LEUCADIA NATIONAL CORP
Form 10-K/A
November 03, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 3)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2005

or

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

Commission file number: 1-5721

LEUCADIA NATIONAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

NEW YORK	13-2615557
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

315 PARK AVENUE SOUTH
NEW YORK, NEW YORK 10010
(212) 460-1900
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
COMMON SHARES, PAR VALUE $1 PER SHARE	NEW YORK STOCK EXCHANGE
7-3/4% SENIOR NOTES DUE AUGUST 15, 2013	NEW YORK STOCK EXCHANGE
7-7/8% SENIOR SUBORDINATED NOTES DUE OCTOBER 15, 2006	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:
NONE.
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [_]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [_] No [X]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer [X]   Accelerated Filer [_]   Non-Accelerated Filer [_]

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

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at June 30, 2005 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): $3,130,796,000.

On February 23, 2006, the registrant had outstanding 108,072,508 Common Shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2006 annual meeting of shareholders of the registrant are incorporated by reference into Part III of this Report.

EXPLANATORY NOTE

This report on Form 10-K/A amends and restates in its entirety Item 7 of the Annual Report on Form 10-K, as amended, of Leucadia National Corporation (the "Company") for the fiscal year ended December 31, 2005 (the "2005 10-K"), and also amends and restates in its entirety Item 15 of the Company's 2005 10-K to reflect that the financial statements referred to in Item 15(c)(6) have been filed herewith pursuant to Item 3-09(b) of Regulation S-X:

PART II

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

The purpose of this section is to discuss and analyze the Company's consolidated financial condition, liquidity and capital resources and results of operations. This analysis should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Report.

Liquidity and Capital Resources

Parent Company Liquidity

Leucadia National Corporation (the "Parent") is a holding company whose assets principally consist of the stock of its direct subsidiaries, cash and cash equivalents and other non-controlling investments in debt and equity securities. The Parent continuously evaluates the retention and disposition of its existing operations and investments and investigates possible acquisitions of new businesses in order to maximize shareholder value. Accordingly, while the Parent does not have any material arrangement, commitment or understanding with respect thereto (except as disclosed in this Report), further acquisitions, divestitures, investments and changes in capital structure are possible. Its principal sources of funds are its available cash resources, liquid investments, bank borrowings, public and private capital market transactions, repayment of subsidiary advances, funds distributed from its subsidiaries as tax sharing payments, management and other fees, and borrowings and dividends from its subsidiaries.

As reflected on the Company's December 31, 2005 consolidated balance sheet, the sum of the Company's cash and cash equivalents, investments classified as current assets and non-current investments aggregated $2,687,800,000. However, since $317,300,000 of this amount is pledged as collateral pursuant to various agreements, represents investments in non-public securities or is held by subsidiaries that are party to agreements which restrict the Company's ability to use the funds for other purposes (including the Inmet shares discussed below), the Company does not consider those amounts to be readily available to meet the Parent's liquidity needs. The $2,370,500,000 that is readily available is comprised of cash and short-term bonds and notes of the United States Government and its agencies of $1,198,700,000 (50.6%), U.S. Government-Sponsored Enterprises of $261,300,000 (11.0%), the equity investment in Level 3 of $330,100,000 (13.9%), and other publicly traded debt and equity securities aggregating $580,400,000 (24.5%). Pursuant to a registration rights agreement entered into with Level 3, Level 3 has filed a registration statement covering the Level 3 shares and is required to keep the registration statement effective for the shorter of two years (or a longer period as set forth in the agreement), or until the distribution of the shares is completed. The Level 3 common stock is subject to a transfer restriction that limits the number of shares the Company can sell (with certain exceptions, including any single trade with one or more counterparties of at least five million shares of Level 3 common stock) on any given day until May 22, 2006; thereafter there is no restriction. The investment income realized from the Parent's readily available cash, cash equivalents and marketable securities is used to meet the Parent company's short-term recurring cash requirements, which are principally the payment of interest on its debt and corporate overhead expenses.

The Parent's only long-term cash requirement is to make principal payments on its long-term debt ($944,900,000 outstanding as of December 31, 2005), of which $21,700,000 is due in 2006, $475,000,000 is due in 2013, $350,000,000 is due in 2014 and $98,200,000 is due in 2027. Historically, the Parent has used its available liquidity to make acquisitions of new businesses and other investments, but the timing of any future investments and the cost can not be predicted. Should the Company require additional liquidity for an investment or any other purpose, the Parent also has an unsecured bank credit facility of $110,000,000 that matures in 2007 and bears interest based on the Eurocurrency Rate or the prime rate. No amounts are currently outstanding under

the bank credit facility. In addition, based on discussions with commercial and investment bankers, the Company believes that it has the ability to raise additional funds under acceptable conditions for use in its existing businesses or for appropriate investment opportunities. The Parent's senior debt obligations are rated two levels below investment grade by Moody's Investors Services and Standard & Poor's, and one level below investment grade by Fitch Ratings. Ratings issued by bond rating agencies are subject to change at any time.

In December 2005, the Company sold WilTel to Level 3 for aggregate cash consideration of $460,300,000 (net of estimated working capital adjustments), and 115,000,000 newly issued shares of Level 3 common stock. In connection with the sale, the Company retained certain assets and liabilities of WilTel that were not purchased by Level 3. The retained assets include (i) WilTel's headquarters building located in Tulsa, Oklahoma, (ii) cash and cash equivalents in excess of $100,000,000, (iii) corporate aircraft and related capital lease obligations, and (iv) marketable securities. In addition, the Company retained all of WilTel's right to receive certain cash payments from SBC totaling $236,000,000, of which $37,500,000 was received prior to closing, and the balance is due to be received during 2006. Prior to the closing, WilTel repaid its long-term debt obligations using its funds, together with $220,000,000 of funds advanced by the Company. The retained liabilities also include WilTel's defined benefit pension plan and supplemental retirement plan obligation and certain other employee related liabilities. The Company has reclassified WilTel's balance sheet amounts in prior years to assets and liabilities of discontinued operations.

In the aggregate, the Company received value of $833,500,000 from the sale of WilTel, including the consideration paid by Level 3 and the net book value of the retained assets and liabilities, but reduced by the funds advanced to WilTel in 2005. In addition, the agreement with Level 3 requires that all parties make the appropriate filings to treat the purchase of WilTel as a purchase of assets for federal, state and local income and franchise tax purposes. As a result, WilTel's NOLs, as well as any tax losses generated by the sale, remained with the Company. For more information about the Company's NOLs and tax attributes, see Note 16 of Notes to Consolidated Financial Statements.

In June 2005, the Company's 8 1/4% Senior Subordinated Notes, which had an outstanding principal amount of $19,100,000, matured. The Company repaid these notes and the related accrued interest with available cash resources.

In February 2005, the plastics manufacturing segment acquired the assets of NSW for approximately $26,600,000, including working capital adjustments. In April 2005, the Company acquired ATX upon the effectiveness of its bankruptcy plan for approximately $56,300,000, including expenses, of which $25,300,000 was spent in 2005 and the balance was spent during 2003 and 2004. In May 2005, the Company acquired Idaho Timber for total cash consideration of $133,600,000, including working capital adjustments and expenses. The plastics manufacturing segment also acquired certain assets of a competitor in October 2005 for approximately $4,300,000. Each of these acquisitions is reflected in the Company's consolidated financial statements from the date of acquisition. In the aggregate, the purchase price allocation for these acquisitions resulted in the recognition of amortizable intangible assets of $78,400,000 and goodwill of

$14,000,000, which is not subject to amortization. For more information concerning these acquisitions, see Notes 3 and 8 of Notes to Consolidated Financial Statements. The funds for these acquisitions were provided from the Company's available cash resources.

In May 2005, the Company sold its 716-room Waikiki Beach hotel and related assets for an aggregate purchase price of $107,000,000 (before closing costs and other required payments). After satisfaction of mortgage indebtedness on the hotel of $22,100,000 at closing, the Company received net cash proceeds of approximately $73,000,000.

Union Square, two entities in which the Company had non-controlling equity interests, sold their respective interests in an office complex located on Capitol Hill in Washington, D.C. in May 2005. Including repayment of its mortgage loans at closing, the Company's share of the net proceeds was $73,200,000.

4

In August 2005, the Company consummated the merger with MK, its then 72.1% owned subsidiary, whereby the Company acquired the remaining outstanding MK common shares. The acquisition cost consisted of approximately 216,000 of the Company's common shares (valued at $8,300,000), and estimated cash amounts ($4,500,000 has been accrued) that will be paid to former MK stockholders who perfected appraisal rights.

Immediately following the merger, the Company sold to Inmet, a Canadian-based global mining company, a 70% interest in CLC, a Spanish company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. Inmet acquired the interest in CLC in exchange for 5,600,000 newly issued Inmet common shares, representing approximately 11.7% of the outstanding Inmet common shares immediately following completion of the transaction.

CLC has entered into an agreement with third party lenders for project financing consisting of a ten year senior secured credit facility of up to $240,000,000 and a senior secured bridge credit facility of up to (euro)69,000,000 to finance subsidies and value-added tax. The Company and Inmet have guaranteed 30% and 70%, respectively, of the obligations outstanding under both facilities until completion of the project as defined under the project financing. At December 31, 2005, no amounts were outstanding under the facilities. The Company and Inmet have also committed to provide financing to CLC which is estimated to be $159,000,000, of which the Company's share will be 30% ($14,300,000 of which has been loaned as of December 31, 2005).

The Inmet shares have the benefit of a registration rights agreement; however, the shares may not be sold until the earlier of August 2009 or the date on which the Company is no longer obligated under the guarantee of CLC's credit facilities. At acquisition, the fair value of the Inmet common stock ($78,000,000) was determined to be approximately 90% of the then current trading price as a result of these transferability restrictions. The Inmet shares will be carried at the initially recorded value (unless there is an other than temporary impairment) until one year prior to the termination of the transfer restrictions. At December 31, 2005, the market value of the Inmet shares is approximately $142,100,000.

In the fourth quarter of 2005, Square 711, a 90% owned subsidiary of the Company, entered into an agreement to sell its interest in 8 acres of unimproved land in Washington, D.C. for aggregate cash consideration of $121,900,000; the sale closed in February 2006. The land was acquired by the Company in September 2003 for cash consideration of $53,800,000. After satisfaction of mortgage

indebtedness on the property of $32,000,000 and other closing payments, the Company received net cash proceeds of approximately $75,700,000, and expects to record a pre-tax gain of approximately $48,900,000.

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

As of February 23, 2006, the Company is authorized to repurchase 3,729,477 common shares. Such purchases may be made from time to time in the open market, through block trades or otherwise. Depending on market conditions and other factors, such purchases may be commenced or suspended at any time without prior notice. Except in connection with employees using common shares to pay the exercise price of employee stock options, the Company has not repurchased any common shares during the three year period ended December 31, 2005.

Consolidated Liquidity

As discussed above, the Company relies on the Parent's available liquidity to meet its short-term and long-term needs, and to make acquisitions of new businesses and investments. The Company has no current plans to raise additional capital in the public or private markets, but it believes it could raise additional capital if necessary. The Company's operating businesses do not require material funds from the Parent to support their operating activities, and the Parent does not depend on positive cash flow from its operating segments to meet its liquidity needs. The components of the Company's operating businesses and investments change frequently as a result of acquisitions or divestitures, the timing of which is impossible to predict but which often have a material impact on the Company's consolidated statements of cash flows in any one period. Further, the timing and amounts of distributions from certain of the Company's investments in partnerships accounted for under the equity method are generally outside the control of the Company. As a result, reported cash flows from operating, investing and financing activities do not generally follow any particular pattern or trend, and reported results in the most recent period should not be expected to recur in any subsequent period.

Net cash provided by operating activities increased by $252,700,000 in 2005 as compared to the prior year, due principally to increased distributions of earnings from associated companies, a decrease in the size of the Company's investment in its trading portfolio and increased cash flow from the Company's operating units, principally WilTel and the manufacturing businesses. As discussed above, WilTel was sold at the end of 2005; WilTel's 2005 cash flow from operating activities prior to the sale was $256,800,000. The increased cash flow from the Company's manufacturing units reflect Idaho Timber, which was acquired during 2005, and increased operating income at the plastics

manufacturing segment resulting from an acquisition and growth in most of its markets. The increased distributions from associated companies principally resulted from the proceeds received from Union Square, which is discussed above. Net cash provided by operating activities increased by $91,700,000 in 2004 as compared to 2003, due principally to funds provided by WilTel, which became a consolidated subsidiary in November 2003, of $189,600,000 (including $25,000,000 of pre-funded capital expenditures from SBC) and a net refund of Corporate income tax payments of $26,900,000. WilTel's cash flow from operating activities did not increase the liquidity available to the Parent (as defined above), since WilTel's debt agreements prohibited the payment of dividends.

Net cash flows from investing activities increased by $39,300,000 in 2005 as compared to 2004 and by $200,300,000 in 2004 as compared to 2003. During 2005, proceeds from the disposal of discontinued operations net of expenses and cash sold were $459,100,000, reflecting the sale of WilTel and the Waikiki Beach hotel, as compared to $22,300,000 in 2004. The use of funds during 2005 for acquisitions (net of cash acquired) totaled $170,500,000 for the acquisitions of NSW, ATX and Idaho Timber. There was not a comparable use of funds during 2004; in 2003 the amount principally reflects the cash held by WilTel on the date of acquisition, reduced by the net cash expended to acquire Symphony. Funds used for WilTel's acquisition of property, equipment and leasehold improvements totaled $96,100,000 in 2005 and $73,200,000 in 2004; as a result of the sale of WilTel the Company's use of funds for property, equipment and leasehold improvements is expected to decline significantly. During 2004 and 2003, net cash was provided from principal collections on loan receivables, and in 2004 from the sale of substantially all of the Company's remaining consumer loan portfolio; as discussed below banking and lending operations have been in run-off for the past few years.

During 2005, net cash used for financing activities was $442,700,000, as compared to net cash provided by financing activities of $220,500,000 in 2004 and $35,200,000 in 2003. During the last three years, funds were used to retire customer banking deposits of the banking and lending operations as they became due; in 2005 the remaining deposits were sold. Issuance of long-term debt during 2005 principally relates to repurchase agreements which are discussed below. In 2004, the Company sold $100,000,000 principal amount of its 7% Senior Notes and $350,000,000 principal amount of its 3 3/4% Convertible Senior Subordinated Notes; in 2003 the Company sold $275,000,000 principal amount of its 7% Senior Notes. Proceeds received from the sale of all the Notes can be used by the Company for investing or general corporate purposes. The reduction of long-term

debt during 2005 includes the repayment of $442,500,000 of debt of operations sold (WilTel and Waikiki Beach hotel) and the maturity of the Company's 8 1/4% Senior Subordinated Notes.

Symphony has a $50,000,000 revolving credit facility, of which $27,100,000 and $37,700,000 was outstanding at December 31, 2005 and 2004, respectively. This financing, which is secured by all of Symphony's assets (with an aggregate book value of $55,500,000) but otherwise is non-recourse to the Company, matures in 2006 and bears interest based on LIBOR plus 3%. At December 31, 2005, the interest rate on this facility was 7.39%.

Debt due within one year includes $92,100,000 and $21,000,000 as of December 31, 2005 and December 31, 2004, respectively, relating to repurchase agreements of one of the Company's subsidiaries. These fixed rate repurchase agreements have a weighted average interest rate of approximately 3.95%, mature

at various dates through April 2006 and are secured by investments with a carrying value of $95,100,000.

During 2001, a subsidiary of the Company borrowed $53,100,000 secured by certain of its corporate aircraft, of which $43,400,000 is currently outstanding. Capital leases of another subsidiary aggregating $9,900,000 consist of a sale-leaseback transaction related to other corporate aircraft. The Parent company has guaranteed these financings.

The Company's debt instruments require maintenance of minimum Tangible Net Worth, limit distributions to shareholders and limit Indebtedness and Funded Debt (as such terms are defined in the agreements). In addition, the debt instruments contain limitations on investments, liens, contingent obligations and certain other matters. The Company is in compliance with all of these restrictions, and the Company has the ability to incur additional indebtedness or make distributions to its shareholders and still remain in compliance with these restrictions. Certain of the debt instruments of subsidiaries of the Company also contain restrictions which require the maintenance of financial covenants, impose restrictions on the ability of such subsidiaries to pay dividends to the Company and/or provide collateral to the lender. Principally as a result of such restrictions, the assets of subsidiaries which are subject to limitations on transfer of funds to the Company were approximately $289,700,000 at December 31, 2005. For more information, see Note 12 of Notes to Consolidated Financial Statements.

As shown below, at December 31, 2005, the Company's contractual cash obligations totaled $1,836,612,000.

	Payments Due by Period (in thousand				
	Total	Less than 1 Year	1-3 Years	4-5 Years	
CONTRACTUAL CASH OBLIGATIONS					AFT
Long-term debt	$1,162,382	$ 175,664	$ 17,639	$ 6,106	$
Estimated interest expense on long-term debt	577,088	65,445	120,548	118,982	
Estimated payments related to derivative financial instruments	23,670	5,540	10,288	7,158	
Planned funding of pension and post-retirement obligations	33,014	29,494	853	845	
Operating leases, net of sublease income	38,216	8,274	13,218	8,862	
Asset purchase obligations	1,361	783	578	--	
Operations and maintenance obligations	881	881	--	--	
Total Contractual Cash Obligations	$1,836,612	$ 286,081	$ 163,124	$ 141,953	$1

The estimated interest expense on long-term debt includes estimated interest related to variable rate debt which the Company determined using rates

in effect at December 31, 2005. Estimated payments related to a currency swap agreement are based on the currency rate in effect at December 31, 2005. Except for expected funding of $29,100,000 in 2006, the Company's consolidated pension liability is excluded from the table because the timing of cash payments is uncertain.

At December 31, 2005, the Company had recorded a liability of $102,800,000 on its consolidated balance sheet for its unfunded defined benefit pension plan obligations. This amount represents the difference between the present value of amounts owed to current and former employees (referred to as the projected benefit obligation), and the market value of plan assets set aside in segregated trust accounts. Since the benefits in these plans have been frozen, future changes to the benefit obligation are expected to principally result from benefit payments, differences between actuarial assumptions and actual experience and interest costs.

In recent years, the Company's determination to make contributions to the pension trust accounts in excess of minimum required amounts was influenced by the tax deductibility of the contribution, a consideration that is no longer important because of the Company's NOLs. The Company is currently analyzing the administrative and insurance costs associated with these plans and will make substantial contributions to the segregated trust accounts to reduce its plan liabilities. The timing and amount of additional contributions are uncertain; however, the Company believes it will make substantial additional contributions over the next few years to reduce, but not to entirely eliminate, its defined pension benefit plan liability.

The Company maintained defined benefit pension plans covering certain operating units prior to 1999, and WilTel also maintained defined pension benefit plans that were not transferred in connection with the sale of WilTel. As of December 31, 2005, certain amounts for these plans are reflected separately in the table below (dollars in thousands):

	The Company's Plans	WilTel's Plans
Projected benefit obligation	$58,123	$186,054
Funded status - balance sheet liability at December 31, 2005	14,647	88,149
Deferred losses included in other comprehensive income	21,828	40,739
Discount rate used to determine the projected benefit obligation	4.87%	5.40%

Calculations of pension expense and projected benefit obligations are prepared by actuaries based on assumptions provided by management. These assumptions are reviewed on an annual basis, including assumptions about discount rates, interest credit rates and expected long-term rates of return on plan assets. For the Company's plans, a discount rate was selected to result in an estimated projected benefit obligation on a plan termination basis, using current rates for annuity settlements and lump sum payments weighted for the assumed elections of participants. For the WilTel plans, the timing of expected future benefit payments was used in conjunction with the Citigroup Pension Discount Curve to develop a discount rate that is representative of the high quality corporate bond market, adjusted for current rates which might be available for annuity settlements.

These discount rates will be used to determine pension expense in 2006. Holding all other assumptions constant, a 0.25% change in these discount rates would affect pension expense by $2,000,000 and the benefit obligation by $10,000,000.

8

The deferred losses in other comprehensive income primarily result from changes in actuarial assumptions, including changes in discount rates, changes in interest credit rates and differences between the actual and assumed return on plan assets. Deferred losses are amortized to expense if they exceed 10% of the greater of the projected benefit obligation or the market value of plan assets as of the beginning of the year; such amount aggregated $36,700,000 at December 31, 2005 for all plans. A portion of these excess deferred losses will be amortized to expense during 2006, based on an amortization period of twelve years.

The assumed long-term rates of return on plan assets are based on the investment objectives of the specific plan, which are more fully discussed in Note 17 of Notes to Consolidated Financial Statements. Differences between the actual and expected rates of return on plan assets have not been material.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2005, the Company's off-balance sheet arrangements consist of guarantees and letters of credit aggregating $85,100,000. Pursuant to an agreement that was entered into before the Company sold CDS Holding Corporation ("CDS") to HomeFed in 2002, the Company agreed to provide project improvement bonds for the San Elijo Hills project. These bonds, which are for the benefit of the City of San Marcos, California and other government agencies, are required prior to the commencement of any development at the project. CDS is responsible for paying all third party fees related to obtaining the bonds. Should the City or others draw on the bonds for any reason, CDS and one of its subsidiaries would be obligated to reimburse the Company for the amount drawn. At December 31, 2005, the amount of outstanding bonds was $29,500,000, $800,000 of which expires in 2006, $27,300,000 in 2007 and the remainder in 2009. Subsidiaries of the Company have outstanding letters of credit aggregating $23,600,000 at December 31, 2005, principally to secure various obligations. Substantially all of these letters of credit expire before 2009. The Company's remaining guarantee at December 31, 2005 is a $32,000,000 indemnification given to a lender to a certain real estate property. The property was sold in early 2006 and the Company was released from its indemnification obligation.

As discussed above, the Company has also guaranteed certain amounts under CLC's credit facilities; however, no amounts were borrowed by CLC at December 31, 2005.

CRITICAL ACCOUNTING ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company 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, the Company evaluates

all of these estimates and assumptions. The following areas have been identified as critical accounting estimates because they have the potential to have a material impact on the Company's financial statements, and because they are based on assumptions which are used in the accounting records to reflect, at a specific point in time, events whose ultimate outcome won't be known until a later date. Actual results could differ from these estimates.

Income Taxes - The Company records a valuation allowance to reduce its deferred tax asset to the amount that is more likely than not to be realized. If the Company were to determine that it would be able to realize its deferred tax asset in the future in excess of its net recorded amount, an adjustment would increase income in such period. Similarly, if the Company were to determine that it would not be able to realize all or part of its deferred tax asset in the future, an adjustment would be charged to income in such period. The determination of the amount of the valuation allowance required is based, in significant part, upon the Company's projection of future taxable income at any point in time. The Company also records reserves for contingent tax liabilities based on the Company's assessment of the probability of successfully sustaining its tax filing positions.

During 2005, as a result of the consummation of certain transactions and ongoing operating profits, the Company prepared updated projections of future taxable income. The Company's revised projections of future taxable income enabled it to conclude that it is more likely than not that it will have future taxable income sufficient to realize a portion of the Company's net deferred tax asset; accordingly, $1,135,100,000 of the deferred tax valuation allowance was reversed as a credit to income tax expense.

The Company's conclusion that a portion of the deferred tax asset was more likely than not to be realizable was strongly influenced by its historical ability to generate significant amounts of taxable income. The Company's estimate of future taxable income considered all available evidence, both positive and negative, about its current operations and investments, included an aggregation of individual projections for each material operation and investment, and included all future years that the Company estimated it would have available NOLs. Over the projection period, the Company assumed that its readily available cash, cash equivalents and marketable securities would provide returns generally equivalent to the returns expected to be provided by the Company's existing operations and investments, except for certain amounts assumed to be invested on a short-term basis to meet the Company's liquidity needs. The Company believes that its estimate of future taxable income is reasonable but inherently uncertain, and if its current or future operations and investments generate taxable income greater than the projected amounts, further adjustments to reduce the valuation allowance are possible. Conversely, if the Company realizes unforeseen material losses in the future, or its ability to generate future taxable income necessary to realize a portion of the deferred tax asset is materially reduced, additions to the valuation allowance could be recorded. At December 31, 2005, the balance of the deferred valuation allowance was $804,800,000.

The Company is required to record the adjustment to the deferred tax asset valuation allowance under GAAP. While the adjustment significantly increases the Company's net worth, there is no current cash benefit to the Company. The adjustment will also result in the recording of material federal income tax expense in the future, even though no material cash expenditure for

federal income taxes is expected. Further, while the adjustment results from the projection of taxable income over a long period of time, under GAAP the expected future tax savings are not discounted. As a result, this adjustment increases the Company's net worth attributable to tax savings before the Company has generated the taxable income necessary to realize those tax savings; when the tax savings are actually realized over time, net worth will be reduced by the recording of a deferred tax provision. Reflecting tax savings before the tax is actually saved results in the Company's balance sheet being less conservative than the Company would want it to be. However, this accounting policy is mandated by GAAP.

Impairment of Long-Lived Assets - In accordance with Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When testing for impairment, the Company groups its long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (or asset group). The determination of whether an asset group is recoverable is based on management's estimate of undiscounted future cash flows directly attributable to the asset group as compared to its carrying value. If the carrying amount of the asset group is greater than the undiscounted cash flows, an impairment loss would be recognized for the amount by which the carrying amount of the asset group exceeds its estimated fair value.

As discussed above, WilTel's former headquarters building, including the adjacent parking garage, was not included in the sale to Level 3 and has been retained by the Company. The Company concluded that the change in the manner in which the asset was being used, from a headquarters facility of an operating subsidiary to a property held for investment, was a change in circumstances which indicated that the carrying amount of the facility might not be recoverable. On the closing date of the sale to Level 3, the carrying amount of the facility was $96,500,000; based on the assumptions discussed below the Company concluded that the carrying amount was not recoverable, and an impairment loss of $42,400,000 was recorded reducing the gain on disposal of

discontinued operations. At December 31, 2005, the new cost basis and carrying amount of the facility is $54,100,000.

The facility is a fifteen story, 740,000 square foot office building located in downtown Tulsa, Oklahoma for which construction was substantially completed in 2001, with a total of approximately 640,000 rentable square feet. Approximately 260,000 square feet of the rentable space is leased to Level 3 under short-term leases that expire at the end of 2007, subject to Level 3 renewal options. Level 3 also has the right to vacate approximately 44,000 square feet every six months commencing July 1, 2006. Approximately 23,500 square feet are leased to another tenant also under a short-term lease that is subject to renewal options. The building is considered to be Class A office space, and the Company believes that the best value for the building would be obtained by selling the building to an owner/occupant. The facility is being marketed for sale at a gross selling price of $80,000,000, including furniture, fixtures and equipment.

The Company utilized a discounted cash flow technique to determine the fair value of the facility. In order to estimate the amount which could

ultimately be realized upon the sale of the facility, the Company had a market analysis prepared of sales and leasing activity for the downtown Tulsa market. The analysis identified the range of historical selling prices for properties of comparable quality, including the age, size and occupancy rates of the properties sold, properties currently available for sale or lease, current market occupancy rates and recent leasing rates. Since the facility is being marketed to an owner/occupant, the cash flow estimates reflect that it may take from two to five years before a buyer is identified and the facility can be sold. The cash flow estimates assume that Level 3 will only fulfill its minimum rental commitment; the Company did not assume that space which is currently vacant will be leased, which results in negative operating cash flow prior to sale. The Company's cash flow estimates reflect a range of possible outcomes since the timing of the sale and the ultimate price that the Company will realize for the facility is uncertain.

The Company does not believe that there is any set of reasonable assumptions it could have made resulting in a conclusion that the facility was not impaired. However, since the amount of the impairment recorded is greatly impacted by the estimated range of selling prices and the timing of the sale, the actual gain or loss recognized upon ultimate disposition of the facility is uncertain. If the market for this type of property declines in the future or the Company lowers its estimate of the future cash flows for other reasons, further reductions to the carrying amount of the facility could be required.

Impairment of Securities - Investments with an impairment in value considered to be other than temporary are written down to estimated fair value. The writedowns are included in net securities gains in the consolidated statements of operations. The Company evaluates its investments for impairment on a quarterly basis.

The Company's determination of whether a security is other than temporarily impaired incorporates both quantitative and qualitative information; GAAP requires the exercise of judgment in making this assessment, rather than the application of fixed mathematical criteria. The Company considers a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, the reason for the decline in fair value, changes in fair value subsequent to the balance sheet date, and other factors specific to the individual investment. The Company's assessment involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. The Company recorded impairment charges for securities of $12,200,000, $4,600,000 and $6,500,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Business Combinations - At acquisition, the Company allocates the cost of a business acquisition to the specific tangible and intangible assets acquired and liabilities assumed based upon their relative fair values. Significant judgments and estimates are often made to determine these allocated values, and may include the use of independent appraisals, consider market quotes for similar transactions, employ discounted cash flow techniques or

consider other information the Company believes relevant. The finalization of the purchase price allocation will typically take a number of months to complete, and if final values are materially different from initially recorded amounts adjustments are recorded. 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. Recorded goodwill of a reporting unit is required to be tested for impairment on an annual basis, and between annual testing dates if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its net book value.

Subsequent to the finalization of the purchase price allocation, any adjustments to the recorded values of acquired assets and liabilities would be reflected in the Company's consolidated statement of operations. Once final, the Company is not permitted to revise the allocation of the original purchase price, even if subsequent events or circumstances prove the Company's original judgments and estimates to be incorrect. In addition, long-lived assets like property and equipment, amortizable intangibles and goodwill may be deemed to be impaired in the future resulting in the recognition of an impairment loss; however, under GAAP the methods, assumptions and results of an impairment review are not the same for all long-lived assets. The assumptions and judgments made by the Company when recording business combinations will have an impact on reported results of operations for many years into the future.

Purchase price allocations for all of the Company's recent acquisitions have been finalized. Adjustments to the initial purchase price allocations were not material.

Accruals for Access Costs - ATX's access costs primarily include variable charges paid to vendors to originate and/or terminate switched voice traffic, which are based on actual usage at negotiated or regulated contract rates. At the end of each reporting period, ATX's estimated accrual for incurred but not yet billed costs is based on internal usage reports. The accrual is subsequently reconciled to actual invoices as they are received, which is a process that can take several months to complete. This process includes an invoice validation procedure that normally identifies errors and inaccuracies in rate and/or volume components of the invoices resulting in numerous invoice disputes. It is ATX's policy to adjust the accrual for the probable amount it believes will ultimately be paid on disputed invoices, a determination which requires significant estimation and judgment. Due to the number of different negotiated and regulated rates, constantly changing traffic patterns, uncertainty in the ultimate resolution of disputes, the period of time required to complete the reconciliation and delays in invoicing by access vendors, these estimates may change.

Contingencies - The Company accrues for contingent losses when the contingent loss is probable and the amount of loss can be reasonably estimated. Estimates of the likelihood that a loss will be incurred and of contingent loss amounts normally require significant judgment by management, can be highly subjective and are subject to material change with the passage of time as more information becomes available. As of December 31, 2005, the Company's accrual for contingent losses was not material.

RESULTS OF OPERATIONS

Manufacturing - Idaho Timber

Revenues and other income for Idaho Timber from the date of acquisition (May 2005) through December 31, 2005 were $239,000,000; gross profit was $22,000,000, salaries and incentive compensation expenses were $6,300,000, depreciation and amortization expenses were $4,200,000, and pre-tax income was $8,200,000. Idaho Timber's revenues reflect an oversupply in its dimension lumber and home center board markets, resulting partially from increased foreign imports and an easing of transportation bottlenecks that existed in the past. The increased supply to the U.S. market has resulted in lower selling prices; however, Idaho Timber's shipment volume of 500 million board feet remained level with the comparable pre-acquisition period in the prior year. The steady demand

was due in part to continued strong housing and home improvement markets during 2005.

Selling prices declined during 2005; however, reductions in raw material costs, the largest component of cost of sales (approximately 85% of cost of sales), generally lagged behind the reduction in selling prices. The difference between Idaho Timber's selling price and raw material cost per thousand board feet (spread) is closely monitored, and the rate of change in pricing and cost is typically not the same. During 2005, spread compressed from the very high level achieved in the prior year, negatively impacting gross profits and pre-tax results. With the current oversupply in the market, Idaho Timber intends to focus on developing new higher margin products, diversifying its supply chain, improving cost control and solidifying customer relationships, in an effort to maximize gross margins and pre-tax results.

Manufacturing - Plastics

Pre-tax income for the plastics manufacturing segment was $14,200,000, $7,900,000 and $4,400,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Its revenues were $93,300,000, $64,100,000 and $53,300,000, and gross profits were $28,900,000, $19,000,000 and $14,300,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Revenues increased by 46% in 2005, 20% in 2004 and 5% in 2003, each as compared to the prior year.

The increase in revenues in 2005 reflects NSW's revenues since acquisition of $17,500,000, and increases in most of the segment's markets. Sales increases result from a variety of factors including the strong housing market, new products developed late in 2004, and the impact of price increases implemented during the second half of 2004 and in the first and fourth quarters of 2005.

Raw material costs increased by approximately 19% in 2005 as compared to the same period in 2004; however, the segment was able to increase selling prices in most markets, which along with increased sales and production volumes resulted in greater gross margins than in 2004. The primary raw material in the division's products is a polypropylene resin, which is a byproduct of the oil refining process, whose price tends to increase and decrease with the price of oil. There is relatively little direct labor or other raw material costs in the division's products. In addition to managing resin purchases, the division also has initiatives to reduce and/or reuse scrap thereby increasing raw material utilization. Gross margins also reflect $1,300,000 of greater amortization expense on intangible assets resulting from acquisitions.

Pre-tax results for 2005 include higher salaries, incentive compensation expense and sales commissions primarily related to NSW. During 2005, the division realized cost efficiencies resulting from its acquisition of NSW, principally in administration and overhead expense and raw material purchasing. In the future, the division will look to make other strategic acquisitions of smaller entities that serve the same markets as NSW, primarily those that supply package netting and filtration products. Pre-tax results for 2005 also reflect a charge of $200,000 resulting from the sale of certain assets related to a former product line of NSW.

Manufacturing revenues in 2004 increased in substantially all of the division's markets. The Company believes that these increases result from a

variety of factors including an improved economy, new product development and the acquisition in the first quarter of 2004 of customer receivables and inventory of a competitor that was exiting certain markets. Although raw material costs increased significantly in 2004, this was more than offset by increased selling prices, sales and production volumes in most markets, resulting in increased gross profit and gross profit margins as compared to 2003. Pre-tax results for 2004 also reflect greater salaries expense, due to higher bonuses attributable to the division's improved performance, and include a gain of $300,000 resulting from the sale of certain assets related to a former product line.

Healthcare Services

Pre-tax income (loss) of the healthcare services segment was $3,300,000 and $5,100,000 for the years ended December 31, 2005 and 2004, respectively, and $(2,300,000) for the four month period from acquisition through December 31, 2003. For the 2005, 2004 and 2003 periods, healthcare services revenues were

$239,000,000, $257,300,000 and $71,000,000, respectively, and cost of sales, which primarily consist of salaries and employee benefits, were $203,100,000, $216,300,000 and $61,300,000, respectively. For the 2005, 2004 and 2003 periods, pre-tax results reflect aggregate interest, depreciation and amortization expenses of $4,000,000, $2,800,000 and $700,000, respectively.

As described above, regulatory changes that went into effect on January 1, 2006 concerning Medicare reimbursement for therapy services are likely to have some negative impact on Symphony's future revenues and profitability, particularly in 2006. The Medicare Part A prospective payment system was changed to add new categories of services which effectively shifted the allocation of reimbursable services away from the services that Symphony provides. To the extent that Symphony's customer contracts are linked to these categories of services, revenues and gross margins will decline unless Symphony is successful in renegotiating its customer contracts to address this regulatory change. Although Symphony has successfully renegotiated many of its contracts with respect to this matter, Part A revenues for certain customers could decline. With respect to Medicare Part B therapy services, most of these services became subject to an annual limitation per beneficiary of $1,740 for physical therapy and speech-language pathology and $1,740 for occupational therapy services, subject to an exception process developed by CMS for services deemed medically appropriate. The CMS exception process is retroactive to January 1, 2006, and is to be fully implemented no later than March 13, 2006. Under the guidance CMS published, the majority of Symphony's patients will qualify for an automatic exception to the therapy cap limits. Those who do not qualify for the automatic exception are still eligible to obtain a manual exception, subject to CMS approval. While the exception process was under development, it created uncertainty among Symphony's staff and customers which limited Symphony's services to Part B patients. Symphony is currently training operating and clinical staff on the new exception process, so that services can be provided when medically necessary, and expects that once training is complete revenues for Medicare Part B therapy services will increase. However, Symphony does not expect that revenues for Part B Medicare therapy services will increase to the level that they would have been absent implementation of the caps.

Beginning in 2004, Symphony performed an evaluation of its customer base to identify those customers and markets where Symphony could deliver the highest level of service and that should be the focus of customer retention

efforts, as well as identifying those customers that should be terminated. Symphony is also seeking to grow its profitable businesses, which includes expanding its service offerings to existing customers. The ability of Symphony to grow its business depends heavily upon its ability to attract, develop and retain qualified therapists. There is a current shortage of qualified therapists industry-wide, and Symphony has open positions to provide service to new customers, provide additional service offerings for existing customers and as a result of normal employee turnover. The tight labor market causes Symphony and others in its industry to, at times, hire independent contractors to perform required services, which may increase costs and reduce margins, and can also result in lost revenue opportunities if skilled independent contractors are not available at an acceptable cost.

The decrease in healthcare revenues in 2005 as compared to 2004 principally resulted from Symphony's termination of certain underperforming customers, customer attrition and the sale of Symphony's respiratory line of business in the second quarter of 2005. During the 2005, 2004 and 2003 periods, one customer accounted for approximately 14%, 16% and 14%, respectively, of Symphony's revenues.

Gross margins declined in 2005 as compared to 2004, which reflects the revenue changes discussed above, higher hourly wages and benefits paid to attract and retain therapists and greater amounts incurred for independent contractors, both due to a shortage of licensed therapists in the marketplace, partially offset by improved therapist efficiency and reduced field management costs. Pre-tax results for 2005 also reflect higher borrowing costs, greater professional fees for certain outsourced services and expenditures for hiring, training and automation, which Symphony hopes will help offset the increase in the costs of therapists, and higher depreciation expense. Pre-tax results also reflect aggregate gains of $800,000 from the sale of certain property and the respiratory line of business.

Excluding charges for depreciation, amortization and interest expense, profits for the fourth quarter of 2005 were approximately $1,900,000 despite a 16% decline in revenues from the comparable period in the prior year and industry-wide labor cost increases. Symphony is beginning to realize the benefits of its efforts to invest in automation to improve efficiency and reduce expenses, and to enhance its service offerings and terminate unprofitable contracts.

Symphony's margins for 2004 reflect higher hourly wages and benefits paid to attract and retain its therapists, and increased costs to hire independent contractors as a result of hiring needs for both full-time and part-time professionals. Pre-tax results for 2004 also reflect approximately $3,300,000 from the collection of receivables in excess of their carrying amounts, a decrease in estimated liabilities for employee health insurance costs and other third party claims of approximately $1,700,000, and a gain of $1,000,000 from the sale of certain property. In addition, pre-tax results for 2004 reflect approximately $3,900,000 of costs, principally severance for Symphony's former chief executive officer and others due to reorganizing and consolidating certain field operations and closing offices.

Telecommunications - ATX

ATX has been consolidated by the Company since April 22, 2005, the effective date of its bankruptcy plan. From acquisition through December 31, 2005, ATX telecommunications revenues and other income were $111,400,000,

telecommunications cost of sales were $69,600,000, salaries and incentive compensation expense was $17,700,000, depreciation and amortization expenses were $7,500,000, selling, general and other expenses were $18,400,000 and ATX had a pre-tax loss from continuing operations of $1,900,000. ATX's cost of sales in 2005 reflects the migration of portions of its network to lower cost providers, the favorable resolution of an access cost dispute and a favorable rate change for unbundled local circuits; however, these cost reductions were offset by UNE-P and Entrance Facility rate increases from Verizon. ATX had a pre-tax loss from discontinued operations of $200,000 in 2005.

As discussed above, ATX's ability to provide quality services at competitive prices to its customers is significantly dependent upon its ability to use or purchase various components of an ILEC's network and infrastructure. However, ATX does own certain equipment and facilities that help mitigate its reliance upon ILECs and reduce its costs. The enactment of the Telecom Act enabled ATX to purchase ILEC services at favorable rates; however, certain subsequent regulatory action has resulted in more flexibility for the ILEC in determining what products and services it provides and the rates it can charge. In certain instances, regulatory action is shifting the determination of these rates from regulatory jurisdiction towards commercial negotiation between the parties, generally resulting in ILEC price increases. For some stand-alone product lines, in particular local telephone services, ATX does not expect it will be able to offer a competitive product because its charges from the ILEC have risen, resulting in a price increase for ATX's customers. ATX has been and continues to restructure its operations to meet the changing competitive and regulatory environment and increased cost of services; however, ATX's future profitability is uncertain.

Domestic Real Estate

Pre-tax income for the domestic real estate segment was $4,100,000, $20,700,000 and $18,100,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Pre-tax results for the domestic real estate segment are largely dependent upon the performance of the segment's operating properties, the current status of the Company's real estate development projects and non-recurring gains or losses recognized when real estate assets are sold. As a result, the results of operations for this segment in the aggregate for any particular year are not predictable and do not follow any consistent pattern.

In 2005, the Company sold its 716-room Waikiki Beach hotel and related assets for an aggregate purchase price of $107,000,000, before closing costs and other required payments. The Company recorded a pre-tax gain of $56,600,000, which is reflected in gain on disposal of discontinued operations. Historical operating results for the hotel have not been material.

In 2004, the Company sold 92 lots of its 95-lot development project in South Walton County, Florida for aggregate sales proceeds of approximately $50,000,000, recognized pre-tax profits of $15,800,000 and deferred recognition of pre-tax profits of $10,200,000. During 2005, the Company recognized $7,000,000 of the deferred profit related to this project, upon completion of certain required improvements to the property.

Revenues and pre-tax results for this segment increased in 2004 as compared to 2003, primarily due to the South Walton County project sale discussed above. In addition, revenues during 2004 reflect the sale of certain unimproved land for cash proceeds of $8,800,000, which resulted in a pre-tax gain of $7,600,000. Revenues during 2004 also reflect decreased gains from

property sales at the Company's other residential and commercial project in the Florida panhandle as the lots had largely been sold, and less amortization of deferred gains from sales of real estate in prior years. Pre-tax results for 2004 also reflect due diligence expenses for a real estate development project that the Company decided not to develop.

During 2003, the Company recognized $11,100,000 of deferred gains from sales of real estate in prior years.

Banking and Lending

As stated previously, the Company's banking and lending operations have been in run-off, and during 2005 the Company's banking and lending subsidiary filed a formal plan with the Office of the Comptroller of the Currency to liquidate its operations, sold its remaining customer deposits and surrendered its national bank charter. As a result, revenues and expenses included in the Company's 2005 consolidated statements of operations are not material and are not discussed below. Pre-tax results for banking and lending of $1,400,000, $22,000,000 and $8,400,000 for the years ended December 31, 2005, 2004 and 2003, respectively, have been classified with other operations.

During 2004, the Company sold its subprime automobile and collateralized consumer loan portfolios representing approximately 97% of its total outstanding loans (net of unearned finance charges) and certain loan portfolios that had been substantially written-off for aggregate pre-tax gains of $16,300,000, which is reflected in investment and other income. Finance revenues of $10,000,000 in 2004 and $55,100,000 in 2003 reflect this decreasing level of consumer instalment loans. Although finance revenues decreased in 2004 as compared to 2003, pre-tax results increased due to gains from the loan portfolios sales, a decline in the provision for loan losses of $24,700,000, reductions in interest expense of $6,000,000 principally resulting from reduced customer banking deposits, less interest paid on interest rate swaps and lower salaries expense and operating costs resulting from the segment's restructuring efforts. All of these changes reflected the ongoing reduction in the amount of loan assets under management, including as a result of the loan portfolios sales.

Pre-tax results for the banking and lending segment include income of $3,100,000 for the year ended December 31, 2003, resulting from mark-to-market changes on interest rate swaps. The Company had used interest rate swaps to manage the impact of interest rate changes on its customer banking deposits; all of the interest rate swap agreements matured in 2003.

Corporate and Other Operations

Investment and other income increased in 2005 as compared to 2004 primarily due to the $10,500,000 gain on the sale of 70% of the Company's interest in CLC to Inmet, greater investment income of $24,200,000 reflecting a larger amount of invested assets and higher interest rates, and increased sales at the wineries of $5,000,000. Available corporate cash is generally invested on a short-term basis until such time as investment opportunities require an expenditure of funds.

Investment and other income increased in 2004 as compared to 2003 primarily due to the pre-tax gain of $11,300,000 from the sale of two of the Company's older corporate aircraft, greater dividend and interest income of

$12,400,000 and miscellaneous other income. Investment and other income for 2003 included $5,300,000 of income related to a refund of foreign taxes not based on income.

Net securities gains for Corporate and Other Operations aggregated $208,800,000, $136,100,000 and $10,600,000 for the years ended December 31, 2005, 2004 and 2003, respectively. During 2005 and 2004, the Company's net securities gains largely reflect realized gains from the sale of publicly traded debt and equity securities that had been classified as Corporate available for sale securities. Included in net securities gains for the 2005 periods is a gain of $146,000,000 from the sale of 375,000 shares of WMIG common stock. Net securities gains for 2005, 2004 and 2003 include provisions of $12,200,000, $4,600,000 and $6,500,000, respectively, to write down the Company's investments in certain available for sale securities and an investment in a non-public security in 2003. The write down of the securities resulted from a decline in market value determined to be other than temporary.

The Company's decision to sell securities and realize security gains or losses is generally based on its evaluation of an individual security's value at the time and the prospect for changes in its value in the future. The decision could also be influenced by the status of the Company's tax attributes or liquidity needs; however, sales in recent years have not been influenced by these considerations. Therefore, the timing of realized security gains or losses is not predictable and does not follow any pattern from year to year.

The increase in interest expense during 2005 as compared to 2004 primarily reflects interest expense relating to $100,000,000 principal amount of 7% Senior Notes and $350,000,000 principal amount of 3 3/4% Convertible Senior Subordinated Notes issued in April 2004. The increase in interest expense during 2004 as compared to 2003 primarily reflects the issuance of the bonds in 2004, interest expense relating to $275,000,000 aggregate principal amount of 7% Senior Notes issued during 2003, and dividends accrued on its trust issued preferred securities, which commencing July 1, 2003 are classified as interest expense (shown as minority interest in prior periods).

Salaries and incentive compensation expense increased by $31,300,000 in 2005 as compared to 2004, and by $2,400,000 in 2004 as compared to 2003, principally due to increased bonus expense.

Selling, general and other expenses increased by $14,600,000 in 2005 as compared to 2004, primarily due to higher minority interest expense relating to MK prior to its merger of $4,200,000, greater foreign exchange losses of $2,700,000, higher professional fees of $4,400,000 that principally relate to due diligence expenses for potential investments and investment management fees, an impairment loss for the remaining book value of the investment in Olympus of $3,700,000, greater employee benefit expenses and operating expenses of a subsidiary engaged in the development of a new medical product.

Selling, general and other expenses increased by $19,700,000 in 2004 as compared to 2003, primarily due to greater professional and other fees of $8,500,000, which largely relate to due diligence expenses for potential investments, greater professional fees for existing investments and fees relating to the implementation of the Sarbanes-Oxley Act of 2002, and $3,600,000 of expenses related to the proposed public offering of MK's equity that did not go forward due to unfavorable market conditions. In addition, the increase reflects greater employee benefit expenses, higher insurance costs and greater amortization of debt issuance costs related to the 7% Senior Notes and 3 3/4% Convertible Notes.

As more fully discussed above, during 2005 the Company's revised projections of future taxable income enabled it to conclude that it is more likely than not that it will have future taxable income sufficient to realize a

portion of the Company's net deferred tax asset; accordingly, $1,135,100,000 of the deferred tax valuation allowance was reversed as a credit to income tax expense.

The income tax provision reflects the reversal of tax reserves aggregating $27,300,000 and $24,400,000 for the years ended December 31, 2004 and 2003, respectively, as a result of the favorable resolution of various state

and federal income tax contingencies. In addition, in 2004 the tax provision reflects a benefit to record a federal income tax carryback refund of $3,900,000.

In 2003, the Company established a valuation allowance that fully reserved for all of WilTel's net deferred tax assets, reduced by an amount equal to the Company's current and deferred federal income tax liabilities as of the date of acquisition. The valuation allowance was required because, on a pro forma combined basis, the Company was not able to demonstrate that it is more likely than not that it would be able to realize the deferred tax asset. Subsequent to the acquisition of WilTel, during 2004 and 2003 any benefit realized from WilTel's deferred tax asset reduced the valuation allowance for the deferred tax asset; however, that reduction was first applied to reduce the carrying amount of the acquired non-current intangible assets of WilTel rather than to reduce the income tax provision of any component of total comprehensive income.

As a result, the various components of comprehensive income include an aggregate federal income tax provision of $22,300,000 in 2004 and $22,500,000 in 2003 (for the period subsequent to the acquisition of WilTel), even though no federal income tax for those periods was due. During 2004, the effect of recording this tax provision and the resulting reduction to the valuation allowance was to reduce the carrying amount of the acquired non-current intangible assets to zero. Income tax expense for 2003 also includes the Company's actual income tax expense for the period prior to the acquisition of WilTel.

Associated Companies

Equity in income (losses) of associated companies includes the following for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Olympus	$(120,100)	$ 9,700	$ 40,400
EagleRock	(28,900)	29,400	49,900
HomeFed	5,800	10,000	16,200
JPOF II	23,600	16,200	14,800
Union Square	72,800	1,300	100
Pershing Square, L.P.	--	21,300	--
Berkadia	800	79,200	
WilTel	--	--	(52,100)
Other	2,400	2,800	(1,500)
Equity in income (losses) before income taxes	(44,400)	91,500	147,000
Income tax expense	(700)	(15,000)	(70,100)

Equity in income (losses), net of taxes	$ (45,100)	$ 76,500	$ 76,900

The Company's equity in losses from Olympus for 2005 reflects its share of Olympus' estimated losses from hurricanes Katrina, Rita and Wilma. Effective January 1, 2006, Olympus received new capital which reduced the Company's equity interest to less than 4%. As a result, the Company will not apply the equity method of accounting for this investment in the future. At December 31, 2005, the book value of the Company's investment in Olympus had been written down to zero.

As described above, the Company owns approximately 30% of HomeFed, a California real estate development company, which it acquired in 2002. The Company's share of HomeFed's reported earnings fluctuates with the level of real estate sales activity at HomeFed's development projects.

The Company's share of JPOF II's earnings was distributed to the Company shortly after the end of each year.

18

The equity in income (losses) of EagleRock results from both realized and changes in unrealized gains (losses) in its portfolio. The partnership distributed $16,600,000 to the Company in 2006 and $3,700,000 in 2004.

Union Square, two entities in which the Company had non-controlling equity interests, sold their respective interests in an office complex located on Capitol Hill in Washington, D.C. during 2005. Including repayment of its mortgage loans at closing, the Company's share of the net proceeds was $73,200,000, and the Company recognized a pre-tax gain of $72,300,000.

In January 2004, the Company invested $50,000,000 in Pershing Square, L.P. ("Pershing"), a limited partnership that is authorized to engage in a variety of investing activities. The Company redeemed its interest effective December 31, 2004; $71,300,000 was distributed to the Company in early 2005.

Since the Berkadia loan was fully repaid during the first quarter of 2004, the Company will no longer have any income related to the Berkadia loan in the future. The Company's income from this investment is expected to be limited to its share ($4,000,000) of the annual management fee received from FINOVA while such fee remains in effect. The Company does not believe that its share of the FINOVA common stock will ever result in any cash value, and is reflected at a zero book value. The Company has received total net cash proceeds of $95,200,000 from this investment since 2001, including the commitment and financing fees, management fees and interest payments related to its share of the Berkadia loan.

The table above includes amounts related to WilTel prior to consolidation in November 2003 when it was accounted for under the equity method of accounting.

Discontinued Operations

WilTel

As discussed above, the Company sold WilTel to Level 3 in December 2005 and recognized a pre-tax gain on disposal of $243,800,000. The calculation of

the gain on sale included: (1) the cash proceeds received from Level 3 of $460,300,000, which is net of estimated working capital adjustments of $25,500,000; (2) the fair value of the Level 3 common shares of $339,300,000, based on the $2.95 per share closing price of Level 3 common stock immediately prior to closing; (3) the amount of the SBC cash payments that had not been previously accrued prior to closing ($175,900,000); (4) an impairment charge for WilTel's headquarters building of approximately $42,400,000; and (5) the net book value of the net assets sold and estimated expenses and other costs related to the transaction. The Company reclassified WilTel's consolidated historical results of operations prior to the sale to income (loss) from discontinued operations. WilTel's income (loss) from discontinued operations was $116,000,000, $(56,600,000) and $(15,300,000) for the years ended December 31, 2005, 2004 and 2003, respectively.

Wireless Messaging

In December 2002, the Company entered into an agreement to purchase certain debt and equity securities of WebLink Wireless, Inc. ("WebLink"), for an aggregate purchase price of $19,000,000. WebLink operated in the wireless messaging industry, providing wireless data services and traditional paging services. In the fourth quarter of 2003, WebLink sold substantially all of its operating assets to Metrocall, Inc. for 500,000 shares of common stock of Metrocall, Inc.'s parent, Metrocall Holdings, Inc. ("Metrocall"), an immediately exercisable warrant to purchase 25,000 shares of common stock of Metrocall at $40 per share, and a warrant to purchase up to 100,000 additional shares of Metrocall common stock at $40 per share, subject to certain vesting criteria. Based upon the market price of the Metrocall stock received and the fair value of the warrants received as of the date of sale, the Company reported a pre-tax gain on disposal of discontinued operations of $11,500,000. The vesting criteria for the remaining warrants were satisfied during 2004, and the Company recorded $2,200,000 as gain on disposal of discontinued operations (net of minority interest), which represented the estimated fair value of the warrants. Due to

19

WebLink's large net operating loss carryforwards, these gains were not reduced for any federal income tax expense.

During the fourth quarter of 2004, WebLink exercised all of its warrants and subsequently tendered all of its Metrocall shares as part of a merger agreement between Metrocall and Arch Wireless, Inc. WebLink received cash of $19,900,000 and 675,607 common shares of the new parent company (USA Mobility, Inc., which had a fair market value of $25,000,000 when received), resulting in a pre-tax gain of $15,800,000 that is included in net securities gains of continuing operations. The USA Mobility shares were sold during 2005.

In return for the Company's $19,000,000 investment in WebLink, the Company received aggregate cash proceeds of $48,900,000, net of minority interest and residual liabilities.

Domestic Real Estate

As discussed above, in 2005 the Company sold its 716-room Waikiki Beach hotel and related assets and recorded a pre-tax gain of $56,600,000, which is reflected in gain on disposal of discontinued operations.

In the fourth quarter of 2004, the Company sold a commercial real estate

property and classified it as a discontinued operation. During the second quarter of 2004, the Company recorded a non-cash charge of $7,100,000 to reduce the carrying amount of this property to its estimated fair value. The Company recorded an additional pre-tax loss of $600,000 when the sale closed, principally relating to mortgage prepayment penalties incurred upon satisfaction of the property's mortgage. Operating results for this property were not material in prior years.

Other Operations

In December 2005, the Company sold its interest in an Argentine shoe manufacturer that had been acquired earlier in the year. Although there was no material gain or loss on disposal, results of discontinued operations during 2005 include an operating loss of $4,400,000.

In the fourth quarter of 2004, the Company sold its geothermal power generation business for $14,800,000, net of closing costs, and recognized a pre-tax gain of $200,000. For the years ended December 31, 2004 and 2003, the Company recorded pre-tax losses from discontinued operations relating to this business of $1,500,000 and $2,300,000, respectively.

Recently Issued Accounting Standards

In April 2005, the SEC amended the effective date of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), from the first interim or annual period after June 15, 2005 to the beginning of the next fiscal year that begins after June 15, 2005. SFAS 123R requires that the cost of all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values. That cost will be recognized as an expense over the vesting period of the award. Pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. In addition, the Company will be required to determine fair value in accordance with SFAS 123R; the Company intends to use the modified prospective method. The Company does not expect that SFAS 123R will have a material impact on its consolidated financial statements with respect to currently outstanding options.

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"), which is effective for accounting changes and corrections of

errors made in fiscal years beginning after December 15, 2005. SFAS 154 applies to all voluntary changes in accounting principles, and changes the accounting and reporting requirements for a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless doing so is impracticable. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period in which the change occurred the cumulative effect of changing to the new accounting principle. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 carries forward without change the guidance in APB 20 for reporting the correction of an error in previously issued financial statements, a change in accounting estimate and a

change in reporting entity, as well as the provisions of SFAS 3 that govern reporting accounting changes in interim financial statements. The Company does not expect that SFAS 154 will have a material impact on its consolidated financial statements.

Cautionary Statement for Forward-Looking Information

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

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

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

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

PART IV

Item 15. Exhibits and Financial Statement Schedule.

(a)(1)(2) Financial Statements and Schedule.

Report of Independent Registered Public Accounting Firm........F-1
Financial Statements:
Consolidated Balance Sheets at December 31, 2005 and 2004.....F-3
Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003..........................F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003....................F-5
Consolidated Statements of Changes in Shareholders'

Equity for the years ended December 31, 2005, 2004 and 2003..F-7
Notes to Consolidated Financial Statements...................F-8

Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts.............F-49

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

1999 Stock Option Plan (filed as Annex A to the Company's Proxy Statement dated April 9, 1999 (the "1999 Proxy Statement")).

Form of Grant Letter for the 1999 Stock Option Plan (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (the "2004 10-K").

Amended and Restated Shareholders Agreement dated as of June 30, 2003 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the "2003 10-K")).

Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 17, 2005 (filed as Annex A to the Company's Proxy Statement dated April 22, 2005 (the "2005 Proxy Statement")).

Employment Agreement made as of June 30, 2005 by and between the Company and Ian M. Cumming (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated July 13, 2005 (the "July 13, 2005 8-K")).

Employment Agreement made as of June 30, 2005 by and between the Company and Joseph S. Steinberg (filed as Exhibit 99.2 to the July 13, 2005 8-K).

(b) Exhibits.

We will furnish any exhibit upon request made to our Corporate Secretary, 315 Park Avenue South, New York, NY 10010. We charge $.50 per page to cover expenses of copying and mailing.

3.1 Restated Certificate of Incorporation (filed as Exhibit 5.1 to the Company's Current Report on Form 8-K dated July 14, 1993).*

3.2 Certificate of Amendment of the Certificate of Incorporation dated as of May 14, 2002 (filed as Exhibit 3.2 to the 2003 10-K).*

3.3 Certificate of Amendment of the Certificate of

	Incorporation dated as of December 23, 2002 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "2002 10-K")).*
3.4	Amended and Restated By-laws as amended through March 9, 2004 (filed as Exhibit 3.4 to the 2003 10-K).*
3.5	Certificate of Amendment of the Certificate of Incorporation dated as of May 13, 2004 (filed as Exhibit 3.5 to the Company's 2004 10-K).*
3.6	Certificate of Amendment of the Certificate of Incorporation dated as of May 17, 2005 (filed as Exhibit 3.6 to the Company's 2005 10-K).
4.1	The Company undertakes to furnish the Securities and Exchange Commission, upon written request, a copy of all instruments with respect to long-term debt not filed herewith.
10.1	1999 Stock Option Plan (filed as Annex A to the 1999 Proxy Statement).*
10.2	Form of Grant Letter for the 1999 Stock Option Plan (filed as Exhibit 10.4 to the Company's 2004 10-K").*
10.3	Amended and Restated Shareholders Agreement dated as of June 30, 2003 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.5 to the 2003 10-K).*
10.4	Form of Amended and Restated Revolving Credit Agreement (the "Revolving Credit Agreement") dated as of March 11, 2003 between the Company, Fleet National Bank as Administrative Agent, The Chase Manhattan Bank, as Syndication Agent, and the Banks signatory thereto, with Fleet Boston Robertson Stephens, Inc., as Arranger (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003).*
10.5	Amendment, dated as of March 31, 2004, to the Revolving Credit Agreement (filed as Exhibit 10.7 to the Company's 2004 10-K).*
10.6	Amendment, dated as of June 29, 2004, to the Revolving Credit Agreement (filed as Exhibit 10.8 to the Company's 2004 10-K).*
10.7	Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 17, 2005 (filed as Annex A to the 2005 Proxy Statement).*

10.8	Employment Agreement made as of June 30, 2005 by and between the Company and Ian M. Cumming (filed as Exhibit 99.1 to the Company's July 13, 2005 8-K).*
10.9	Employment Agreement made as of June 30, 2005 by and

between the Company and Joseph S. Steinberg (filed as Exhibit 99.2 to the July 13, 2005 8-K).*

10.10 Management Services Agreement dated as of February 26, 2001 among The FINOVA Group Inc., the Company and Leucadia International Corporation (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).*

10.11 Voting Agreement, dated August 21, 2001, by and among Berkadia LLC, Berkshire Hathaway Inc., the Company and The FINOVA Group Inc. (filed as Exhibit 10.J to the Company's Current Report on Form 8-K dated August 27, 2001).*

10.12 Second Amended and Restated Berkadia LLC Operating Agreement, dated December 2, 2002, by and among BH Finance LLC and WMAC Investment Corporation (filed as Exhibit 10.40 to the 2002 10-K).*

10.13 First Amended Joint Chapter 11 Plan of Reorganization of Williams Communications Group, Inc. ("WCG") and CG Austria, Inc. filed with the Bankruptcy Court as Exhibit 1 to the Settlement Agreement (filed as Exhibit 99.3 to the Current Report on Form 8-K of WCG dated July 31, 2002 (the "WCG July 31, 2002 8-K")).*

10.14 Tax Cooperation Agreement between WCG and The Williams Companies Inc. dated July 26, 2002, filed with the Bankruptcy Court as Exhibit 7 to the Settlement Agreement (filed as Exhibit 99.9 to the WCG July 31, 2002 8-K).*

10.15 Third Amended and Restated Credit And Guaranty Agreement, dated as of September 8, 1999, as amended and restated as of April 25, 2001, as further amended and restated as of October 15, 2002, and as further amended and restated as of September 24, 2004, among WilTel, WilTel Communications, LLC, certain of its domestic subsidiaries, as loan parties, the several banks and other financial institutions or entities from time to time parties thereto as lenders, Credit Suisse First Boston, acting through its Cayman Islands branch, as administrative agent, as first lien administrative agent and as second lien administrative agent, and Wells Fargo Foothill, LLC, as syndication agent (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated September 24, 2002 (the "Company's September 24, 2002 8-K")).*

10.16 First Amendment to Third Amended and Restated Credit And Guaranty Agreement, dated September 2, 2005, by and among WilTel Communications, LLC, WilTel Communications Group LLC, the Subsidiary Guarantors (as defined), and the First Lien Administrative Agent, the Second Lien Administrative Agent and the Administrative Agent for the Lenders (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated September 2, 2005).*

10.17 Second Amended and Restated Security Agreement, dated as of April 23, 2001, as amended and restated as of October 15, 2002, and as further amended and restated as of September 24, 2004, among WilTel, WilTel Communications, LLC, and the additional grantors party thereto in favor of Credit Suisse First Boston, acting through its Cayman Islands branch, as

administrative agent, as first lien administrative agent and as second lien administrative agent (filed as Exhibit 99.2 to the Company's September 24, 2002 8-K).*

10.18 Exhibit 1 to the Agreement and Plan of Reorganization between the Company and TLC Associates, dated February 23, 1989 (filed as Exhibit 3 to Amendment No. 12 to the Schedule 13D dated December 29, 2004 of Ian M. Cumming and Joseph S. Steinberg with respect to the Company).*

10.19 Letter Agreement, dated February 3, 2005, between the Company and Jefferies & Company, Inc. (filed as Exhibit 10.55 to the Company's 2004 10-K).*

10.20 Information Concerning Executive Compensation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 9, 2006).*

10.21 Compensation of Non-Employee Directors (filed as Exhibit 10.21 to the Company's 2005 10-K).*

10.22 Hotel Purchase Agreement, dated as of April 6, 2005, by and between HWB 2507 Kalakaua, LLC and Gaylord Entertainment Co. (filed as Exhibit 10.2. to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (the "1st Quarter 2005 10-Q")).*

10.23 Stock Purchase Agreement, dated as of May 2, 2005, by and among the Company and the individuals named therein (filed as Exhibit 10.4 to the Company's 1st Quarter 2005 10-Q).*

10.24 Purchase Agreement, dated as of October 30, 2005, among the Company, Baldwin Enterprises, Inc., Level 3 Communications, LLC and Level 3 Communications, Inc. ("Level 3") (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 30, 2005).*

10.25 Registration Rights and Transfer Restriction Agreement, dated as of December 23, 2005, by and among Level 3, the Company and Baldwin Enterprises, Inc. (filed as Exhibit 10.2 to Level 3's Current Report on Form 8-K dated December 23, 2005).*

10.26 Purchase and Sale Agreement ("Square 711 Purchase and Sale Agreement"), dated as of November 14, 2005, between Square 711 Developer, LLC and Walton Acquisition Holdings V, L.L.C., a Delaware limited liability company (filed as Exhibit 10.26 to the Company's 2005 10-K).*

10.27 First Amendment to Square 711 Purchase and Sale Agreement, dated as of December 14, 2005 (filed as Exhibit 10.27 to the Company's 2005 10-K).*

10.28 Share Purchase Agreement, dated May 2, 2005, between Inmet Mining Corporation, the Company and MK Resources Company

(filed as Exhibit 2 to Amendment No. 10 to the Schedule 13D dated May 2, 2005 of the Company with respect to MK Resources Company (the "MK 13D")).*

10.29 Agreement and Plan of Merger, dated as of May 2, 2005, among the Company, Marigold Acquisition Corp. and MK Resources Company (filed as Exhibit 3 to the MK 13D).*

10.30 Voting Agreement, dated as of May 2, 2005, between the Company and Inmet Mining Corporation (filed as Exhibit 4 to the MK 13D).*

10.31 Letter Agreement, dated March 30, 2005 between SBC Services, Inc. ("SBC Services") and WilTel Communications, LLC ("WCLLC") (filed as Exhibit 10.1 to the Company's 1st Quarter 2005 10-Q).*

10.32 Letter Agreement, dated April 27, 2005 between SBC Services and WCLLC (filed as Exhibit 10.3 to the Company's 1st Quarter 2005 10-Q).*

10.33 Letter Agreement, dated May 25, 2005 between SBC Services and WCLLC (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005).*

10.34 Master Services Agreement dated June 15, 2005 among WilTel Communications Group ("WCGLLC"), WilTel Local Network, LLC, SBC Services. and SBC Communications Inc. ("SBC") (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K/A dated June 15, 2005 (the "June 15, 2005 8-K/A")).*

10.35 Termination, Mutual Release and Settlement Agreement dated June 15, 2005 among the Company, WCGLLC, WCLLC, SBC, SBC Operations, Inc. and SBC Long Distance, LLC (filed as Exhibit 99.2 to the Company's June 15, 2005 8-K/A).*

10.36 Debtors' Modified Second Amended Joint Plan of Reorganization under chapter 11 of he Bankruptcy Code, dated as of April 13, 2005, of ATX Communications, Inc. (filed as Exhibit 99.1 to ATX Communication's Current Report on Form 8-K dated April 20, 2005).*

10.37 Services Agreement, dated as of January 1, 2004, between the Company and Ian M. Cumming (filed as Exhibit 10.37 to the Company's 2005 10-K).*

10.38 Services Agreement, dated as of January 1, 2004, between the Company and Joseph S. Steinberg (filed as Exhibit 10.38 to the Company's 2005 10-K).*

21 Subsidiaries of the registrant (filed as Exhibit 21 to the Company's 2005 10-K).*

23.1 Consent of PricewaterhouseCoopers LLP with respect to the

incorporation by reference into the Company's Registration Statement on Form S-8 (File No. 2-84303), Form S-8 and S-3 (File No. 33-6054), Form S-8 and S-3 (File No. 33-26434), Form S-8 and S-3 (File No. 33-30277), Form S-8 (File No. 33-61682), Form S-8 (File No. 33-61718), Form S-8 (File No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.1 to the Company's 2005 10-K).*

23.2 Consent of Ernst & Young LLP with respect to the inclusion in this Annual Report on Form 10-K/A of the financial statements of Berkadia LLC and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.2 to the Company's Annual Report on Form 10-K/A dated March 24, 2006 (the "March 24, 2006 10-K/A)).*

23.3 Consent of PricewaterhouseCoopers, with respect to the inclusion in this Annual Report on Form 10-K/A the financial statements of Olympus Re Holdings, Ltd. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.3 to the Company's March 24, 2006 10-K/A).*

23.4 Consent of independent auditors from BDO Seidman, LLP with respect to the inclusion in this Annual Report on Form 10-K/A of the financial statements of EagleRock Capital Partners (QP), LP and EagleRock Master Fund, LP and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.4 to the Company's March 24, 2006 10-K/A).*

23.5 Consent of independent auditors from Ernst & Young LLP with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of WilTel Communications Group, Inc. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.5 to the Company's 2005 10-K).*

23.6 Independent Registered Public Accountants' Consent from

KPMG LLP, with respect to the inclusion in this Annual Report on Form 10-K/A of their report on the financial statements of Jefferies Partners Opportunity Fund II, LLC and with respect to the incorporation by reference of such report into the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.6 to the Company's March 24, 2006 10-K/A).*

23.7 Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement on Form S-8 (File No. 2-84303), Form S-8 and S-3 (File No. 33-6054), Form S-8 and S-3 (File No. 33-26434), Form S-8 and S-3 (File No. 33-30277), Form S-8 (File No. 33-61682), Form S-8 (File No. 33-61718), Form S-8 (File No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.7 to the Company's Annual Report on Form 10-K/A dated March 9, 2006). *

31.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

32.2 Certification of President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

32.3 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

(c) Financial statement schedules.

(1) Berkadia LLC financial statements for the years ended December 31, 2004 and 2003 (previously filed as financial statement schedule to the Company's March 24, 2006 10-K/A).*

27

(2) Olympus Re Holdings, Ltd. consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 (previously filed as financial statement schedule to the Company's March 24, 2006 10-K/A).*

(3) EagleRock Capital Partners (QP), LP financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 and

EagleRock Master Fund, LP financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 (previously filed as financial statement schedule to the Company's March 24, 2006 10-K/A).*

(4) WilTel Communications Group, Inc. consolidated financial statements as of November 5, 2003 (Successor Company), and for the periods from January 1, 2003 through November 5, 2003, and November 1, 2002 through December 31, 2002 (Successor Company) and the periods January 1, 2002 through October 31, 2002 (Predecessor Company) (previously filed as financial statement schedule to the Company's 2005 10-K).*

(5) Jefferies Partners Opportunity Fund II, LLC financial statements as of December 31, 2005 and for the year ended December 31, 2005 (previously filed as financial statement schedule to the Company's March 24, 2006 10-K/A)*.

(6) Jefferies Partners Opportunity Fund II, LLC financial statements for the years ended December 31, 2004 and 2003.

----

* Incorporated by reference.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEUCADIA NATIONAL CORPORATION

November 3, 2006

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller

29

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Unaudited Financial Statements

December 31, 2004 and 2003

30

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statements of Financial Condition

December 31, 2004 and 2003
Unaudited

	2004	2003
ASSETS		
Cash and cash equivalents	$ 58,933,824	59,494,963
Receivable from affiliated brokers and dealers	19,898,579	6,084,642
Securities owned	78,430,501	91,758,964
Securities borrowed	1,323,070	1,642,040
Other assets	653,263	2,567,342
Total assets	$159,239,237	161,547,951

LIABILITIES AND MEMBERS' EQUITY

Securities sold, not yet purchased	$ 3,505,517	2,601,400
Payable to affiliated brokers and dealers	3,611,924	9,194,501
Payable to Jefferies & Company, Inc.	360,403	639,504
Accrued expenses and other liabilities	500,232	201,740
Total liabilities	7,978,076	12,637,145
Members' equity:		
Members' capital, net	126,255,099	126,255,099
Retained earnings	25,006,062	22,655,707
Total members' equity	151,261,161	148,910,806
Total liabilities and members' equity	$159,239,237	161,547,951

See accompanying unaudited notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statements of Earnings

Years ended December 31, 2004 and 2003
Unaudited

	2004	2003
Revenues:		
Principal transactions (net of direct trading expenses)	21,984,146	17,319,861
Interest	4,089,426	6,326,007
Total revenues	26,073,572	23,645,868
Expenses:		
General and administrative	1,124,743	1,015,358
Management fee	968,639	1,061,434
Interest	579,297	518,539
Total expenses	2,672,679	2,595,331
Net earnings	$23,400,893	21,050,537

See accompanying unaudited notes to financial statements.

32

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statements of Changes in Members' Equity

Years ended December 31, 2004 and 2003
Unaudited

	MEMBERS' CAPITAL, NET	RETAINED EARNINGS	TOTAL MEMBERS' EQUITY
Balance, December 31, 2002	$126,255,099	23,395,141	149,650,240
Distributions	--	(21,789,971)	(21,789,971)
Net earnings	--	21,050,537	21,050,537
Balance, December 31, 2003	$126,255,099	22,655,707	148,910,806
Distributions	--	(21,050,538)	(21,050,538)
Net earnings	--	23,400,893	23,400,893
Balance, December 31, 2004	$126,255,099	25,006,062	151,261,161

See accompanying unaudited notes to financial statements.

33

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statements of Cash Flows

Years ended December 31, 2004 and 2003
Unaudited

	2004
Cash flows from operating activities:	
Net earnings	$ 23,400,893
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Amortization of financing costs	107,644

Changes in assets and liabilities:	
(Increase) decrease in receivable from affiliated brokers and dealers	(13,813,937)
Decrease in securities owned	13,328,463
Decrease (increase) in securities borrowed	318,970
Decrease (increase) in other assets	1,806,435
Increase in securities sold, not yet purchased	904,117
Decrease in payable to affiliated brokers and dealers	(5,582,577)
(Decrease) increase in payable to Jefferies & Company, Inc.	(279,101)
Increase in accrued expenses and other liabilities	298,492
	(2,911,494)
Net cash provided by operating activities	20,489,399
Cash flows from financing activities:	
Proceeds from bank loans	--
Repayment of bank loans	--
Distributions	(21,050,538)
Net cash used in financing activities	(21,050,538)
Net (decrease) increase in cash and cash equivalents	(561,139)
Cash and cash equivalents at beginning of year	59,494,963
Cash and cash equivalents at end of year	$ 58,933,824
Supplemental disclosures of cash flow information - Cash paid during the year for interest	$ 496,359

See accompanying unaudited notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Unaudited Notes to Financial Statements

December 31, 2004 and 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jefferies Partners Opportunity Fund II, LLC (the "Fund") is a Delaware limited liability company. The Fund commenced operations on January 19, 2000. The investment objective of the Fund is to generate returns for its members by making, holding, and disposing of a diverse portfolio of primarily below investment grade debt and equity investments. The Fund was established to offer members the opportunity to participate in the trading, investment, and brokerage activities of the High Yield

Department of Jefferies & Company, Inc. ("Jefferies"). The Fund employs a trading and investment strategy substantially similar to that historically employed by Jefferies' High Yield Department. The Fund acquires, actively manages, and trades a diverse portfolio of primarily non-investment grade investments consisting of the following three asset groups: High Yield Debt, Special Situation Investments, and, to a lesser extent, Bank Loans. The Fund has appointed Jefferies to serve as manager to the Fund (the "Manager"). The Fund participates in the non-syndicate trading and investment activities of the High Yield Department on a pari passu basis with Jefferies. To permit such participation, the Fund has been registered as a broker dealer under the Securities Exchange Act of 1934 and with the National Association of Securities Dealers. Although this entity is often referred to as a fund, it is a "broker dealer" in accordance with the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, "Brokers and Dealers in Securities" (the "Guide").

The Fund will be in effect until January 18, 2007, unless extended for up to three successive one-year terms by the vote of the Manager and a majority of the member interests.

The Fund, in connection with its activities as a broker dealer, does not hold funds or securities for customers. Accordingly, the computation for determination of reserve requirements pursuant to Rule 15c3-3 has been omitted.

(a) CASH AND CASH EQUIVALENTS

Cash equivalents consist of money market funds, which are part of the cash management activities of the Fund, and generally mature within 90 days. At December 31, 2004 and 2003, such cash equivalents amounted to $57,637,717 and $57,820,030, respectively.

(b) FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Fund's financial instruments are carried at fair value or amounts approximating fair value. Assets, including cash and cash equivalents, securities borrowed, and certain receivables, are carried at fair value or contracted amounts which approximate fair value due to the short period to maturity. Similarly, liabilities, including certain payables, are carried at amounts approximating fair value.

Securities and other inventory positions owned and securities and other inventory positions sold, but not yet purchased (all of which are recorded on a trade-date basis) are valued at market or fair value, as appropriate, with unrealized gains and losses reflected in Principal transactions in the Statement of Earnings. The Fund follows the AICPA Guide when determining market or fair value for financial instruments. Market value generally is determined based on listed prices or broker quotes. In certain instances, such price quotations may be deemed unreliable when the instruments are thinly traded or when the Fund holds a substantial block of a particular security and the listed price is not deemed to be readily realizable. In accordance with the AICPA Guide, in these instances, the Fund determines fair value based on

(Continued)

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Unaudited Notes to Financial Statements

December 31, 2004 and 2003

management's best estimate, giving appropriate consideration to reported prices and the extent of public trading in similar securities, the discount from the listed price associated with the cost at the date of acquisition, and the size of the position held in relation to the liquidity in the market, among other factors. When the size of the holding of a listed security is likely to impair the Fund's ability to realize the quoted market price, the Fund records the position at a discount to the quoted price reflecting management's best estimate of fair value. In such instances, the Fund generally determines fair value with reference to the discount associated with the acquisition price of the security. When listed prices or broker quotes are not available, the Fund determines fair value based on pricing models or other valuation techniques, including the use of implied pricing from similar instruments. The Fund typically uses pricing models to derive fair value based on the net present value of estimated future cash flows including adjustments, when appropriate, for liquidity, credit and/or other factors.

(c) SECURITIES TRANSACTIONS

The Fund records its securities transactions on a trade-date basis. Securities owned and securities sold, not yet purchased, are valued at market, and unrealized gains or losses are reflected in revenues from principal transactions in the statements of earnings.

(d) CONTRIBUTIONS

Capital contributions are recorded net of the Fund's closing costs and placement fees. Each member is charged a one-time placement fee of 1% of gross contributions.

(e) FEDERAL AND STATE INCOME TAXES

Under current federal and applicable state limited liability company laws and regulations, limited liability companies are treated as partnerships for tax reporting purposes and, accordingly, are not subject to income taxes. Therefore, no provision for income taxes has been made in the Fund's financial statements. For tax purposes, income or losses are included in the tax returns of the members.

(f) ALLOCATION OF INCOME AND EXPENSE

Income and expense are allocated 100% to the members based on the pro rata share of their capital contributed to the Fund, until the total allocation equals the aggregate member preferred return of 8% of contributed capital. All remaining income and expense are allocated 80% to the members and 20% to the Manager.

(g) USE OF ESTIMATES

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(Continued)

36

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Unaudited Notes to Financial Statements

December 31, 2004 and 2003

(2) RECEIVABLE FROM, AND PAYABLE TO, AFFILIATED BROKERS AND DEALERS

The following is a summary of the major categories of receivable from, and payable to, affiliated brokers and dealers as of December 31, 2004 and 2003:

	2004	2003
Receivable from affiliated brokers and dealers:		
Securities failed to deliver	$ 7,719,379	4,742,178
Other	12,179,200	1,342,464
	$19,898,579	6,084,642
Payable to affiliated brokers and dealers:		
Securities failed to receive	$ 3,401,175	9,159,503
Other	210,749	34,998
	$ 3,611,924	9,194,501

(3) SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

The following is a summary of the market value of major categories of securities owned and securities sold, not yet purchased, as of December 31, 2004 and 2003:

At December 31, 2004:

SECURITIES

	SECURITIES OWNED	SOLD, NOT YET PURCHASED
Corporate debt securities	$60,364,458	3,505,517
Corporate equity securities	18,066,043	--
	$78,430,501	3,505,517

At December 31, 2003:

	SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
Corporate debt securities	$76,461,843	2,601,400
Corporate equity securities	15,297,121	--
	$91,758,964	2,601,400

(4) REVOLVING CREDIT FACILITY

In June 2004, the Fund renewed a revolving credit facility agreement with an unaffiliated third party to be used in connection with the Fund's investing activities. At December 31, 2004 and 2003, $85,200,000 was available under the terms of the revolving credit facility agreement. The

(Continued)

revolving credit facility expires in June 2005, but provides for annual extensions. Advances under this facility bear interest at the lender's commercial paper rate plus 115 basis points. The Fund incurs a liquidity fee on the total amount available under the revolving credit facility. For the years ended December 31, 2004 and 2003, the Fund was charged a liquidity fee of $324,825 and $323,938, respectively, a program fee of $230,589 and $159,273, respectively, and an administrative fee of $0 and $278, respectively, which are included in interest expense. During the year ended December 31, 2004, the Fund did not borrow under the revolving credit facility. During the year ended December 31, 2003, the Fund borrowed, and subsequently repaid, $5,625,000 under the revolving credit facility. For the years ended December 31, 2004 and 2003, the Fund was charged interest of $0 and $15,501, respectively, on balances borrowed under the revolving credit facility. At December 31, 2004 and 2003, there were no outstanding balances under the revolving credit facility.

The Fund incurred costs in securing the revolving credit facility. These costs have been capitalized and are being amortized over seven years. At December 31, 2004 and 2003, the net unamortized costs of $224,259 and $331,903, respectively, are included in other assets. For the years ended December 31, 2004 and 2003, amortization expense of $107,644 and $107,644, respectively, is included in general and administrative expenses.

(5) RELATED PARTY TRANSACTIONS

At December 31, 2004 and 2003, members' capital included an investment in the Fund by Jefferies of $27,159,268. Additionally, Jefferies, in its capacity as Manager, contributed $1,000 of capital for the right to participate in 20% of the Fund's earnings in excess of an 8% preferred return paid to the members.

At December 31, 2004 and 2003, receivable from and payable to affiliated brokers and dealers are for amounts due from and due to Jefferies.

For the years ended December 31, 2004 and 2003, interest income included $2,200 and $2,347, respectively, of income received from Jefferies Execution Services, Inc. related to stock borrow transactions. During the years ended December 31, 2004 and 2003, Jefferies Execution Services, Inc. was the sole counterparty to all of the Fund's stock borrow transactions.

At December 31, 2004 and 2003, payable to Jefferies of $360,403 and $639,504, respectively, is for amounts due for direct trading expenses, general and administrative expenses, and management fees. For the years ended December 31, 2004 and 2003, direct trading expenses of $4,482,141 and $5,817,297, respectively, is net against principal transactions revenue. The Fund reimburses Jefferies for general and administrative expenses based on the Fund's pro rata portion of actual charges incurred. For the years ended December 31, 2004 and 2003, reimbursed expenses of $549,660 and $598,679, respectively, are included in general and administrative expenses.

For the years ended December 31, 2004 and 2003, the Fund was charged interest of $23,882 and $19,549, respectively, by Jefferies related to securities failed to receive.

(Continued)

Jefferies, in its capacity as Manager, receives a management fee equal to 1% per annum of the sum of 100% of the average balance of securities owned and 98% of the average balance of securities sold, not yet purchased. At December 31, 2004 and 2003, accrued management fees of $73,715 and $90,918, respectively, were included in payable to Jefferies.

(6) FINANCIAL INSTRUMENTS

(a) OFF-BALANCE SHEET RISK

The Fund has contractual commitments arising in the ordinary course of business for securities sold, not yet purchased. These financial instruments contain varying degrees of off-balance sheet risk whereby the market 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 the Fund's financial statements.

(b) CREDIT RISK

In the normal course of business, the Fund is involved in the execution, settlement, and financing of various principal securities transactions. Securities transactions are subject to the risk of counterparty nonperformance. However, transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through settlement date.

The Fund seeks to control the risk associated with these transactions by establishing and monitoring collateral and transaction levels daily.

(c) CONCENTRATION OF CREDIT RISK

The Fund's activities are executed exclusively with Jefferies. Concentrations of credit risk can be affected by changes in economic, industry, or geographical factors. The Fund seeks to control its credit risk and the potential risk concentration through a variety of reporting and control procedures including those described in the preceding discussion of credit risk.

(7) NET CAPITAL REQUIREMENT

The Fund is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Fund has elected to use the alternative method permitted by Rule 15c3-1, which requires that the Fund maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit balances arising from customer transactions, as defined.

At December 31, 2004, the Fund had net capital of $99,913,043, which was $99,663,043 in excess of required net capital.

(8) SUBSEQUENT EVENT

On February 15, 2005, the Fund made a distribution to the Fund members of $23,400,893.