,276	\$9,349,118
LIABILITIES		
Trading liabilities, at fair value	\$6,771,793	\$–
Securities loaned	2,679,193	–
Securities sold under agreements to repurchase	9,612,126	391,705
Other secured financings	227,294	–
Obligation to return securities received as collateral	36,202	–
Payables to brokers, dealers and clearing organizations	2,002,899	854
Payables to customers of brokerage operations	5,425,281	–
Trade payables, expense accruals and other liabilities	1,493,305	588,580
Long-term debt	7,559,476	1,358,695
Total liabilities	35,807,569	2,339,834
MEZZANINE EQUITY		

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Redeemable noncontrolling interests in subsidiary	213,640	241,649
Mandatorily redeemable convertible preferred shares	125,000	—
EQUITY		
Common shares, par value \$1 per share, authorized 600,000,000 shares; 364,377,512 and 244,582,588 shares issued and outstanding, after deducting 46,580,091 and 47,006,711 shares held in treasury		
	364,378	244,583
Additional paid-in capital	4,864,035	1,577,528
Accumulated other comprehensive income	440,950	705,129
Retained earnings	4,354,244	4,240,028
Total Leucadia National Corporation shareholders' equity	10,023,607	6,767,268
Noncontrolling interest	9,460	367
Total equity	10,033,067	6,767,635
Total	\$46,179,276	\$9,349,118

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the periods ended June 30, 2013 and 2012

(In thousands, except per share amounts)

(Unaudited)

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Beef processing services	\$1,920,004	\$1,913,616	\$3,708,817	\$3,704,171
Commissions	146,848	–	146,848	–
Principal transactions	141,680	(363,752)	324,399	10,164
Investment banking	277,134	–	277,134	–
Interest income	264,718	5,395	270,427	11,165
Realized security gains	9,500	2,526	239,391	427,462
Other	154,856	188,256	274,479	352,256
Total revenues	2,914,740	1,746,041	5,241,495	4,505,218
Interest expense	209,590	–	209,590	–
Net revenues	2,705,150	1,746,041	5,031,905	4,505,218
Expenses:				
Cost of sales	1,921,651	1,880,582	3,752,114	3,703,744
Compensation and benefits	414,140	23,112	460,076	75,231
Floor brokerage and clearing fees	32,991	–	32,991	–
Interest	21,209	21,343	42,528	50,188
Depreciation and amortization	48,201	35,917	77,997	70,210
Selling, general and other expenses	221,510	72,787	302,782	163,237
	2,659,702	2,033,741	4,668,488	4,062,610
Income (loss) from continuing operations before income taxes				
and income related to associated companies	45,448	(287,700)	363,417	442,608
Income related to associated companies	34,863	13,536	65,671	41,528
Income (loss) from continuing operations before income taxes	80,311	(274,164)	429,088	484,136
Income tax provision (benefit)	22,068	(87,508)	70,075	185,286
Income (loss) from continuing operations	58,243	(186,656)	359,013	298,850
Income (loss) from discontinued operations, net of income tax				
provision (benefit) of \$(50), \$(1,958), \$(115) and \$(1,995)	(92)	(1,112)	(248)	617
Gain on disposal of discontinued operations, net of income tax				
provision (benefit) of \$207, \$0, \$32 and \$0	385	–	60	–
Net income (loss)	58,536	(187,768)	358,825	299,467
Net loss attributable to the noncontrolling interest	729	297	1,351	95
Net income attributable to the redeemable noncontrolling interests	(5,638)	(9,780)	(1,107)	(5,936)
Preferred stock dividends	(1,015)	–	(1,354)	–

Net income (loss) attributable to Leucadia National Corporation common shareholders	\$52,612	\$(197,251)	\$357,715	\$293,626
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(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations (continued)

For the periods ended June 30, 2013 and 2012

(In thousands, except per share amounts)

(Unaudited)

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2013	2012	2013	2012
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	\$.14	\$ (.80)	\$ 1.12	\$ 1.20
Income (loss) from discontinued operations	–	(.01)	–	–
Gain on disposal of discontinued operations	–	–	–	–
Net income (loss)	\$.14	\$ (.81)	\$ 1.12	\$ 1.20
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	\$.14	\$ (.80)	\$ 1.10	\$ 1.18
Income (loss) from discontinued operations	–	(.01)	–	–
Gain on disposal of discontinued operations	–	–	–	–
Net income (loss)	\$.14	\$ (.81)	\$ 1.10	\$ 1.18
Amounts attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations, net of taxes	\$ 52,319	\$ (196,139)	\$ 357,903	\$ 293,009
Income (loss) from discontinued operations, net of taxes	(92)	(1,112)	(248)	617
Gain on disposal of discontinued operations, net of taxes	385	–	60	–
Net income (loss)	\$ 52,612	\$ (197,251)	\$ 357,715	\$ 293,626

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

For the periods ended June 30, 2013 and 2012

(In thousands)

(Unaudited)

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2013	2012	2013	2012
Net income (loss)	\$58,536	\$(187,768)	\$358,825	\$299,467
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on investments arising during the period, net of income tax provision (benefit) of \$(28,124), \$(71,081), \$(23,788) and \$(80,282)	(50,653)	(128,028)	(42,844)	(144,599)
Less: reclassification adjustment for net (gains) losses included in net income (loss), net of income tax provision (benefit) of \$3,027, \$21, \$117,170 and \$123,812	(5,453)	(36)	(211,037)	(223,000)
Net change in unrealized holding gains (losses) on investments, net of income tax provision (benefit) of \$(31,151), \$(71,102), \$(140,958) and \$(204,094)	(56,106)	(128,064)	(253,881)	(367,599)
Net unrealized foreign exchange gains (losses) arising during the period, net of income tax provision (benefit) of \$258, \$(1,431), \$(680) and \$(2,501)	(11,003)	(2,579)	(12,692)	(4,506)
Less: reclassification adjustment for foreign exchange losses included in net income (loss), net of income tax provision (benefit) of \$0, \$0, \$0 and \$0	-	-	-	-
Net change in unrealized foreign exchange gains (losses), net of income tax provision (benefit) of \$258, \$(1,431), \$(680) and \$(2,501)	(11,003)	(2,579)	(12,692)	(4,506)
Net unrealized gains (losses) on derivatives arising during the period, net of income tax provision (benefit) of \$(6), \$4, \$(4) and \$(85)	(11)	7	(6)	(153)
Less: reclassification adjustment for derivative losses				

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included in net income (loss), net of income tax provision (benefit) of \$0, \$0, \$0 and \$0	–	–	–	–
Net change in unrealized derivative gains (losses), net of income tax provision (benefit) of \$(6), \$4, \$(4) and \$(85)	(11)	7	(6)	(153)
Net pension and postretirement gains (losses) arising during the period, net of income tax provision (benefit) of \$0, \$0, \$0 and \$0	–	–	–	–
Less: reclassification adjustment for pension and postretirement (gains) losses included in net income (loss), net of income tax provision (benefit) of \$(666), \$(433), \$(1,332) and \$(866)	1,200	778	2,400	1,558
Net change in pension liability and postretirement benefits, net of income tax provision (benefit) of \$666, \$433, \$1,332 and \$866	1,200	778	2,400	1,558
Other comprehensive loss, net of income taxes	(65,920)	(129,858)	(264,179)	(370,700)
Comprehensive income (loss)	(7,384)	(317,626)	94,646	(71,233)
Comprehensive loss attributable to the noncontrolling interest	729	297	1,351	95
Comprehensive income attributable to the redeemable noncontrolling interests	(5,638)	(9,780)	(1,107)	(5,936)
Preferred stock dividends	(1,015)	–	(1,354)	–
Comprehensive income (loss) attributable to Leucadia National Corporation common shareholders	\$(13,308)	\$(327,109)	\$93,536	\$(77,074)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the periods ended June 30, 2013 and 2012

(In thousands)

(Unaudited)

	2013	2012
Net cash flows from operating activities:		
Net income	\$ 358,825	\$ 299,467
Adjustments to reconcile net income to net cash provided by operations:		
Deferred income tax provision	58,673	162,844
Depreciation and amortization of property, equipment and leasehold improvements	50,587	52,690
Other amortization	19,624	41,804
Share-based compensation	32,443	7,339
Provision for doubtful accounts	6,380	5,579
Net securities gains	(239,391)	(427,462)
Income related to associated companies	(94,211)	(41,528)
Distributions from associated companies	59,130	46,058
Net (gains) losses related to real estate, property and equipment, and other assets	4,780	(7,607)
Income related to Fortescue's Pilbara project, net of proceeds received	-	(8,928)
Gain on disposal of discontinued operations	(92)	-
Net change in:		
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations		
	671,426	-
Trading assets	933,964	(10,164)
Investments in managed funds	4,835	-
Securities borrowed	(47,036)	-
Securities purchased under agreements to resell	106,129	-
Receivables from brokers, dealers and clearing organizations	(845,322)	-
Receivables from customers of brokerage operations	(144,938)	-
Other assets	(90,696)	(10,219)
Trading liabilities	(2,979,532)	-
Securities loaned	780,579	-
Securities sold under agreements to repurchase	1,521,605	-
Payables to brokers, dealers and clearing organizations	205,037	-
Payables to customers of brokerage operations	(18,807)	-
Trade payables, expense accruals and other liabilities	95,643	(44,536)
Other	(2,119)	(2,168)
Net cash provided by operating activities	447,516	63,169
Net cash flows from investing activities:		
Acquisitions of property, equipment and leasehold improvements	(54,332)	(32,821)
Acquisitions of and capital expenditures for real estate investments	(15,993)	(3,034)
Proceeds from disposals of real estate, property and equipment, and other assets	18,646	3,881
Net change in restricted cash	86	4,722
Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold		
	3,054	(384)

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Cash acquired upon acquisition of Jefferies Group LLC	3,017,958	–
Advances on notes and other receivables	(1,907)	(1,928)
Collections on notes, loans and other receivables	11,470	11,269
Investments in associated companies	(423,059)	(1,258)
Capital distributions and loan repayment from associated companies	669,237	32,420
Purchases of investments (other than short-term)	(1,637,333)	(749,693)
Proceeds from maturities of investments	1,071,261	133,036
Proceeds from sales of investments	1,097,596	1,110,555
Other	670	1,650
Net cash provided by investing activities	3,757,354	508,415

(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the periods ended June 30, 2013 and 2012

(In thousands)

(Unaudited)

	2013	2012
Net cash flows from financing activities:		
Issuance of debt, net of issuance costs	\$458,947	\$35,632
Change in short-term borrowing	(100,000)	–
Reduction of debt	(748,357)	(577,337)
Cash and cash equivalents of Crimson Wine Group, Ltd., which was spun off	(21,042)	–
Distributions to redeemable noncontrolling interests	(6,682)	(6,289)
Distributions to noncontrolling interests	(312,450)	(2,431)
Purchase of common shares for treasury	(23,517)	–
Dividends paid	(45,191)	–
Other	5,465	(2,984)
Net cash used for financing activities	(792,827)	(553,409)
Effect of foreign exchange rate changes on cash		
	(4,358)	–
Net increase in cash and cash equivalents	3,407,685	18,175
Cash and cash equivalents at January 1, including cash classified as assets of discontinued operations	145,960	168,490
Cash and cash equivalents at June 30, including cash classified as assets of discontinued operations	\$3,553,645	\$186,665
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$238,765	\$62,271
Income tax payments, net	\$6,100	\$23,145
Non-cash investing activities:		
Common stock issued for acquisition of Jefferies Group LLC	\$3,376,939	\$–
Issuance of mandatorily redeemable convertible preferred shares for acquisition of Jefferies Group LLC	\$125,000	\$–
Non-cash financing activities:		
Net assets excluding cash and cash equivalents of Crimson Wine Group, Ltd., which was spun off	\$175,958	\$–

See notes to interim consolidated financial statements.

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LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the periods ended June 30, 2013 and 2012

(In thousands, except par value)

(Unaudited)

	Leucadia National Corporation Common Shareholders						
	Common Shares \$1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Subtotal	Noncontrolling Interest	Total
Balance, January 1, 2012	\$244,583	\$1,570,684	\$ 912,421	\$3,446,708	\$6,174,396	\$ 3,865	\$6,178,261
Net income				293,626	293,626	(95)	293,531
Other comprehensive loss, net of taxes			(370,700)		(370,700)		(370,700)
Contributions from noncontrolling interests						129	129
Distributions to noncontrolling interests						(2,431)	(2,431)
Change in interest in consolidated subsidiary		(1,388)			(1,388)	1,388	–
Change in fair value of redeemable noncontrolling interests		(10,990)			(10,990)		(10,990)
Share-based compensation expense		7,339			7,339		7,339
Balance, June 30, 2012	\$244,583	\$1,565,645	\$ 541,721	\$3,740,334	\$6,092,283	\$ 2,856	\$6,095,139
Balance, January 1, 2013	\$244,583	\$1,577,528	\$ 705,129	\$4,240,028	\$6,767,268	\$ 367	\$6,767,635
Net income				357,715	357,715	(1,351)	356,364
Other comprehensive loss, net of taxes			(264,179)		(264,179)		(264,179)
Acquisition of Jefferies Group LLC	119,363	3,257,576			3,376,939	356,180	3,733,119

Distribution of common shares of Crimson Wine Group, Ltd. to shareholders				(197,000)	(197,000)		(197,000)
Contributions from noncontrolling interests						3,091	3,091
Distributions to noncontrolling interests						(353,249)	(353,249)
Change in interest in consolidated subsidiary		(4,422)		(4,422)	4,422		–
Change in fair value of redeemable noncontrolling interests		22,434		22,434			22,434
Exercise of options to purchase common shares, including excess tax benefit	5	114		119			119
Purchase of common shares for treasury	(828)	(22,689)		(23,517)			(23,517)
Share-based compensation expense		32,443		32,443			32,443
Dividends (\$.125 per common share)				(46,499)	(46,499)		(46,499)
Other	1,255	1,051		2,306			2,306
Balance, June 30, 2013	\$364,378	\$4,864,035	\$ 440,950	\$4,354,244	\$10,023,607	\$ 9,460	\$10,033,067

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Notes to Interim Consolidated Financial Statements

Note 1. Introduction

The unaudited interim consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to fairly state results of interim operations, should be read in conjunction with the Notes to Consolidated Financial Statements (including the Summary of Significant Accounting Policies) included in our audited consolidated financial statements for the year ended December 31, 2012, which are included in our Annual Report filed on Form 10-K for such year (the "2012 10-K"). Results of operations for interim periods are not necessarily indicative of annual results of operations. The Consolidated Statement of Financial Condition at December 31, 2012 was extracted from the audited annual financial statements and does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements.

On March 1, 2013, Jefferies Group LLC ("Jefferies") became one of our wholly-owned subsidiaries. Jefferies is a full-service global investment banking firm. Jefferies shareholders received 0.81 of a share of our common shares for each share of Jefferies common stock they held (the "Exchange Ratio"). Prior to the closing, we owned 58,006,024 common shares of Jefferies representing approximately 28% of the outstanding common shares of Jefferies. Richard Handler, Chief Executive Officer and Chairman of Jefferies, was appointed the Chief Executive Officer and a Director of Leucadia and Brian Friedman, the Chairman of the Executive Committee of Jefferies, was appointed President and a Director of Leucadia. Following the acquisition, Jefferies continues to operate as a full-service global investment banking firm, retains a separate credit rating and remains an SEC reporting company, filing annual, quarterly and periodic reports.

Jefferies has historically reported its Statement of Financial Condition on an unclassified basis, while we have historically reported a classified Statement of Financial Condition, with assets and liabilities separated between current and non-current. However, after giving consideration to the nature of Jefferies business and its impact on our Consolidated Statement of Financial Condition, upon completion of the acquisition, we believe it is preferable to report our Consolidated Statement of Financial Condition on an unclassified basis, and have reclassified certain amounts to be consistent with the 2013 presentation. We have also reclassified certain amounts on our consolidated financial statements, resulting from the reduced significance of certain businesses, revised the presentation of associated companies accounted for at fair value from Income related to associated companies to Principal transactions (see Note 6), and have revised the classification of the remaining Income related to associated companies to show such amounts before income taxes (see Note 12). In addition, Jefferies has a fiscal year ended November 30th, which it will retain for standalone reporting purposes. Accordingly, 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 June 2013 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.

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

Note 2. Significant Accounting Policies

The preparation of these financial statements in accordance with 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.

Our significant accounting policies have not changed as a result of the Jefferies acquisition; however, many accounting policies that were not significant or relevant prior to the acquisition are now or will become significant accounting policies in the future. At the date of the Jefferies acquisition, all acquired assets and liabilities were recorded at fair value, in many cases employing the fair value methodologies described below. See Note 4 for more information.

Consolidation

Our policy is to consolidate all entities in which we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. We consider special allocations of cash flows and preferences, if any, to determine amounts allocable to noncontrolling interests. All intercompany transactions and balances are eliminated in consolidation.

In situations where we have significant influence, but not control, of an entity that does not qualify as a variable interest entity, we apply either the equity method of accounting or fair value accounting pursuant to the fair value option election under GAAP. We have also formed nonconsolidated investment vehicles with third-party investors that are typically organized as partnerships or limited liability companies and are carried at fair value. Our subsidiaries may act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or "kick-out" rights.

Revenue Recognition Policies

Beef Processing and Other Operations

Revenues are recognized when the following conditions are met: (1) collectibility is reasonably assured; (2) title to the product has passed or the service has been rendered and earned; (3) persuasive evidence of an arrangement exists; and (4) there is a fixed or determinable price. National Beef's revenues are recognized based on the terms of the sale, which for beef processing operations is typically upon delivery to customers. Manufacturing revenues are recognized when title passes. Revenue from the sale of real estate is generally recognized when title passes; however, if we are obligated to make improvements to the real estate subsequent to closing, a portion of revenues are deferred and recognized under the percentage of completion method of accounting.

Investment Banking Activities

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

Principal Transactions. Trading assets and Trading liabilities are carried at fair value with gains and losses reflected in Principal transactions in the Consolidated Statements of Operations on a trade date basis. Fees received on loans carried at fair value are also recorded within Principal transactions.

Investment Banking. Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is

otherwise concluded. Expenses are recorded net of client reimbursements and netted against revenues. Unreimbursed expenses with no related revenues are included in Selling, general and administrative expenses in the Consolidated Statements of Operations.

Interest Revenue and Expense. Interest expense that is deducted from Revenues to arrive at Net revenues is related to Jefferies operations. Contractual interest on Trading assets and Trading liabilities is recognized on an accrual basis as a component of Interest income and Interest expense. Interest flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts and recognized in Principal transactions in the Consolidated Statements of Operations rather than as a component of interest revenue or expense. Discounts/premiums arising on long-term debt are accreted/amortized to Interest expense using the effective yield method over the remaining lives of the underlying debt obligations.

Cash Equivalents

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

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

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies LLC as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In addition, certain financial instruments used for initial and variation margin purposes with clearing and depository organizations are recorded in this caption. Jefferies Bache, LLC, as a futures commission merchant, is obligated by rules mandated by the Commodities Futures Trading Commission under the Commodities Exchange Act, to segregate or set aside cash or qualified securities to satisfy such regulations, which regulations have been promulgated to protect customer assets. Certain other entities are also obligated by rules mandated by their primary regulators to segregate or set aside cash or equivalent securities to satisfy regulations, promulgated to protect customer assets.

Financial Instruments

Trading assets and trading liabilities are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. Trading assets and trading liabilities include Jefferies trading activities, financial instruments of other consolidated entities that are accounted for through the fair value option election and, prior to the Jefferies acquisition, trading assets include our investment in Jefferies common shares. Gains and losses on trading assets and trading liabilities are recognized in our Consolidated Statements of Operations in Principal transactions. Available for sales securities are reflected at fair value, with unrealized gains and losses reflected as a separate component of equity, net of taxes. When sold, realized gains and losses on available for sale securities are reflected in the caption Realized security gains. Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

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 Instruments that have little to no pricing observability as of the reported date. These financial instruments are
3: 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 an independent discipline within the Jefferies financial control function, 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 is comprised of senior Jefferies finance department 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. The 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 instruments fair values in the consolidated financial statements. This process specifically assists management in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form

10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Jefferies Audit Committee.

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

Third Party Pricing Information. Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types, quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. Jefferies has a process whereby it challenges the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) in order to validate the data for consistency with the definition of a fair value exit price. Jefferies process includes understanding and evaluating the external data providers' valuation methodologies. For corporate, U.S. government and agency, and municipal debt securities, and loans, to the extent independent pricing services or broker quotes are utilized in our valuation process, the vendor service providers are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing information received from the independent pricing service is not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, the independent pricing service uses a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default 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 includes benchmarking the model against relevant third party valuations, testing sample trades in the model, backtesting the results of the model against actual trades and stress-testing the sensitivity of the pricing model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated by Risk Management annually or more frequently if market conditions or use of the valuation model changes.

Investments in Managed Funds

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

Loans to and Investments in Associated Companies

Loans to and investments in associated companies include investments in private equity and other operating entities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such investments. Loans to and investments in associated companies are accounted for using the equity method. See Note 12, Loans to and Investments in Associated Companies, and Note 27, Related Party Transactions, for additional information regarding certain of these investments.

Under the equity method of accounting, our share of the investee's underlying net income or loss is recorded as Income (loss) from associated companies, or as part of Other revenues if such investees are considered to be an extension of

our business. Income (loss) for investees for which the fair value option was elected are reported as Principal transactions revenues.

Receivables from and Payables to Customers of Brokerage Operations

Receivables from and payables to customers of brokerage operations include amounts receivable and payable on cash and margin transactions. Securities owned by customers and held as collateral for these receivables are not reflected in the accompanying consolidated financial statements. Receivables from officers and directors included within this financial statement line item represent balances arising from their individual security transactions. These transactions are subject to the same regulations as customer transactions and are provided on substantially the same terms.

Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, Jefferies borrows securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. Jefferies has an active securities borrowed and lending matched book business in which it borrows securities from one party and lends them to another party. When Jefferies borrows securities, it generally provides cash to the lender as collateral, which is reflected in the Consolidated Statements of Financial Condition as Securities borrowed. Jefferies earns interest revenues on this cash collateral. Similarly, when Jefferies lends securities to another party, that party provides cash to Jefferies as collateral, which is reflected in the Consolidated Statements of Financial Condition as Securities loaned. Jefferies pays interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. Jefferies monitors the fair value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns excess collateral, as appropriate.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively "repos") are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amount plus accrued interest. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis-by counterparty, where permitted by GAAP. The fair value of the underlying securities is monitored daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate.

Intangible Assets, Net and Goodwill

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

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when certain events or circumstances exist indicating an assessment for impairment is necessary. Impairment exists when the carrying amount exceeds its fair value. Fair value will be determined using valuation techniques consistent with what a market participant would use. Our annual indefinite-lived intangible asset impairment testing date is August 1.

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

At least annually, and more frequently if warranted, we will assess whether goodwill has been impaired. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any. The fair values will be based on valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we will utilize in estimating fair value include market capitalization, price-to-book multiples of comparable exchange traded companies, multiples of merger and acquisitions of similar businesses and/or projected cash flows. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods. Our annual goodwill impairment testing date related to Jefferies is August 1.

Income Taxes

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

Our estimate of future taxable income considers all available evidence, both positive and negative, about our operating businesses and investments, includes an aggregation of individual projections for each significant operating business and investment, estimated apportionment factors for state and local taxing jurisdictions and included all future years that we estimate we will have available net operating loss carryforwards (“NOLs”) (until 2029). We believe that our estimate of future taxable income is reasonable but inherently uncertain, and if our current or future operations and investments generate taxable income different than the projected amounts, further adjustments to the valuation allowance are possible. In addition to the reversal of deferred tax liabilities related to unrealized gains, we will need to generate approximately \$4.6 billion of future U.S. pre-tax income to fully realize our net deferred tax asset. The current balance of the deferred tax valuation allowance principally reserves for NOLs of certain subsidiaries that are not available to offset income generated by other members of the consolidated tax return group.

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

Share-based Compensation

Share-based awards are measured based on the fair value of the award as determined in accordance with GAAP and recognized over the required service or vesting period. Expected forfeitures are included in determining share-based compensation expense.

Foreign Currency Translation

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

Earnings per Common Share

Basic earnings per share ("EPS") is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued. Net earnings available to common shareholders represent net earnings to common shareholders reduced by the allocation of earnings to participating securities. Losses are not allocated to participating securities. Common shares outstanding and certain other shares committed to be, but not yet issued, include restricted stock and restricted stock units ("RSUs") for which no future service is required. Diluted EPS is computed by dividing net earnings available to common shareholders plus dividends on dilutive mandatorily redeemable convertible preferred shares and interest on convertible notes by the weighted average number of common shares outstanding and certain other shares committed to be, but not yet issued, plus all dilutive common stock equivalents outstanding during the period.

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and, therefore, are included in the earnings allocation in computing earnings per share under the two-class method of earnings per share. Restricted stock and RSUs granted as part of share-based compensation contain nonforfeitable rights to dividends and dividend equivalents, respectively, and therefore, prior to the requisite service being rendered for the right to retain the award, restricted stock and RSUs meet the definition of a participating security. As such, we calculate basic and diluted earnings per share under the two-class method.

Securitization Activities

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

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

Contingencies

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

We recognize a liability for a contingency when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. The determination of the outcome and loss estimates requires significant judgment on the part of management, can be highly subjective and is subject to significant change with the passage of time as more information becomes available. Estimating the ultimate impact of litigation matters is inherently uncertain, in particular because the ultimate outcome will rest on events and decisions of others that may not be within our power to control. We do not believe that any of our current litigation will have a significant adverse effect on our consolidated financial position, results of operations or liquidity; however, if amounts paid at the resolution of litigation are in excess of recorded reserve amounts, the excess could be significant in relation to results of operations for that period.

Note 3. Accounting Developments

Accumulated Other Comprehensive Income. Effective January 2013, we adopted new Financial Accounting Standards Board ("FASB") Accounting Standards guidance with respect to the reporting of reclassifications out of accumulated other comprehensive income. The new guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. Adoption of this guidance had no impact on our consolidated financial statements but did require additional disclosures.

Balance Sheet Offsetting Disclosures. In January 2013, we adopted new FASB guidance that required new disclosures regarding balance sheet offsetting and related arrangements for derivatives, repurchase agreements and

reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement regardless of whether they are offset in the balance sheet. The amendments require disclosure of gross and net asset and liability information and are to be applied retrospectively. This guidance does not amend the existing guidance on when it is appropriate to offset; as a result, this guidance did not affect our consolidated financial statements but did require additional disclosures.

Indefinite-Lived Intangible Asset Impairment. In January 2013, we adopted new FASB guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The guidance did not revise the requirement to test indefinite-lived intangible assets annually for impairment, or more frequently if deemed appropriate. The adoption of this guidance had no impact on our consolidated financial statements.

Goodwill Testing. In January 2013, we adopted new FASB guidance that outlines amendments to the two step goodwill impairment test permitting an entity to first assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two step quantitative goodwill impairment test. The adoption of this guidance had no impact on our consolidated financial statements.

Note 4. Acquisitions

As discussed above, Jefferies became a wholly-owned subsidiary on March 1, 2013. Each share of Jefferies common stock was converted at the Exchange Ratio into our common shares, an aggregate of approximately 119,363,000 common shares, and we issued a new series of our 3.25% Cumulative Convertible Preferred Shares (\$125.0 million at mandatory redemption value) in exchange for Jefferies outstanding 3.25% Series A-1 Cumulative Convertible Preferred Stock. In addition, each restricted share of Jefferies common stock and each restricted stock unit of Jefferies common stock was converted at the Exchange Ratio into an award of restricted shares or restricted stock units of Leucadia, with all such awards subject to the same terms and conditions, including, without limitation, vesting and, in the case of performance-based restricted stock units, performance being measured at existing targets. We did not assume or guarantee any of Jefferies outstanding debt securities, but Jefferies 3.875% Convertible Senior Debentures due 2029 (\$345.0 million principal amount outstanding) are now convertible into our common shares. As specified in the indenture governing such debentures, the debentures are not currently convertible; if the debentures were currently convertible, the conversion price would be \$45.72 per common share.

The Jefferies acquisition was accounted for using the acquisition method of accounting. The aggregate purchase price (\$4,761.8 million) equaled the sum of the fair value of our common shares issued at closing, the fair value of employee stock based awards attributable to periods prior to closing, the fair value of the Jefferies common stock owned by us (\$1.3 billion) and the redemption value of the new series of preferred shares issued at closing, which represents its fair value. The fair values of the Jefferies common stock owned by us and the common shares and employee stock based awards issued were determined by using market prices at closing. Including our investment in Jefferies High Yield Holdings, LLC (“JHYH”), which was contributed to Jefferies capital after the acquisition, our aggregate investment in Jefferies is \$5,159.6 million at June 30, 2013.

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

Assets	
Cash and cash equivalents	\$3,017,958
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	3,728,742
Trading assets	16,413,535
Loans to and investments in associated companies	766,893
Securities borrowed	5,315,488
Securities purchased under agreements to resell	3,578,366
Intangible assets, net	283,432
Goodwill	1,701,616
Deferred tax asset, net	542,480
Other assets	4,394,156
Total	\$39,742,666
Liabilities	
Short-term borrowing	\$100,000
Trading liabilities	9,766,876
Securities loaned	1,902,687
Securities sold under agreements to repurchase	7,976,492
Payables to customers of brokerage operations	5,450,781
Trade payables, expense accruals and other liabilities	2,723,334

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Mandatorily redeemable preferred interest in JHYH held by Leucadia	358,951
Long-term debt	6,345,536
Total liabilities	34,624,657
Noncontrolling interests	356,180
Net assets acquired	\$4,761,829

We have not yet completed all of our analyses to finalize the allocation of the purchase price to Jefferies acquired assets and liabilities. On a preliminary basis, the fair value of Jefferies customer relationships and tradename were estimated using an income approach which calculates the present value of the estimated future net economic benefits of the assets over their estimated remaining life. Replacement cost was used to estimate the fair value of internally developed software and exchange and clearing organization memberships based on the premise that a prudent investor would not pay more for an asset than its replacement cost. The fair values of Trading assets and Trading liabilities were determined based upon the methodologies disclosed in Note 6 below. The fair value of Long-term debt was principally based on prices observed for recently executed market transactions or based on valuations received from third party brokers. The fair value of Noncontrolling interests, which principally represented third-party investors in JHYH, and the fair value of mandatorily redeemable preferred interests in JHYH held by us, was the estimated redemption value of those interests, which was based on their share of the underlying net assets in JHYH. JHYH net assets were valued using the methodologies disclosed in Note 6 below. The third-party interests in JHYH have been redeemed and our interest contributed to Jefferies capital. Approximately \$111.5 million of the goodwill recorded at acquisition is deductible for income tax purposes.

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

	Amount	Amortization Years
Customer relationships	\$136,002	9 to 18 years
Tradenames and related trademarks	131,299	35 years
Exchange and clearing organization membership interests and registrations	16,131	Indefinite
Subtotal, intangible assets	283,432	
Goodwill	1,701,616	
Total	\$1,985,048	

For the three month and six month periods ended June 30, 2013, we expensed costs related to the acquisition of Jefferies of \$9.8 million and \$15.6 million, respectively.

Unaudited pro forma operating results for the periods presented below assume the acquisition of Jefferies had occurred on January 1, 2012 (in thousands, except per share amounts):

	For the Three Month Periods Ended June 30,		For the Six Month Periods Ended June 30,	
	2013	2012	2013	2012
Net revenues	\$2,705,150	\$2,813,953	\$5,674,925	\$6,075,390
Net income attributable to Leucadia National Corporation				
common shareholders	\$56,624	\$78,868	\$253,592	\$375,957
Basic income per common share attributable to Leucadia				
National Corporation common shareholders	\$0.15	\$0.20	\$0.66	\$0.98
Diluted income per common share attributable to Leucadia				
National Corporation common shareholders	\$0.15	\$0.20	\$0.66	\$0.97

Pro forma adjustments principally reflect an increase to amortization expenses related to the fair value of amortizable intangible assets, a reduction to interest expense for the amortization of the premium recorded to reflect long-term debt at fair value and to reflect the costs related to the acquisition as if they had occurred in the period beginning January 1, 2012. In addition, the pro forma adjustments reflect the elimination from Net revenues amounts recognized from the application of the fair value option to our investment in Jefferies for periods prior to March 1, 2013, as more fully described in Note 6, net of related income taxes. For the six month period ended June 30, 2013, pro forma adjustments include the removal of the deferred tax adjustments described in Note 23. For the six month period ended June 30, 2012, pro forma adjustments include the write-off of the deferred tax asset related to our investment in Jefferies that was reflected in our Consolidated Statement of Financial Condition as of December 31, 2011 (\$64.8 million), and the write-off of a portion of our net deferred tax asset for state income taxes resulting from a change in our expected state filing positions (see Note 23). The unaudited pro forma data is not indicative of future results of operations or what would have resulted if the acquisition had actually occurred as of January 1, 2012.

Note 5. Cash and Cash Equivalents

Cash and cash equivalents include the following (in thousands):

	June 30, 2013	December 31, 2012
Cash in banks	\$844,904	\$143,517
Money market and other short-term investments	2,708,741	2,443
Total cash and cash equivalents	\$3,553,645	\$145,960

Note 6. 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 June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013				Total
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	
Assets:					
Trading assets, at fair value:					
Corporate equity securities	\$1,788,659	\$106,495	\$19,577	\$ –	\$1,914,731
Corporate debt securities	–	3,059,581	18,615	–	3,078,196
Collateralized debt obligations	–	197,965	45,124	–	243,089
U.S. government and federal agency securities	811,279	155,622	–	–	966,901
Municipal securities	–	621,440	–	–	621,440
Sovereign obligations	931,923	1,130,429	–	–	2,062,352
Residential mortgage-backed securities	–	3,440,947	143,766	–	3,584,713
Commercial mortgage-backed securities	–	673,855	16,068	–	689,923
Other asset-backed securities	–	43,512	1,444	–	44,956
Loans and other receivables	–	1,527,117	117,496	–	1,644,613
Derivatives	599,947	1,624,047	8,432	(2,039,660)	192,766
Investments at fair value	–	1,069	76,364	–	77,433
Physical commodities	–	149,175	–	–	149,175
Total trading assets	\$4,131,808	\$12,731,254	\$446,886	\$ (2,039,660)	\$15,270,288
Available for sale securities:					
Corporate equity securities	\$335,765	\$–	\$–	\$ –	\$335,765
Corporate debt securities	–	39,487	–	–	39,487
U.S. government and federal agency securities	1,453,219	–	–	–	1,453,219
Residential mortgage-backed securities	–	637,699	–	–	637,699

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Commercial mortgage-backed securities	–	76,435	–	–	76,435
Other asset-backed securities	–	121,399	–	–	121,399
Other	–	97	–	–	97
Total available for sale securities	\$1,788,984	\$875,117	\$–	\$–	\$2,664,101
Cash and cash equivalents	\$3,553,645	\$–	\$–	\$–	\$3,553,645
Investments in managed funds	\$–	\$–	\$55,141	\$–	\$55,141
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations (3)	\$3,056,141	\$–	\$–	\$–	\$3,056,141
Securities received as collateral	\$36,202	\$–	\$–	\$–	\$36,202
Liabilities:					
Trading liabilities:					
Corporate equity securities	\$1,608,517	\$37,162	\$38	\$–	\$1,645,717
Corporate debt securities	–	1,315,930	–	–	1,315,930
U.S. government and federal agency securities	762,107	–	–	–	762,107
Sovereign obligations	672,691	799,559	–	–	1,472,250
Residential mortgage-backed securities	–	179,270	–	–	179,270
Commercial mortgage-backed securities	–	2,957	–	–	2,957
Loans	–	1,003,727	15,212	–	1,018,939
Derivatives	624,205	1,771,907	19,231	(2,215,626)	199,717
Physical commodities	–	174,906	–	–	174,906
Total trading liabilities	\$3,667,520	\$5,285,418	\$34,481	\$ (2,215,626)	\$6,771,793
Other secured financings	\$–	\$30,000	\$2,294	\$–	\$32,294
Obligation to return securities received as collateral	\$36,202	\$–	\$–	\$–	\$36,202

	December 31, 2012				
	Level 1 (1)	Level 2 (1)	Level 3	Counterparty and Cash Collateral Netting (2)	Total
Assets:					
Trading assets, at fair value:					
Investment in Jefferies common shares	\$1,077,172	\$-	\$-	\$-	\$1,077,172
Available for sale securities:					
Corporate equity securities	\$934,823	\$-	\$-	\$-	\$934,823
Corporate debt securities	-	16,648	-	-	16,648
U.S. government and federal agency securities	1,657,022	6,490	-	-	1,663,512
Residential mortgage-backed securities	-	601,456	-	-	601,456
Commercial mortgage-backed securities	-	59,113	-	-	59,113
Other asset-backed securities	-	80,556	-	-	80,556
Other	-	884	-	-	884
Total available for sale securities	\$2,591,845	\$765,147	\$-	\$-	\$3,356,992
Cash and cash equivalents	\$145,960	\$-	\$-	\$-	\$145,960

(1) There were no transfers between Level 1 and Level 2 during 2013 or 2012.

(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 \$284.3 million.

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

Corporate Equity Securities

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

Corporate Debt Securities

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

Collateralized Debt Obligations

Collateralized debt obligations are measured based on prices observed for recently executed market transactions or based on valuations received from third party brokers and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs.

U.S. Government and Federal Agency Securities

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

Municipal Securities

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

Sovereign Obligations

Foreign sovereign government obligations are measured based on quoted market prices obtained from external pricing services, where available, or recently executed independent transactions of comparable size. To the extent external price quotations are not available or recent transactions have not been observed, valuation techniques incorporating interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value of sovereign bonds or obligations. Foreign sovereign government obligations are classified in Level 1, 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, interest-only and principal-only securities and to-be-announced securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.
- Agency Residential Inverse Interest-Only Securities ("Agency Inverse IOs"): The fair value of agency inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency inverse IOs are categorized within Level 2 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: GNMA project loan bonds and FNMA Delegated Underwriting and Servicing ("DUS") mortgage-backed securities are generally measured by using prices observed for recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.
- Non-Agency Commercial Mortgage-Backed Securities: Non-agency commercial mortgage-backed securities are measured using pricing data obtained from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

Other Asset-Backed Securities

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

Loans and Other Receivables

- **Corporate Loans:** Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.
- **Participation Certificates in GNMA Project and Construction Loans:** Valuations of participation certificates in GNMA project and construction loans are based on observed market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.
- **Project Loans:** Valuation of project loans are based on benchmarks of prices for recently executed transactions of related realized collateralized securities and are categorized within Level 2 of the fair value hierarchy.
- **Escrow and Trade Claim Receivables:** Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

Derivatives

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

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

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

Physical Commodities

Physical commodities include base and precious metals and are measured using observable inputs including spot prices and published indices. Physical commodities are categorized within Level 2 of the fair value hierarchy. To facilitate the trading in precious metals we undertake leasing of such precious metals. The fees earned or paid for such leases are recorded as revenues on 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 commodity funds, which are measured at fair value based on the net asset value of the funds provided by the fund managers and are categorized within Level 2 or Level 3 of the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured at fair value using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany and shares in non-U.S. exchanges and clearing houses. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy. Fair value for the shares in non-U.S. exchanges and clearing houses is determined based on recent transactions or third party model valuations and is categorized within Level 2 or Level 3 of the fair value hierarchy. The following tables present information about our investments in entities that have the characteristics of an investment company (in thousands). Amounts were not significant in 2012.

	June 30, 2013		
	Fair Value (7)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (1)	\$20,074	\$ –	Monthly/Quarterly
High Yield Hedge Funds (2)	315	–	–
Fund of Funds (3)	433	106	–
Equity Funds (4)	65,851	49,019	–
Convertible Bond Funds (5)	3,038	–	At Will
Other Investments (6)	17	–	Bi-Monthly
Total (8)	\$89,728	\$ 49,125	

(1) This category includes investments in hedge funds that invest, long and short, in equity securities in domestic and international markets in both the public and private sectors. Investments representing approximately 98% of the fair value of investments in this category are redeemable with 30 to 65 days prior written notice. The remaining investments in this category cannot be redeemed as they are in liquidation and distributions will be received through the liquidation of the underlying assets of the funds. The Company is unable to estimate when the underlying assets will be liquidated.

(2)

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

- (3) Includes investments in fund of funds that invest in various private equity funds. Approximately 94% of the fair value of investments in this category is managed by us and has no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to be liquidated in one to two years. We have requested redemption for investments representing approximately 6% of the fair value of investments in this category; however, we are unable to estimate when these funds will be received.
- (4) Investments representing approximately 99% 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. Investments representing approximately 1% of the fair value of investments in equity funds are in liquidation and we are unable to estimate when the underlying assets will be fully liquidated. This category includes investments in equity funds managed by us with a fair value of \$53.2 million and unfunded commitments of \$47.5 million.
- (5) Investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The investment is redeemable with 5 days prior written notice.
- (6) Other investments include investments in funds that invest in commodity futures and options contracts.
- (7) Fair value has been estimated using the net asset value derived from each of the funds' capital statements.
- (8) Investments at fair value in the Consolidated Statements of Financial Condition include \$42.8 million 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 includes the notes issued by VIEs related to transfers of financial assets and accounted for as financings, which are classified as Level 2 within the fair value hierarchy. Fair value is based on recent transaction prices. Other secured financings also includes mortgage-backed securities issued by a VIE for which we are deemed the primary beneficiary, categorized within Level 3 of the fair value hierarchy and measured using a discounted cash flow model with discount yield being a significant input.

Pricing Information

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

	June 30, 2013			
	Trading Assets	%	Trading Liabilities	%
Exchange closing prices	12	%	24	%
Recently observed transaction prices	9	%	15	%
External pricing services	66	%	56	%
Broker quotes	2	%	1	%
Valuation techniques	11	%	4	%
	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 June 30, 2013 (in thousands):

Three Months Ended June 30, 2013 (3)

	Beginning Balance	Total gains (losses) (realized and unrealized) (1)	Purchases	Sales	Settlements	Net transfers into (out of) Level 3	Ending Balance	Changes in unrealized gains (losses) relating to instruments still held at
								June 30, 2013 (1)

Assets:

Trading assets:

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Corporate equity securities	\$ 13,234	\$ 2,906	\$ 5,023	\$(2,984)	\$ –	\$ 1,398	\$ 19,577	\$ 2,058
Corporate debt securities	31,820	(2,867)	918	(11,989)	–	733	18,615	(2,242)
Collateralized debt obligations	29,776	6,698	17,864	(6,270)	–	(2,944)	45,124	6,148
Residential mortgage-backed securities	169,426	(86)	57,750	(71,534)	(5,436)	(6,354)	143,766	(367)
Commercial mortgage-backed securities	17,794	(2,905)	1,403	(2,744)	(1,578)	4,098	16,068	(3,835)
Other asset-backed securities	1,252	(4)	–	–	–	196	1,444	(4)
Loans and other receivables	170,986	(5,049)	160,409	(24,741)	(188,268)	4,159	117,496	(6,925)
Investments, at fair value	70,067	(1,197)	5,000	–	(2,493)	4,987	76,364	(1,349)
Investments in managed funds	59,976	(927)	2,532	–	(6,562)	122	55,141	(926)
Liabilities:								
Trading liabilities:								
Corporate equity securities	\$ 38	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 38	\$ –
Residential mortgage-backed securities	1,542	–	(1,542)	–	–	–	–	–
Net derivatives (2)	11,185	(386)	–	–	–	–	10,799	386
Loans	7,398	–	(7,398)	15,212	–	–	15,212	–
Other secured financings	–	–	–	–	–	2,294	2,294	–

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

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

(3) There were no issuances during the three months ended June 30, 2013.

Analysis of Level 3 Assets and Liabilities for the Three Months Ended June 30, 2013

During the three months ended June 30, 2013, transfers of assets of \$54.9 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

- Non-agency residential mortgage-backed securities of \$29.7 million and commercial mortgage-backed securities of \$5.6 million for which no recent trade activity was observed for purposes of determining observable inputs;
 - Loans and other receivables of \$6.9 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;
- Corporate equity securities of \$2.7 million and corporate debt securities of \$2.0 million due to lack of observable market transactions;
 - Collateralized debt obligations of \$2.8 million which have little to no transparency in trade activity.

During the three months ended June 30, 2013, transfers of assets of \$48.5 million from Level 3 to Level 2 are attributed to:

- Non-agency residential mortgage-backed securities of \$36.0 million and commercial mortgage-backed securities of \$1.5 million for which market trades were observed in the period for either identical or similar securities;
- Collateralized debt obligations of \$5.7 million and loans and other receivables of \$2.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;
- Corporate equity securities of \$1.3 million and corporate debt securities of \$1.2 million due to an increase in observable market transactions.

During the three months ended June 30, 2013, there were \$2.3 million of transfers of liabilities from Level 2 to Level 3 and no transfers of liabilities from Level 3 to Level 2.

Net losses on Level 3 assets were \$3.4 million and net gains on Level 3 liabilities were \$0.4 million for the three months ended June 30, 2013. Net losses on Level 3 assets were primarily due to decreased valuations of certain loans and other receivables, commercial mortgage-backed securities, corporate debt securities, investments at fair value, investments in managed funds and residential mortgage-backed securities, partially offset by an increase in valuation of certain collateralized debt obligations and corporate equity securities. Net gains on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

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

Prior to the acquisition of Jefferies, we did not use any Level 3 inputs to measure the fair value of financial instruments and trading liabilities. The tables below present information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument; i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class. Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of our financial instruments; rather the range of inputs is reflective of the differences in the underlying characteristics of the financial instruments in each category.

For certain categories, we have provided a weighted average of the inputs allocated based on the fair values of the financial instruments comprising the category. We do not believe that the range or weighted average of the inputs is indicative of the reasonableness of uncertainty of our Level 3 fair values. The range and weighted average are driven

by the individual financial instruments within each category and their relative distribution in the population. The disclosed inputs when compared with the inputs as disclosed in other quarters should not be expected to necessarily be indicative of changes in our estimates of unobservable inputs for a particular financial instrument as the population of financial instruments comprising the category will vary from period to period based on purchases and sales of financial instruments during the period as well as transfers into and out of Level 3 each period.

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Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range	Weighted Average
Corporate equity securities	\$ 19,577				
Non-exchange traded securities		Market approach	EBITDA (a) multiple	4.0 to 16.0	7.7
		Scenario analysis	Estimated recovery percentage	25 %	–
Warrants		Option model	Volatility	35 %	–
Corporate debt securities	\$ 18,615				
		Scenario analysis	Estimated recovery percentage	25 %	–
		Comparable pricing	Comparable bond or loan price	\$ 62.50 to \$ 69.60	\$ 66.95
		Market approach	Yield	14 %	–
Collateralized debt obligations	\$ 41,499				
		Discounted cash flows	Constant prepayment rate	0% to 5%	0.2 %
			Constant default rate	0% to 10%	1 %
			Loss severity	13% to 100%	35 %
			Yield	10% to 59%	27 %
Residential mortgage-backed securities	\$ 143,766				
		Discounted cash flows	Constant prepayment rate	0% to 33%	7 %
			Constant default rate	1% to 50%	7 %
			Loss severity	25% to 75%	49 %
			Yield	0% to 54%	8 %
Commercial mortgage-backed securities	\$ 16,068				
		Discounted cash flows	Loss severity	65 %	–
			Yield	22% to 98%	41 %
			Cumulative loss rate	2% to 21%	11 %
Other asset-backed securities	\$ 1,444	Discounted cash flows	Loss severity	30 %	–
			Yield	7 %	–

Loans and other
receivables

\$ 82,865

	Comparable pricing	Comparable bond or loan price	100.00 to \$ \$101.25	\$ 100.29
	Discounted cash flows	Yield	20 %	–
		Cumulative loss rate	0 %	–
	Market approach	Yield	10% to 12%	11 %
		EBITDA (a) multiple	6.5	–
	Scenario analysis	Estimated recovery percentage	11% to 50%	35 %

Derivatives

\$ 8,432

Loan commitments	Comparable pricing	Comparable bond or loan price	100.00 to \$ \$101.25	\$ 100.61
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Investments at fair value

\$ 14,510

Private equity securities	Comparable pricing	Comparable share price	\$ 400.00	–
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Trading Liabilities	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input/Range	Weighted Average
Derivatives	\$ (19,231)				
Equity options		Option model	Volatility	37 %	–
Loan commitments		Comparable pricing	Comparable bond or loan price	97.50 to \$ \$101.25	\$ 100.20
Loans	\$ (15,212)				
		Comparable pricing	Comparable bond or loan price	100.00 to \$ \$101.25	\$ 100.42

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

The fair values of certain Level 3 assets that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above table. The exclusions consisted of \$110.1 million, primarily comprised of investments in private equity and hedge funds, investments in reinsurance contracts, certain collateralized debt obligations and corporate loans.

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

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

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

Fair Value Option Election

We have elected the fair value option for all loans and loan commitments made by Jefferies capital markets businesses. These loans and loan commitments include loans entered into by Jefferies investment banking division in connection with client bridge financing and loan syndications, loans purchased by Jefferies leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage-backed securitization activities. Loans and loan commitments originated or purchased by Jefferies leveraged credit and mortgage-backed businesses are managed on a fair value basis. Loans are included in Trading assets and loan commitments are included in Trading assets - Derivatives and Trading liabilities – Derivatives. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included within Loans to and investments in associated companies and are accounted for on an amortized cost basis. We have also elected the fair value option for certain financial instruments held by Jefferies subsidiaries as the investments are risk managed on a fair value basis. The fair value option has also been elected for secured financings that arise in connection with Jefferies securitization activities and other structured financings.

The following is a summary of gains (losses) due to changes in instrument specific credit risk in loans and other receivables and loan commitments measured at fair value under the fair value option for the three and six month periods ended June 30, 2013 (in thousands):

Financial Instruments Owned:

Loans and other receivables	\$13,474
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Financial Instruments Sold:

Loans	\$-
Loan commitments	\$(5,421)

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):

Financial Instruments Owned:

Loans and other receivables	\$279,278
Loans greater than 90 days past due (1) (2)	\$-

(1) There were no loans that were 90 or more days past due.

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

There were no loans or other receivables on nonaccrual status at June 30, 2013.

We have elected the fair value option for Jefferies investment in Knight Capital Group, Inc. ("Knight Capital"), acquired by Jefferies during 2012. As of June 30, 2013, Jefferies owns approximately 22% of the outstanding common stock of Knight Capital. We also elected the fair value option for our investment in Mueller Industries, Inc. ("Mueller"), which was sold in September 2012, and, prior to the completion of the Jefferies acquisition, we elected the fair value option for our investment in Jefferies, which is included in Trading assets. We elected the fair value option for our investments in Jefferies and Mueller commencing on the date the investments became subject to the equity method of accounting. We believe accounting for these investments at fair value better reflected the economics of these investments, and quoted market prices for these investments provided an objectively determined fair value at each balance sheet date. Our investment in HomeFed Corporation ("HomeFed") is the only other investment accounted for under the equity method of accounting that is also a publicly traded company for which we did not elect the fair value option. HomeFed's common stock is not listed on any stock exchange, and price information for the common stock is not regularly quoted on any automated quotation system. It is traded in the over-the-counter market with high and low bid prices published by the National Association of Securities Dealers OTC Bulletin Board Service; however, trading volume is minimal. For these reasons we did not elect the fair value option for HomeFed.

On July 1, 2013, Knight Capital completed its previously announced merger with GETCO Holding Company, LLC (the merged company referred to as "KCG Holdings, Inc."). In connection with the consummation of the merger, Jefferies received cash consideration of \$3.75 per share, or approximately \$192 million, with respect to approximately 63% of its holdings in Knight Capital and stock consideration of one third of a share of KCG Holdings, Inc. common stock for each share of Knight Capital common stock for the remainder of its holdings. As of July 2, 2013, Jefferies owns approximately 8.5% of KCG Holdings, Inc.

Changes in the fair value of our investments in Knight Capital, Jefferies and Mueller are reflected as Principal transactions in the Consolidated Statements of Operations as follows (in thousands):

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2013	2012	2013	2012
Knight Capital	\$(5,688)	\$-	\$(5,688)	\$-
Mueller	-	(28,767)	-	45,548
Jefferies	-	(334,985)	182,719	(35,384)
Total	\$(5,688)	\$(363,752)	\$177,031	\$10,164

Note 7. 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 material effect upon our consolidated financial statements.

Derivative Financial Instruments

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Trading assets – Derivatives and Trading liabilities – Derivatives, net of cash paid or received under credit support agreements and on a net counterparty basis when a legal right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in 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 their own exposure to market and credit risks resulting from trading activities. (See Note 6, Fair Value Disclosures and Note 24, Commitments, Contingencies and Guarantees for additional disclosures about derivative 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, they may enter into master netting agreements and collateral arrangements 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.

The following table presents the fair value and related number of derivative contracts categorized by type of derivative contract as reflected in the Consolidated Statement of Financial Condition at June 30, 2013. Amounts were not significant at December 31, 2012. 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):

	June 30, 2013			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts	\$808,242	33,820	\$895,260	54,324
Foreign exchange contracts	635,106	127,740	695,458	113,516
Equity contracts	598,779	1,738,780	623,633	2,873,446
Commodity contracts	143,570	679,472	143,134	681,988
Credit contracts: centrally cleared swaps	35,902	62	39,145	52
Credit contracts: other credit derivatives	10,827	29	18,713	37
Total	2,232,426		2,415,343	
Counterparty/cash-collateral netting	(2,039,660)		(2,215,626)	
Total per Consolidated Statement of Financial Condition	\$192,766		\$199,717	

The following table presents unrealized and realized gains (losses) on derivative contracts for the three months ended June 30, 2013; amounts for other periods were not material (in thousands):

Interest rate contracts	\$29,381
Foreign exchange contracts	4,135
Equity contracts	33,892
Commodity contracts	21,513
Credit contracts	(11,010)
Total	\$77,911

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 June 30, 2013 (in thousands):

	OTC Derivative Assets (1) (2) (4)				Total
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross-Maturity	

Netting (3)

Commodity swaps, options and forwards	\$44,146	\$434	\$ –	\$(4)	\$44,576
Credit default swaps	–	1,507	61	–	1,568
Equity swaps and options	7,596	–	–	–	7,596
Total return swaps	1,139	1	–	(1)	1,139
Foreign currency forwards, swaps and options	100,329	36,743	–	(12,324)	124,748
Fixed income forwards	–	–	316	–	316
Interest rate swaps and options	16,352	48,174	162,419	(64,138)	162,807
Total	\$169,562	\$86,859	\$ 162,796	\$(76,467)	342,750
Cross product counterparty netting					(1,809)
Total OTC derivative assets included in					
Trading assets					\$340,941

- (1) At June 30, 2013, we held exchange traded derivative assets and other credit agreements with a fair value of \$16.8 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 June 30, 2013 cash collateral received was \$164.9 million.
- (3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.

	OTC Derivative Liabilities (1) (2) (4)				Total
	0-12 Months	1-5 Years	Greater Than 5 Years	Cross-Maturity Netting (3)	
Commodity swaps, options and forwards	\$35,272	\$125	\$ –	\$ (4)	\$35,393
Credit default swaps	125	9,755	–	–	9,880
Equity swaps and options	7,883	–	–	–	7,883
Total return swaps	6,221	–	250	(1)	6,470
Foreign currency forwards, swaps and options	161,209	35,782	–	(12,324)	184,667
Fixed income forwards	431	–	–	–	431
Interest rate swaps and options	10,888	123,027	182,940	(64,138)	252,717
Total	\$222,029	\$168,689	\$ 183,190	\$ (76,467)	497,441
Cross product counterparty netting					(1,809)
Total OTC derivative liabilities included in Trading liabilities					\$495,632

- (1) At June 30, 2013, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$45.0 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 June 30, 2013, cash collateral pledged was \$340.9 million.
- (3) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.
- (4) Derivative fair values include counterparty netting within product category.

At June 30, 2013, 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	\$232,256
BBB- to BBB+	34,697
BB+ or lower	54,576
Unrated	19,412
Total	\$340,941

- (1) We utilize the credit ratings of external rating agencies when available. When external credit ratings are not available, 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 June 30, 2013 is \$126.1 million, for which Jefferies has posted collateral of \$106.9 million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered, Jefferies would have been required to post an additional \$20.1 million of collateral to its counterparties.

Note 8. 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 manages exposure to credit risk associated with these transactions by entering into master netting agreements. Jefferies also monitors the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and request additional collateral or return excess collateral, as appropriate. 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 June 30, 2013, the approximate fair value of securities received as collateral by Jefferies that may be sold or repledged was \$20.1 billion.

At June 30, 2013, a substantial portion of the securities received by Jefferies had 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 June 30, 2013, \$36.2 million was reported as Securities received as collateral and as Obligation to return securities received as collateral.

Note 9. 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. See Note 11, Variable Interest Entities 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. Revenues subsequent to such identification and isolation, including revenues recognized from the sales of the beneficial interests to investors, are reflected as net underwriting revenues. If Jefferies has not relinquished control over the transferred assets, the assets continue to be recognized in Trading assets and a corresponding secured borrowing is recognized in Other secured financings.

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), which are included within Trading assets. We apply fair value accounting to the securities.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement during the three month period ended June 30, 2013; there was no activity for other periods (in millions):

Transferred assets	\$2,184.0
Proceeds on new securitizations	2,190.9
Net revenues	4.8
Cash flows received on retained interests	\$11.1

Assets received as proceeds in the form of mortgage-backed-securities or collateralized loan obligations issued by the SPEs have been initially categorized as Level 2 within the fair value hierarchy. For further information on fair value measurements and the fair value hierarchy, refer to Note 2, Significant Accounting Policies and Note 6, Fair Value Disclosures. Jefferies has no explicit or implicit arrangements to provide additional financial support to these SPEs and has no liabilities related to these SPEs at June 30, 2013. 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 the securities purchased through these market-marking activities meet specific thresholds 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 table presented in Note 11, Variable Interest Entities.

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

Securitization Type	June 30, 2013	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$6,770.6	\$406.1
U.S. government agency commercial mortgage-backed securities	3,297.2	62.3
Collateralized loan obligations	1,191.5	29.5

Jefferies does not have any derivative contracts executed in connection with these activities. Total assets represent the unpaid principal amount of assets in the vehicles 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 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.

Note 10. Financial Instruments - Available for sale securities

The amortized cost, gross unrealized gains and losses and estimated fair value of investments classified as available for sale at June 30, 2013 and December 31, 2012 are as follows (in thousands):

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2013				
Bonds and notes:				
U.S. Government and federal agency securities	\$1,453,073	\$147	\$1	\$1,453,219
Residential mortgage-backed securities	626,050	13,890	2,241	637,699
Commercial mortgage-backed securities	76,064	824	453	76,435
Other asset-backed securities	122,922	16	1,539	121,399
All other corporates	39,578	85	176	39,487
Total fixed maturities	2,317,687	14,962	4,410	2,328,239
Equity securities:				
Common stocks:				
First Quantum Minerals Ltd. ("First Quantum")	295,259	–	61,109	234,150
Banks, trusts and insurance companies	30,317	26,633	–	56,950
Industrial, miscellaneous and all other	17,847	26,818	–	44,665
Total equity securities	343,423	53,451	61,109	335,765
Other investments	97	–	–	97
	\$2,661,207	\$68,413	\$65,519	\$2,664,101
2012				
Bonds and notes:				
U.S. Government and federal agency securities	\$1,663,225	\$327	\$40	\$1,663,512
Residential mortgage-backed securities	585,772	16,506	822	601,456
Commercial mortgage-backed securities	58,683	583	153	59,113
Other asset-backed securities	80,866	78	388	80,556
All other corporates	16,377	275	4	16,648
Total fixed maturities	2,404,923	17,769	1,407	2,421,285
Equity securities:				
Common stocks:				
Inmet Mining Corporation ("Inmet")	504,006	319,751	–	823,757
Banks, trusts and insurance companies	32,811	33,129	331	65,609
Industrial, miscellaneous and all other	23,195	22,562	300	45,457
Total equity securities	560,012	375,442	631	934,823
Other investments	1,054	–	170	884
	\$2,965,989	\$393,211	\$2,208	\$3,356,992

The amortized cost and estimated fair value of investments classified as available for sale at June 30, 2013, by contractual maturity, are shown below. Expected maturities are likely to differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Amortized
Cost

Estimated
Fair Value

(In thousands)

Due within one year	\$1,471,373	\$1,471,534
Due after one year through five years	21,278	21,172
Due after five years through ten years	–	–
Due after ten years	–	–
	1,492,651	1,492,706
Mortgage-backed and asset-backed securities	825,036	835,533
	\$2,317,687	\$2,328,239

At June 30, 2013, the unrealized losses on investments which have been in a continuous unrealized loss position for 12 months or longer were not significant. At June 30, 2013, the unrealized losses on investments which have been in a continuous unrealized loss position for less than 12 months primarily related to the First Quantum common shares (which had an unrealized loss of \$61.1 million), which we did not consider to be an other than temporary impairment. This determination was based on a number of factors including the length of time that the fair value was less than cost and the financial condition of the issuer.

At December 31, 2012, we owned 11,042,413 common shares of Inmet, which represented approximately 15.9% of Inmet's outstanding shares. Pursuant to a tender and exchange offer by First Quantum, we exchanged our Inmet shares for 18,202,313 shares of First Quantum, valued at \$340.4 million on the date received, and \$391.2 million in cash. We recorded a gain on the transaction of \$227.6 million during the first quarter of 2013. First Quantum is a Canadian-based global mining company traded on the Toronto Stock Exchange (Symbol: FM). During the second quarter of 2013, we sold 2,413,713 First Quantum shares for aggregate net cash proceeds of \$44.9 million.

Note 11. Variable Interest Entities

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

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

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

-

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

- Retained interests held as a result of securitization activities as part of primary market making activities, including the resecuritizations of mortgage-backed securities,
 - Management and performance fees in the Jefferies Umbrella Fund, and
 - Loans to and investments in investment fund vehicles.

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 June 30, 2013. There were no consolidated VIEs at December 31, 2012.

(In millions)	Securitization Vehicles	Other
Cash	\$ –	\$0.2
Financial instruments owned	107.4	0.5
Securities purchased under agreement to resell (2)	195.1	–
	\$ 302.5	\$0.7
Other secured financings (1)	\$ 302.5	\$–
Other	–	0.2
	\$ 302.5	\$0.2

(1) Approximately \$75.1 million of the secured financing represents an amount held by Jefferies in inventory and eliminated in consolidation at June 30, 2013.

(2) Securities purchased under agreement to resell represent an amount due from a related consolidated entity in a collateralized transaction, which is eliminated in consolidation.

Securitization vehicles. Jefferies is the primary beneficiary of securitization vehicles to which it transferred loans and retains servicing rights over the loans as well as retains a portion of the securities issued by the securitization vehicle. Jefferies variable interests in these vehicles consist of the securities and a contractual servicing fee. The assets of these VIEs consist of project and corporate loans, which are available for the benefit of the vehicles' beneficial interest holders. The creditors of these VIEs do not have recourse to our general credit.

Jefferies is also the primary beneficiary of mortgage-backed financing vehicles to which we sell agency and non-agency residential and commercial mortgage-backed securities pursuant to the terms of a master repurchase agreement. 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 our general credit.

At June 30, 2013 a transfer by Jefferies to a VIE did not meet the criteria of a sale and we continue to recognize the assets in Trading assets, and the associated liabilities in Other secured financings in the Consolidated Statement of Financial Condition.

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

Nonconsolidated VIEs

Jefferies also holds variable interests in VIEs in which it is not the primary beneficiary and does not have the power to direct the activities that most significantly impact their economic performance and, accordingly, do not consolidate. Jefferies has no explicit or implicit arrangements to provide additional financial support to these VIEs and has no liabilities related to these VIEs at June 30, 2013.

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

(In millions)	June 30, 2013			
	Variable Interests			
	Financial Statement Carrying Amount		Maximum Exposure to loss	VIE Assets
Collateralized loan obligations	\$33.7	(2)	\$ 33.7	(4) \$1,799.7
Agency mortgage- and asset-backed securitizations (1)	1,204.1	(2)	1,204.1	(4) 3,735.8
Non-agency mortgage- and asset-backed securitizations (1)	1,027.9	(2)	1,027.9	(4) 57,136.6
Asset management vehicle	3.0	(3)	3.0	(4) 399.6
Private equity vehicles	48.3	(3)	99.2	80.3
Total	\$2,317.0		\$ 2,367.9	\$63,152.0

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

Collateralized Loan Obligations. Jefferies had acted as transferor and underwriter in several collateralized loan obligation ("CLOs") transactions in the past and retained securities representing variable interests in the CLOs. Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. In addition, Jefferies owns variable interests in CLOs previously managed by Jefferies. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured loans and high yield bonds. Jefferies exposure to loss from these entities is limited to its investments in the debt securities held. Regarding the CLOs previously managed by Jefferies, its variable interests consist of debt securities (with a fair value of \$4.2 million at June 30, 2013) and a right to a portion of the CLOs' management and incentive fees. Management and incentives fees are accrued as the amounts become realizable.

Mortgage- and Asset-Backed Vehicles. In connection with Jefferies trading and market making activities, Jefferies buys and sells mortgage- and asset-backed securities. Mortgage- and asset-backed securities issued by securitization entities are generally considered variable interests in VIEs. A substantial portion of Jefferies variable interests in mortgage- and asset-backed VIEs are sponsored by unrelated third parties. The variable interests consist entirely of mortgage- and asset-backed securities and are accounted for at fair value and included in Trading assets on our Consolidated Statements of Financial Condition. In addition to the agency mortgage- and asset-backed securities, non-agency mortgage- and asset-backed securities and collateralized loan obligations at June 30, 2013 presented in the above table, Jefferies owned additional securities issued by securitization SPEs for which the maximum exposure to loss is less than specific thresholds. These additional securities were acquired in connection with Jefferies secondary market making activities and securitization activities. Total securities issued by securitization SPEs reflected in the Consolidated Statement of Financial Condition at June 30, 2013 consist of the following (in millions):

	Nonagency	Agency	Total
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Variable interests in collateralized loan obligations	\$33.7	\$–	\$33.7
Variable interests in agency mortgage- and asset-backed securitizations	–	1,204.1	1,204.1
Variable interests in nonagency mortgage- and asset-backed securitizations	1,027.9	–	1,027.9
Additional securities in connection with trading and market making activities:			
Residential mortgage-backed securities	24.9	1,810.9	1,835.8
Commercial mortgage-backed securities	59.3	370.5	429.8
Collateralized debt obligations	20.3	–	20.3
Other asset-backed securities	11.1	–	11.1
Total mortgage- and asset-backed securities in the Consolidated Statement of Financial Condition	\$1,177.2	\$3,385.5	\$4,562.7

We also purchase mortgage- and asset-backed securities in the secondary market in connection with investing Leucadia's excess liquidity, which are classified as Available for sale securities in the Consolidated Statements of Financial Condition. These securities are generally issued by securitizations vehicles that may be VIEs, all are sponsored by unrelated third-parties (a substantial majority by government-sponsored enterprises) and our maximum exposure to loss is equal to the carrying amount of the securities. Information on the assets of these vehicles is not available to us, and we do not believe such information is meaningful.

Asset Management Vehicle. Jefferies manages the Jefferies Umbrella Fund, an "umbrella structure" company that enables investors to choose between one or more investment objectives by investing in one or more sub-funds within the same structure. The assets of the Jefferies Umbrella Fund primarily consist of convertible bonds. Accounting changes to consolidation standards under 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.

Private Equity Vehicles. On July 26, 2010, Jefferies committed to invest equity of up to \$75.0 million in Jefferies SBI USA Fund L.P. (the "SBI USA Fund"). As of June 30, 2013, Jefferies funded approximately \$35.5 million of its commitment. The carrying amount of Jefferies equity investment was \$25.2 million at June 30, 2013. Jefferies exposure to loss is limited to its equity commitment. The SBI USA Fund has assets consisting primarily of private equity and equity related investments.

Jefferies has variable interests in Jefferies Employees Partners IV, LLC ("JEP IV") consisting of an equity investment and a loan commitment up to an aggregate principal amount of \$33.0 million. The carrying amount of Jefferies equity investment was \$1.5 million at June 30, 2013. The fair value of the aggregate principal balance is \$21.6 million, which is included in Loans to and investments in associated companies at June 30, 2013. As of June 30, 2013, Jefferies exposure to loss is limited to its equity investment and the aggregate amount of its loan commitment. JEP IV has assets consisting primarily of private equity and equity related investments.

Note 12. Loans to and Investments in Associated Companies

A summary of loans to and investments in associated companies at June 30, 2013 and December 31, 2012 accounted for under the equity method of accounting is as follows (in thousands):

	June 30, 2013	December 31, 2012
Jefferies Finance, LLC ("Jefferies Finance")	\$300,924	\$-
Jefferies LoanCore LLC ("Jefferies LoanCore")	144,394	-
Berkadia Commercial Mortgage LLC ("Berkadia")	188,584	172,942
Garcadia companies	122,156	82,425
HomeFed Corporation ("HomeFed")	48,788	49,384
Brooklyn Renaissance Plaza	30,111	30,332
Linkem S.p.A. ("Linkem")	98,138	86,424
JHYH	-	351,835
Other	58,884	34,132
Total	\$991,979	\$807,474

Income (losses) related to associated companies includes the following for the three and six month periods ended June 30, 2013 and 2012 (in thousands):

	For the Three Month Period Ended June 30,	For the Six Month Period Ended June 30,
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	2013	2012	2013	2012
Berkadia	\$30,844	\$2,410	\$49,431	\$14,230
Garcadia companies	11,244	8,888	20,115	16,982
Linkem	(6,920)	(4,078)	(13,522)	(8,268)
HomeFed	(355)	(447)	(596)	(562)
Brooklyn Renaissance Plaza	203	1,540	995	1,981
JHYH	–	4,579	7,178	14,273
Other	(153)	644	2,070	2,892
Total	\$34,863	\$13,536	\$65,671	\$41,528

For the three month period ended June 30, 2013, our share of Berkadia's income includes an out of period adjustment of \$14.8 million to record income related to prior periods.

Income (losses) related to associated companies classified as Other revenue include the following for the three and six month periods ended June 30, 2013 (in thousands):

Jefferies Finance	\$ 11,969
Jefferies LoanCore	16,723
Other	(152)
Total	\$28,540

Jefferies Finance

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

Jefferies and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million. At June 30, 2013, approximately \$299.4 million of Jefferies commitment was funded. The investment commitment is scheduled to mature on March 1, 2016 with automatic one year extensions subject to a 60 day termination notice by either party.

In addition, Jefferies and MassMutual have entered into a Secured Revolving Credit Facility, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. The total committed Secured Revolving Credit Facility is \$700.0 million. At June 30, 2013, none of Jefferies \$350.0 million commitment was funded.

Jefferies LoanCore

In February 2011, Jefferies entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. Jefferies LoanCore originates and purchases commercial real estate loans throughout the United States with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$600.0 million. Jefferies has funded \$107.5 million of its \$291.0 million equity commitment and has a 48.5% voting interest in Jefferies LoanCore.

Berkadia

As more fully discussed in the 2012 10-K, we have agreed to reimburse Berkshire Hathaway Inc. 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 June 30, 2013, the aggregate amount of commercial paper outstanding was \$2.47 billion.

JHYH

Under GAAP, JHYH was considered a variable interest entity that was consolidated by Jefferies, since Jefferies was the primary beneficiary. In connection with the Jefferies acquisition, we contributed our investment in JHYH to Jefferies, other third-party investors were redeemed and JHYH was effectively dissolved.

Note 13. Financial Statement Offsetting

In connection with our derivative activities and securities financing activities, we may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to: derivative transactions – International Swaps and Derivative Agreements, Inc. (“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, we enter into customized bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

Under our derivative ISDA agreements we typically also execute credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted by or paid to a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex. Further, under master securities lending agreements and master repurchase agreements, collateral is received or paid in the form of securities and/or subject to margining based on the fair value of the collateral. In the event of the counterparty’s default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

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

We are also a party to clearing agreements with various clearing organizations as well as with central clearing parties. Under these arrangements, the clearing organization or central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open derivative contracts, 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 Statement of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statement 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

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	Amounts	Netting in Consolidated Statement of Financial Condition (1)	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (2)	Available Collateral (3)	Net Amount
Assets at June 30, 2013						
Derivative contracts	\$2,232,426	\$ (2,039,660)	\$ 192,766	\$-	\$-	\$192,766
Securities borrowing arrangements	\$5,357,672	\$ -	\$ 5,357,672	\$(661,938)	\$(4,478,654)	\$217,080
Reverse repurchase agreements	\$11,276,816	\$ (7,809,191)	\$ 3,467,625	\$(337,200)	\$(3,078,784)	\$51,641
Liabilities at June 30, 2013						
Derivative contracts	\$2,415,343	\$ (2,215,626)	\$ 199,717	\$-	\$-	\$199,717
Securities lending arrangements	\$2,679,193	\$ -	\$			