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LEUCADIA NATIONAL CORP
Form 10-K/A
September 09, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 2

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

For the fiscal year ended December 31, 2002

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 13-261557
(State or Other Jurisdiction (I.R.S. Employer Identification No.)
of Incorporation or Organization)

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 Pacific Exchange, Inc.
7-3/4% Senior Notes due August 15, 2013	New York Stock Exchange
8-1/4% Senior Subordinated Notes due June 15, 2005	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 whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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

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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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [x] No []

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at June 30, 2002 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): \$1,114,008,000.

On March 25, 2003, the registrant had outstanding 59,617,292 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 2003 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 15 of the Annual Report on Form 10-K of Leucadia National Corporation (the "Company") for the fiscal year ended December 31, 2002:

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

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

Report of Independent Accountants.....
Financial Statements:
Consolidated Balance Sheets at December 31, 2002 and 2001.....
Consolidated Statements of Operations for the years ended December 31, 2002, 2001
2000.....
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 a
2000.....
Consolidated Statements of Changes in Shareholders' Equity for the years ended
December 31, 2002, 2001 and 2000.....
Notes to Consolidated Financial Statements.....

Financial Statement Schedule:

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

(3) Executive Compensation Plans and Arrangements.

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

Amended and Restated Shareholders Agreement dated as of December 16, 1997 among the Company, Ian M. Cumming and Joseph S. Steinberg

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(filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (the "1997 10-K")).

Leucadia National Corporation Senior Executive Annual Incentive Bonus Plan (filed as Annex D to the Company's Proxy Statement dated October 3, 1997 (the "1997 Proxy Statement")).

Employment Agreement made as of December 28, 1993 by and between the Company and Ian M. Cumming (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (the "1993 10-K")).

Amendment, dated as of May 5, 1999, to the Employment Agreement made as of December 28, 1993 by and between the Company and Ian M. Cumming (filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 (the "2001 10-K")).

Employment Agreement made as of December 28, 1993 by and between the Company and Joseph S. Steinberg (filed as Exhibit 10.18 to the 1993 10-K).

Amendment, dated as of May 5, 1999, to the Employment Agreement made as of December 28, 1993 by and between the Company and Joseph S. Steinberg (filed as Exhibit 10.21 to the 2001 10-K).

Deferred Compensation Agreement between the Company and Joseph S. Steinberg dated December 8, 1998 (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 (the "1998 10-K")).

Deferred Compensation Agreement between the Company and Joseph S. Steinberg dated as of December 30, 1999 (filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (the "1999 10-K")).

Deferred Compensation Agreement between the Company and Mark Hornstein dated as of January 10, 2000 (filed as Exhibit 10.17 to the 1999 10-K).

Deferred Compensation Agreement between the Company and Thomas E. Mara dated as of January 10, 2000 (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (the "2000 10-K")).

Deferred Compensation Agreement between the Company and Mark Hornstein dated as of December 29, 2000 (filed as Exhibit 10.18 to the 2000 10-K).

Leucadia National Corporation Senior Executive Warrant Plan (filed as Annex B to the 1999 Proxy Statement).

Deferred Compensation Agreement between the Company and Thomas E. Mara dated as of December 20, 2001 (filed as Exhibit 10.28 to the 2001 10-K).

Deferred Compensation Agreement between the Company and Mark Hornstein dated as of December 27, 2001 (filed as Exhibit 10.29 to the 2001 10-K).

Deferred Compensation Agreement between the Company and Mark

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Hornstein dated as of December 16, 2002 (filed as Exhibit 10.42 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).

(b) Reports on Form 8-K.

The Company filed current reports on Form 8-K dated October 15, 2002, October 16, 2002 and December 24, 2002 which set forth information under Item 5. Other Events and Item 7. Financial Statements and Exhibits.

The Company filed current reports on Form 8-K dated November 27, 2002 which set forth information under Item 2. Acquisition or Disposition of Assets, Item 5. Other Events and Item 7. Financial Statements and Exhibits.

(c) Exhibits.

- 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 December 23, 2002.
- 3.3 Amended and Restated By-laws as amended through February 23, 1999 (filed as Exhibit 3.2 to the 1998 10-K).*

* Incorporated by reference.

- 4.1 The Company undertakes to furnish the Securities and Exchange Commission, upon 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 Articles and Agreement of General Partnership, effective as of April 15, 1985, of Jordan/Zalaznick Capital Company (filed as Exhibit 10.20 to the Company's Registration Statement No. 33-00606).*
- 10.3 Operating Agreement of The Jordan Company LLC, dated as of July 23, 1998 (filed as Exhibit 10.3 to the 1998 10-K).*
- 10.4 Leucadia National Corporation Senior Executive Warrant Plan (filed as Annex B to the 1999 Proxy Statement).*
- 10.5 Amended and Restated Shareholders Agreement dated as of December 16, 1997 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.4 to the 1997 10-K).*
- 10.6 Deferred Compensation Agreement between the Company and Joseph S. Steinberg dated December 8, 1998 (filed as Exhibit 10.6 to the 1998 10-K).*
- 10.7 Form of Amended and Restated Revolving Credit Agreement dated as of June 27, 2000 between the Company, Fleet National Bank as Administrative Agent, The Chase Manhattan Bank, as Syndication

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Agent, and the Banks signatory thereto, with Fleet Boston Robertson Stephens, Inc., as Arranger (filed as Exhibit 10.9 to the 2000 10-K).*

- 10.8 Form of First Amendment, dated as of August 10, 2001, to Amended and Restated Revolving Credit Agreement dated as of June 27, 2000 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 10.8 to the 2001 10-K).*
- 10.9 Purchase Agreement among Conseco, Inc., the Company, Charter National Life Insurance Company, Colonial Penn Group, Inc., Colonial Penn Holdings, Inc., Leucadia Financial Corporation, Intramerica Life Insurance Company, Colonial Penn Franklin Insurance Company and Colonial Penn Insurance Company dated as of April 30, 1997 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1997).*
- 10.10 Purchase Agreement among General Electric Capital Corporation, the Company, Charter National Life Insurance Company, Colonial Penn Group Inc. and Colonial Penn Holdings, Inc. dated as of June 30, 1997 (filed as Annex A to the 1997 Proxy Statement).*
- 10.11 Purchase Agreement by and among Allstate Life Insurance Company, Allstate Life Insurance Company of New York, Charter National Life Insurance Company, Intramerica Life Insurance Company and the Company, dated February 11, 1998 (filed as Exhibit 10.16 to the 1997 10-K).*
- 10.12 Leucadia National Corporation Senior Executive Annual Incentive Bonus Plan (filed as Annex D to the 1997 Proxy Statement).*

* Incorporated by reference.

- 10.13 Stock Purchase Agreement by and between the Company and Allstate Life Insurance Company dated as of December 18, 1998 (filed as Exhibit 10.14 to the 1998 10-K).*
- 10.14 Deferred Compensation Agreement between the Company and Joseph S. Steinberg dated as of December 30, 1999 (filed as Exhibit 10.16 to the 1999 10-K).*
- 10.15 Deferred Compensation Agreement between the Company and Mark Hornstein dated as of January 10, 2000 (filed as Exhibit 10.17 to the 1999 10-K).*
- 10.16 Deferred Compensation Agreement between the Company and Thomas E. Mara dated as of January 10, 2000 (filed as Exhibit 10.17 to the 2000 10-K).*
- 10.17 Deferred Compensation Agreement between the Company and Mark Hornstein dated as of December 29, 2000 (filed as Exhibit 10.18 to the 2000 10-K).*
- 10.18 Employment Agreement made as of December 28, 1993 by and between the Company and Ian M. Cumming (filed as Exhibit 10.17 to the 1993 10-K).*
- 10.19 Amendment, dated as of May 5, 1999, to the Employment Agreement made

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as of December 28, 1993 by and between the Company and Ian M. Cumming (filed as Exhibit 10.19 to the 2001 10-K).*

- 10.20 Employment Agreement made as of December 28, 1993 by and between the Company and Joseph S. Steinberg (filed as Exhibit 10.18 to the 1993 10-K).*
- 10.21 Amendment, dated as of May 5, 1999, to the Employment Agreement made as of December 28, 1993 by and between the Company and Joseph S. Steinberg (filed as Exhibit 10.21 to the 2001 10-K).*
- 10.22 Commitment Letter dated February 26, 2001 among the Company, Berkshire Hathaway Inc., Berkadia LLC, The FINOVA Group Inc. and FINOVA Capital Corporation (filed as Exhibit 10.19 to the 2000 10-K).*
- 10.23 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 2000 10-K).*
- 10.24 Leucadia National Corporation Guaranty to Fleet Securities, Inc., as administrative agent, and the lenders from time to time party to the Fleet Facility, dated as of August 21, 2001 (filed as Exhibit 4 to the Schedule 13D filed with the SEC on August 28, 2001 in respect of Company Common Stock by Berkshire Hathaway Inc. et al. (the "Berkshire Schedule 13D")).*
- 10.25 Berkadia Management LLC Operating Agreement, dated August 21, 2001, by and between BH Finance LLC and WMAC Investment Corporation (filed as Exhibit 8 to the Berkshire Schedule 13D).*
- 10.26 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).*

* Incorporated by reference.

- 10.27 First Amended and Restated Berkadia LLC Operating Agreement, dated August 21, 2001, by and among BHF Berkadia Member Inc., WMAC Investment Corporation and Berkadia Management LLC (filed as Exhibit 11 to the Berkshire Schedule 13D).*
- 10.28 Deferred Compensation Agreement between the Company and Thomas E. Mara dated as of December 20, 2001 (filed as Exhibit 10.28 to the 2001 10-K).*
- 10.29 Deferred Compensation Agreement between the Company and Mark Hornstein dated as of December 27, 2001 (filed as Exhibit 10.29 to the 2001 10-K).*
- 10.30 Settlement Agreement dated as of July 26, 2002, by and among The Williams Companies Inc. ("TWC"), Williams Communications Group, Inc. ("WCG"), CG Austria, Inc., the official committee of unsecured creditors and the Company (filed as Exhibit 99.2 to the Current Report on Form 8-K of WCG dated July 31, 2002 (the "WCG July 31, 2002 8-K")).*
- 10.31 Investment Agreement, dated as of July 26, 2002, by and among the Company, WCG and, for purposes of Section 7.4 only, Williams

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Communications, LLC ("WCL") (filed as Exhibit 99.4 to the WCG July 31, 2002 8-K).*

- 10.32 First Amendment, made as of September 30, 2002, to the Investment Agreement, dated as of July 26, 2002, by and among the Company, WCG and WCL (filed as Exhibit 99.4 to the Current Report on Form 8-K of WCG dated October 24, 2002 (the "WilTel October 24, 2002 8-K")).*
- 10.33 Second Amendment, made as of October 15, 2002, to the Investment Agreement, dated as of July 26, 2002, as amended on September 30, 2002, by and among the Company, WCG and WCL (filed as Exhibit 99.5 to the WilTel October 24, 2002 8-K).*
- 10.34 Purchase and Sale Agreement, dated as of July 26, 2002, by and between TWC and the Company (filed as Exhibit 99.5 to the Company's Current Report on Form 8-K dated July 31, 2002).*
- 10.35 Amendment, made as of October 15, 2002, to the Purchase and Sale Agreement, dated as of July 26, 2002, by and among the Company and TWC (filed as Exhibit 99.2 to the WilTel October 24, 2002 8-K).*
- 10.36 Escrow Agreement, dated as of October 15, 2002, among the Company, TWC, WilTel and The Bank of New York, as Escrow Agent (filed as Exhibit 99.3 to the WilTel October 24, 2002 8-K).*
- 10.37 Share Purchase Agreement, dated April 17, 2002 between LUK Fidei L.L.C. and Hampton Trust PLC (previously filed).
- 10.38 Reiterative Share Purchase Agreement, dated June 4, 2002, among Savits AB Private, Hampton Trust Holding (Europe) SA, John C. Jones and Herald Century Consolidated SA (previously filed).
- 10.39 Stock Purchase Agreement, dated as of October 21, 2002, between HomeFed Corporation ("HomeFed") and the Company (filed as Exhibit 10.1 to the Current Report on Form 8-K of HomeFed dated October 22, 2002).

* Incorporated by reference.

- 10.40 Second Amended and Restated Berkadia LLC Operating Agreement, dated December 2, 2002, by and among BH Finance LLC and WMAC Investment Corporation (previously filed).
- 10.41 Subscription Agreement made and entered into as of December 23, 2002 by and among the Company and each of the entities named in Schedule I thereto (previously filed).
- 10.42 Deferred Compensation Agreement between the Company and Mark Hornstein dated as of December 26, 2002 (previously filed).
- 21 Subsidiaries of the registrant (previously filed).
- 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-4 (File No. 333-86018) (previously filed).

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- 23.2 Independent Auditors' Consent from PricewaterhouseCoopers, with respect to the inclusion in this Annual Report on Form 10-K 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-4 (No. 333-86018) (previously filed).
- 23.3 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 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-4 (No. 333-86018) (previously filed).
- 23.4 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 The FINOVA 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-4 (No. 333-86018) (previously filed).
- 23.5 Independent Auditors' Consent from KPMG LLP, with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of Jefferies Partners Opportunity Fund II, LLC for the year ended December 31, 2002 and with respect to the incorporation by reference in the Company's Registration Statements (No. 2-84303) on Form S-8, (No. 33-6054) on Form S-8 and S-3, (No. 33-26434) on Form S-8 and S-3, (No. 33-30277) on Form S-8 and S-3, (No. 33-61682) on Form S-8, (No. 33-61718) on Form S-8, (No. 333-51494) on Form S-8 and (No. 333-86018) on form S-4 (filed herewith)
- 23.6 Independent Auditors' Consent from KPMG LLP, with respect to the inclusion through incorporation by reference in this Annual Report on Form 10-K of the financial statements of Jefferies Partners Opportunity Fund II, LLC for the two years ended December 31, 2001 and the period from May 20, 1999 through December 31, 1999 and with respect to the incorporation by reference in the Company's Registration Statements (No. 2-84303) on Form S-8, (No. 33-6054) on Form S-8 and S-3, (No. 33-26434) on Form S-8 and S-3, (No. 33-30277) on Form S-8 and S-3, (No. 33-61682) on Form S-8, (No. 33-61718) on Form S-8, (No. 333-51494) on Form S-8 and (No. 333-86018) on Form S-4 (filed herewith).
- 31.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference.

- 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.

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- 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 Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(d) Financial statement schedules.

- (1) Berkadia LLC financial statements as of December 31, 2002 and 2001 and for the year ended December 31, 2002 and for the period from inception, February 26, 2001, to December 31, 2001 (previously filed).
- (2) Olympus Re Holdings, Ltd. combined financial statements as of December 31, 2002 and 2001 and for the year ended December 31, 2002 and for the period from date of incorporation, December 3, 2001 to December 31, 2001 (previously filed).
- (3) The FINOVA Group Inc. and subsidiaries consolidated financial statements as of December 31, 2002 and 2001 and for the years ended December 31, 2002, 2001 and 2000 (filed with The FINOVA Group Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2002).*
- (4) Jefferies Partners Opportunity Fund II, LLC financial statements as of December 31, 2002 and for the year ended December 31, 2002 (provided herewith) and as of December 31, 2001 and for the years ended December 31, 2001 and 2000 (filed with the 2001 10-K*).

* Incorporated by reference.

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

September 9, 2003

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC
(SEC Identification No. 8-51771)

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Financial Statements and Supplementary Information

December 31, 2002

(With Independent Auditors' Report Thereon
and Supplemental Report on Internal Control)

These financial statements and schedule should be deemed confidential pursuant to Subparagraph (e)(3) of Rule 17a-5. A statement of financial condition bound separately has been filed with the Securities and Exchange Commission simultaneously herewith as a public document.

Independent Auditors' Report

The Members

Jefferies Partners Opportunity Fund II, LLC:

We have audited the accompanying statement of financial condition of Jefferies Partners Opportunity Fund II, LLC (the "Fund") as of December 31, 2002, and the related statements of earnings, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferies Partners Opportunity Fund II, LLC as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information contained in the schedule is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

/s/ KPMG LLP

January 24, 2003, except as to Note 8

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of the notes to the financial statements,
which is as of February 14, 2003.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Financial Condition

December 31, 2002

Assets

Cash and cash equivalents	\$ 51,922,332
Receivable from affiliated brokers and dealers	8,674,598
Securities owned	106,371,906
Other assets	1,505,781
Total assets	\$168,474,617

Liabilities and Members' Equity

Securities sold, not yet purchased	\$ 1,907,586
Payable to affiliated brokers and dealers	16,274,366
Payable to Jefferies & Company, Inc.	540,078
Accrued expenses and other liabilities	102,347
Total liabilities	18,824,377
Members' equity:	
Members' capital, net	126,255,099
Retained earnings	23,395,141
Total members' equity	149,650,240
Total liabilities and members' equity	\$168,474,617

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Earnings

Year ended December 31, 2002

Revenues:	
Principal transactions (net of direct trading expenses)	\$17,644,923
Interest	6,917,318
Total revenues	24,562,241
Expenses:	

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General and administrative	1,070,544
Management fee	1,046,280
Interest	655,445
Total expenses	2,772,269
Net earnings	\$21,789,972

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Changes in Members' Equity

Year ended December 31, 2002

	Members' capital, net	Retained earnings	Tot memb equi
Balance, December 31, 2001	\$ 126,255,099	42,067,489	168,32
Distributions	--	(40,462,320)	(40,46
Net earnings	--	21,789,972	21,78
Balance, December 31, 2002	\$ 126,255,099	23,395,141	149,65

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Cash Flows

Year ended December 31, 2002

Cash flows from operating activities:	
Net earnings	\$ 21,789,972
Changes in assets and liabilities:	
Amortization of financing costs	107,644
Decrease in receivable from affiliated brokers and dealers	3,475,010
Decrease in securities owned	18,702,934
Decrease in other assets	277,550

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Increase in securities sold, not yet purchased	255,298
Decrease in payable to affiliated brokers and dealers	(1,619,104)
Decrease in payable to Jefferies & Company, Inc.	(361,781)
Increase in accrued expenses and other liabilities	12,185
	20,849,736
Net cash provided by operating activities	42,639,708
Cash flows from financing activities:	
Proceeds from bank loans	16,400,000
Repayment of bank loans	(16,400,000)
Distributions	(40,462,320)
Net cash used in financing activities	(40,462,320)
Net increase in cash and cash equivalents	2,177,388
Cash and cash equivalents at beginning of year	49,744,944
Cash and cash equivalents at end of year	\$ 51,922,332
Supplemental disclosures of cash flow information - Cash paid during the year for interest	\$ 719,280

See accompanying notes to financial statements.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2002

(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 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.

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

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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, 2002, such cash equivalents amounted to \$50,687,097.

(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 owned and securities sold, not yet purchased, are valued at quoted market prices, if available. For securities without quoted prices, the reported fair value is estimated by using various sources of information, including quoted prices for comparable securities.

(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 statement of earnings.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2002

(d) Contributions

Capital contributions are recorded net of 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

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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.

(2) Receivable from, and Payable to, Brokers and Dealers

The following is a summary of the major categories of receivable from, and payable to, brokers and dealers as of December 31, 2002:

Receivable from brokers and dealers:

Securities borrowed	\$ 324,780
Other	8,349,818
	\$ 8,674,598

Payable to brokers and dealers - other	\$16,274,366
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The Fund borrows securities to cover short sales, from which the Fund derives interest revenue. Receivable from, and payable to, brokers and dealers are with affiliates. See note 5.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2002

(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, 2002:

	Securities owned	Securities sold, not yet purchased
Corporate debt securities	\$ 92,563,394	1,907,586
Corporate equity securities	13,808,512	--
	\$ 106,371,906	1,907,586

(4) Revolving Credit Facility

In June 2002, the Fund entered into a revolving credit facility agreement to be used in connection with the Fund's investing activities. At December 31, 2002, \$85,200,000 was available under the terms of the revolving credit facility agreement. The revolving credit facility expires June 2003, but provides for annual extensions. Advances under this facility bear interest at 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 year ended December 31, 2002, the Fund was charged a liquidity fee of \$323,937, a

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program fee of \$112,570, and an administrative fee of \$2,360, which are included in interest expense. During the year ended December 31, 2002, the Fund borrowed, and subsequently repaid, \$16,400,000 under the revolving credit facility. For the year ended December 31, 2002, the Fund was charged interest of \$216,578 on balances borrowed under the revolving credit facility. At December 31, 2002, there was no outstanding balance 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. Net unamortized costs of \$439,548 are included in other assets. Amortization expense of \$107,644 is included in general and administrative expenses.

(5) Related Party Transactions

Included in members' capital is 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.

Included in receivable from brokers and dealers is \$8,349,818 due from Jefferies and \$324,780 due from Helfant Group, Inc., an affiliate of Jefferies.

Included in interest income is \$7,000 received from Helfant Group, Inc. related to stock borrow transactions.

Included in payable to brokers and dealers is \$16,274,366 due to Jefferies.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2002

Payable to Jefferies of \$540,078 is for amounts due for direct trading expenses and general and administrative expenses. Direct trading expenses of \$7,143,763 are 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. Reimbursed expenses of \$791,839 are included in general and administrative expenses.

Jefferies, in its capacity as Manager, receives management fees 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.

(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

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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.

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2002

(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, 2002, the Fund had net capital of \$81,313,339, which was \$81,063,339 in excess of required net capital.

(8) Subsequent Events

On February 14, 2003, the Fund made a distribution of income to the Fund members of \$21,789,971.

Schedule

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Computation of Net Capital under Rule 15c3-1(a)(1)(ii)
of the Securities and Exchange Commission
Using the Alternative Net Capital Requirement

December 31, 2002

Net capital:

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Total members' equity	\$149,650,240
Total capital	149,650,240
Deduct:	
Nonallowable assets	471,147
Other deductions and/or charges	53,460,824
Total deductions and/or charges	53,931,971
Net capital before haircuts on securities positions	95,718,269
Haircuts on securities:	
Trading and investment securities:	
Corporate obligations	9,407,304
Other	4,561,839
Undue concentration	435,787
	14,404,930
Net capital	81,313,339
Less net capital requirement	250,000
Net capital in excess of requirement	\$ 81,063,339

Note: The computation of net capital under Rule 15c3-1(a)(1)(ii) as of December 31, 2002, as computed by Jefferies Partners Opportunity Fund II, LLC in its Form X-17a-5, Part II, filed with NASD Regulation, Inc. on January 24, 2003, does not differ from the above computation, which is based upon the audited financial statements.

See accompanying independent auditors' report.