LEUCADIA NATIONAL CORP
Form 10-Q
August 01, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission File Number 1-5721

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

New York (State or other jurisdiction of incorporation or organization)	13-2615557 (I.R.S. Employer Identification Number)
315 Park Avenue South, New York, New York (Address of principal executive offices)	10010-3607 (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES X NO _____

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, at July 26, 2012: 244,582,588.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2012 and December 31, 2011
(Dollars in thousands, except par value)
(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$186,665	$168,490
Investments	193,742	150,135
Trade, notes and other receivables, net	407,285	369,123
Inventory	340,437	354,578
Current deferred tax asset	78,276	144,281
Prepaids and other current assets	79,236	66,872
Total current assets	1,285,641	1,253,479
Non-current investments ($385,492 and $432,768 collateralizing repurchase agreements)	1,542,199	2,226,875
Intangible assets, net and goodwill	852,435	876,589
Deferred tax asset, net	1,550,212	1,440,605
Other assets	395,341	420,157
Property, equipment and leasehold improvements, net	1,013,283	1,053,689
Investments in associated companies ($1,197,407 and $1,198,029 measured using fair value option)	1,964,167	1,991,795
Total	$8,603,278	$9,263,189
LIABILITIES		
Current liabilities:		
Trade payables and expense accruals	$345,696	$386,544
Other current liabilities	37,588	42,976
Securities sold under agreements to repurchase	371,320	417,479
Debt due within one year	39,777	30,133
Total current liabilities	794,381	877,132
Other non-current liabilities	96,367	96,316
Long-term debt	1,370,845	1,875,571
Total liabilities	2,261,593	2,849,019
Commitments and contingencies		
Redeemable noncontrolling interests in subsidiary	246,546	235,909

EQUITY		
Common shares, par value $1 per share, authorized 600,000,000		
shares; 244,582,588 shares issued and outstanding,		
after deducting 47,006,711 shares held in treasury	244,583	244,583
Additional paid-in capital	1,565,645	1,570,684
Accumulated other comprehensive income	541,721	912,421
Retained earnings	3,740,334	3,446,708
Total Leucadia National Corporation shareholders' equity	6,092,283	6,174,396
Noncontrolling interest	2,856	3,865
Total equity	6,095,139	6,178,261
Total	$8,603,278	$9,263,189

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the periods ended June 30, 2012 and 2011
(In thousands, except per share amounts)
(Unaudited)

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2012	2011	2012	2011
Revenues and Other Income:				
Beef processing services	$1,913,616	$–	$3,704,171	$–
Manufacturing	63,498	64,610	125,208	128,375
Oil and gas drilling services	31,092	31,737	68,414	62,609
Gaming entertainment	29,640	30,513	61,709	61,289
Investment and other income	101,273	96,944	178,969	253,262
Net securities gains	2,526	529,637	427,462	531,940
	2,141,645	753,441	4,565,933	1,037,475
Expenses:				
Cost of sales:				
Beef processing services	1,828,328	–	3,600,547	–
Manufacturing	52,254	57,952	103,197	112,205
Direct operating expenses:				
Oil and gas drilling services	26,493	23,364	55,676	44,635
Gaming entertainment	22,647	22,353	45,037	43,822
Interest	21,373	27,837	50,241	56,814
Salaries and incentive compensation	18,162	33,059	64,652	49,295
Depreciation and amortization	40,855	18,579	80,351	36,341
Selling, general and other expenses	59,941	51,105	136,195	95,641
	2,070,053	234,249	4,135,896	438,753
Income from continuing operations before income taxes and income (losses) related to associated companies	71,592	519,192	430,037	598,722
Income taxes	33,945	190,108	167,462	229,161
Income from continuing operations before income (losses) related to associated companies	37,647	329,084	262,575	369,561
Income (losses) related to associated companies, net of income tax provision (benefit) of $(123,896), $(80,144), $15,473 and $(96,268)	(226,320)	(145,796)	36,219	(173,844)
Income (loss) from continuing operations	(188,673)	183,288	298,794	195,717
Income from discontinued operations, net of income tax provision (benefit) of $485, $(271), $356 and $(1,134)	905	2,325	673	603
Gain on disposal of discontinued operations, net of income tax provision of $0, $499, $0 and $499	–	845	–	924
Net income (loss)	(187,768)	186,458	299,467	197,244
Net (income) loss attributable to the noncontrolling interest	297	(149)	95	(428)
Net (income) attributable to the redeemable noncontrolling interests	(9,780)	–	(5,936)	–

Net income (loss) attributable to Leucadia National Corporation common shareholders	$(197,251)	$186,309	$293,626	$196,816

(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations (continued)
For the periods ended June 30, 2012 and 2011
(In thousands, except per share amounts)
(Unaudited)

	For the Three Month Period Ended June 30, 2012	For the Three Month Period Ended June 30, 2011	For the Six Month Period Ended June 30, 2012	For the Six Month Period Ended June 30, 2011
Basic earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	$(.81)	$.75	$1.20	$.80
Income from discontinued operations	–	.01	–	–
Gain on disposal of discontinued operations	–	–	–	.01
Net income (loss)	$(.81)	$.76	$1.20	$.81
Diluted earnings (loss) per common share attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations	$(.81)	$.74	$1.18	$.79
Income from discontinued operations	–	.01	–	–
Gain on disposal of discontinued operations	–	–	–	.01
Net income (loss)	$(.81)	$.75	$1.18	$.80
Amounts attributable to Leucadia National Corporation common shareholders:				
Income (loss) from continuing operations, net of taxes	$(198,156)	$183,139	$292,953	$195,289
Income from discontinued operations, net of taxes	905	2,325	673	603
Gain on disposal of discontinued operations, net of taxes	–	845	–	924
Net income (loss)	$(197,251)	$186,309	$293,626	$196,816

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
For the periods ended June 30, 2012 and 2011
(In thousands)
(Unaudited)

	For the Three Month Period Ended June 30, 2012	2011	For the Six Month Period Ended June 30, 2012	2011
Net income (loss)	$(187,768)	$186,458	$299,467	$197,244
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on investments arising during the period, net of income tax provision (benefit) of $(71,081), $22,319, $(80,282) and $(15,273)	(128,028)	40,199	(144,599)	(27,508)
Less: reclassification adjustment for net (gains) losses included in net income (loss), net of income tax provision (benefit) of $21, $193,537, $123,812 and $192,764	(36)	(348,584)	(223,000)	(347,193)
Net change in unrealized holding gains (losses) on investments, net of income tax provision (benefit) of $(71,102), $(171,218), $(204,094) and $(208,037)	(128,064)	(308,385)	(367,599)	(374,701)
Net unrealized foreign exchange gains (losses) arising during the period, net of income tax provision (benefit) of $(1,431), $460, $(2,501) and $1,158	(2,579)	828	(4,506)	2,086
Less: reclassification adjustment for foreign exchange gains (losses) included in net income (loss), net of income tax provision (benefit) of $0, $0, $0 and $0	–	–	–	–
Net change in unrealized foreign exchange gains (losses), net of income tax provision (benefit) of $(1,431), $460, $(2,501) and $1,158	(2,579)	828	(4,506)	2,086
Net unrealized gains (losses) on derivatives arising during the period, net of income tax provision (benefit) of $4, $0, $(85) and $0	7	–	(153)	–
Less: reclassification adjustment for derivative gains (losses) included in net income (loss), net of income tax provision (benefit) of $0, $0, $0 and $0	–	–	–	–
Net change in unrealized derivative gains (losses), net of income				

tax provision (benefit) of $4, $0, $(85) and $0	7	–	(153)	–
Net pension and postretirement gain (loss) arising during the period, net of income tax provision (benefit) of $0, $0, $0 and $0	–	–	–	–
Less: amortization of actuarial net loss included in net periodic pension cost, net of income tax provision (benefit) of $433, $(2), $866 and $(3)	778	(5)	1,558	(5)
Net change in pension liability and postretirement benefits, net of income tax provision (benefit) of $433, $(2), $866 and $(3)	778	(5)	1,558	(5)
Other comprehensive (loss), net of income taxes	(129,858)	(307,562)	(370,700)	(372,620)
Comprehensive (loss)	(317,626)	(121,104)	(71,233)	(175,376)
Comprehensive (income) loss attributable to the noncontrolling interest	297	(149)	95	(428)
Comprehensive (income) attributable to the redeemable noncontrolling interests	(9,780)	–	(5,936)	–
Comprehensive (loss) attributable to Leucadia National Corporation common shareholders	$(327,109)	$(121,253)	$(77,074)	$(175,804)

See notes to interim consolidated financial statements.

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LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the six months ended June 30, 2012 and 2011
(In thousands)
(Unaudited)

	2012	2011
Net cash flows from operating activities:		
Net income	$299,467	$197,244
Adjustments to reconcile net income to net cash provided by operations:		
Deferred income tax provision	162,844	121,608
Depreciation and amortization of property, equipment and leasehold improvements	52,690	33,146
Other amortization	41,804	15,352
Share-based compensation	7,339	14,460
Excess tax benefit from exercise of stock options	–	(237)
Provision for doubtful accounts	5,579	254
Net securities gains	(427,462)	(531,940)
(Income) losses related to associated companies	(51,692)	270,112
Distributions from associated companies	46,058	32,441
Net gains related to real estate, property and equipment, and other assets	(7,607)	(89,351)
Income related to Fortescue’s Pilbara project, net of proceeds received	(8,928)	(28,798)
Gain on disposal of discontinued operations	–	(1,423)
Change in estimated litigation reserve	–	(2,241)
Net change in:		
Trade, notes and other receivables	(33,005)	(7,810)
Inventory	13,301	2,218
Prepaids and other assets	9,485	743
Trade payables and expense accruals	(45,502)	(22,266)
Other liabilities	2,959	(4,104)
Income taxes payable	(1,993)	(1,933)
Other	(2,168)	4,449
Net cash provided by operating activities	63,169	1,924
Net cash flows from investing activities:		
Acquisitions of property, equipment and leasehold improvements	(32,821)	(21,264)
Acquisitions of and capital expenditures for real estate investments	(3,034)	(6,190)
Proceeds from disposals of real estate, property and equipment, and other assets	3,881	23,326
Net change in restricted cash	4,722	5,426
Proceeds from (payments related to) disposal of discontinued operations, net of expenses and cash of operations sold	(384)	1,702
Acquisitions, net of cash acquired	–	(86,306)
Advances on notes and other receivables	(1,928)	(3,171)
Collections on notes, loans and other receivables	11,269	10,112
Investments in associated companies	(1,258)	(126,073)
Capital distributions and loan repayment from associated companies	32,420	271,076
Purchases of investments (other than short-term)	(749,693)	(1,232,513)
Proceeds from maturities of investments	133,036	268,806

Proceeds from sales of investments	1,110,555	869,087
Other	1,650	3,498
Net cash provided by (used for) investing activities	508,415	(22,484)

(continued)

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
For the six months ended June 30, 2012 and 2011
(In thousands)
(Unaudited)

	2012	2011
Net cash flows from financing activities:		
Issuance of debt, net of issuance costs	$35,632	$258,984
Reduction of debt	(577,337)	(143,836)
Issuance of common shares	–	6,853
Distributions to redeemable noncontrolling interests	(6,289)	–
Excess tax benefit from exercise of stock options	–	237
Other	(5,415)	(3,926)
Net cash provided by (used for) financing activities	(553,409)	118,312
Net increase in cash and cash equivalents	18,175	97,752
Cash and cash equivalents at January 1,	168,490	441,340
Cash and cash equivalents at June 30,	$186,665	$539,092
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$62,271	$58,235
Income tax payments, net	$23,145	$13,042

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the six months ended June 30, 2012 and 2011
(In thousands, except par value)
(Unaudited)

	Leucadia National Corporation Common Shareholders						
	Common Shares $1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Subtotal	Noncontrolling Interest	Total
Balance, January 1, 2011	$243,808	$1,542,964	$ 1,687,363	$3,482,623	$6,956,758	$ 6,623	$6,963,381
Net income				196,816	196,816	428	197,244
Other comprehensive loss, net of taxes			(372,620)		(372,620)		(372,620)
Contributions from noncontrolling interests						598	598
Distributions to noncontrolling interests						(4,369)	(4,369)
Change in interest in consolidated subsidiary		(1,624)			(1,624)	1,474	(150)
Share-based compensation expense		14,460			14,460		14,460
Exercise of warrants to purchase common shares	523	(523)			–		–
Exercise of options to purchase common shares, including excess tax benefit	246	6,844			7,090		7,090
Purchase of common shares for treasury	(4)	(151)			(155)		(155)
Balance, June 30, 2011	$244,573	$1,561,970	$ 1,314,743	$3,679,439	$6,800,725	$ 4,754	$6,805,479
Balance, January 1, 2012	$244,583	$1,570,684	$ 912,421	$3,446,708	$6,174,396	$ 3,865	$6,178,261
Net income				293,626	293,626	(95)	293,531
Other comprehensive loss, net of taxes			(370,700)		(370,700)		(370,700)
Contributions from noncontrolling						129	129

interests							
Distributions to noncontrolling interests						(2,431)	(2,431)
Change in interest in consolidated subsidiary		(1,388)			(1,388)	1,388	–
Change in fair value of redeemable noncontrolling interests		(10,990)			(10,990)		(10,990)
Share-based compensation expense		7,339			7,339		7,339
Balance, June 30, 2012	$244,583	$1,565,645	$ 541,721	$3,740,334	$6,092,283	$ 2,856	$6,095,139

See notes to interim consolidated financial statements.

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LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Notes to Interim Consolidated Financial Statements

1. Significant Accounting Policies

The unaudited interim consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to fairly state results of interim operations, should be read in conjunction with the Notes to Consolidated Financial Statements (including the Summary of Significant Accounting Policies) included in the Company's audited consolidated financial statements for the year ended December 31, 2011, which are included in the Company's Annual Report filed on Form 10-K for such year (the "2011 10-K"). Results of operations for interim periods are not necessarily indicative of annual results of operations. The consolidated balance sheet at December 31, 2011 was extracted from the audited annual financial statements and does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements.

Effective January 1, 2012, the Company adopted new Financial Accounting Standards Board ("FASB") guidance with respect to the improvement of the comparability of fair value measurements presented and disclosed in financial statements issued in accordance with GAAP and International Financial Reporting Standards. The amendment includes requirements for measuring fair value and for disclosing information about fair value measurements, but does not require additional fair value measurements and is not intended to establish valuation standards or affect valuation practices outside of financial reporting. The guidance did not have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2012, the Company adopted new FASB guidance on the presentation of comprehensive income. This amendment eliminated the previous option to report other comprehensive income and its components in the statement of changes in equity; instead, it requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This amendment was applied retrospectively. Adoption of this amendment changed the presentation of the Company's consolidated financial statements but did not have any impact on its consolidated financial position, results of operations or cash flows.

Effective January 1, 2012, the Company adopted new FASB guidance with respect to the simplification of how entities test for goodwill impairment. This amendment permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The guidance did not have a significant impact on the Company's consolidated financial statements.

Certain amounts for prior periods have been reclassified to be consistent with the 2012 presentation.

2. Acquisitions

As more fully discussed in the 2011 10-K, the Company acquired a controlling interest in National Beef Packing Company, LLC ("National Beef") in December 2011. Unaudited pro forma operating results for the Company for the three and six month periods ended June 30, 2011, assuming the acquisition had occurred as of January 1, 2010 are as follows (in thousands, except per share amounts):

	For the Three	For the Six

	Month Period Ended June 30, 2011	Month Period Ended June 30, 2011
Revenues and other income	$2,526,860	$4,463,740
Net income attributable to Leucadia National Corporation common shareholders	$212,219	$248,421
Basic earnings per common share attributable to Leucadia National Corporation common shareholders	$.87	$1.02
Diluted earnings per common share attributable to Leucadia National Corporation common shareholders	$.85	$1.00

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Pro forma adjustments principally reflect an increase to depreciation and amortization expenses related to the fair value of property and equipment and amortizable intangible assets. The unaudited pro forma data is not indicative of future results of operations or what would have resulted if the acquisition had actually occurred as of January 1, 2010.

3. Segment Information

The primary measure of segment operating results and profitability used by the Company is income (loss) from continuing operations before income taxes. Associated companies are not considered to be a reportable segment, but are reflected in the table below under income (loss) from continuing operations before income taxes. Certain information concerning the Company's segments for the three and six month periods ended June 30, 2012 and 2011 is presented in the following table (in thousands).

	For the Three Month Period Ended June 30,		For the Six Month Period Ended June 30,	
	2012	2011	2012	2011
Revenues and other income:				
Beef Processing Services	$1,913,666	$–	$3,705,645	$–
Manufacturing:				
Idaho Timber	40,579	41,773	81,708	82,013
Conwed Plastics	22,991	22,870	43,589	46,439
Oil and Gas Drilling Services	31,852	32,119	70,879	64,203
Gaming Entertainment	29,642	30,520	61,715	61,302
Domestic Real Estate	3,409	3,368	6,830	88,751
Medical Product Development	125	82	199	173
Other Operations	17,686	14,639	36,651	30,746
Corporate	81,695	608,070	558,717	663,848
Total consolidated revenues and other income	$2,141,645	$753,441	$4,565,933	$1,037,475
Income (loss) from continuing operations before income taxes:				
Beef Processing Services	$46,937	$–	$29,340	$–
Manufacturing:				
Idaho Timber	1,962	(2,011)	4,330	(1,995)
Conwed Plastics	2,953	1,740	5,400	5,030
Oil and Gas Drilling Services	(4,460)	532	(2,407)	4,103
Gaming Entertainment	1,721	2,697	5,984	8,493
Domestic Real Estate	(2,073)	(44)	(3,182)	81,273
Medical Product Development	(11,252)	(9,449)	(21,305)	(13,443)
Other Operations	(7,219)	(7,422)	(9,320)	(13,993)
Income (losses) related to associated companies	(350,216)	(225,940)	51,692	(270,112)
Corporate	43,023	533,149	421,197	529,254
Total consolidated income (loss) from continuing operations before income taxes	$(278,624)	$293,252	$481,729	$ 328,610
Depreciation and amortization expenses:				
Beef Processing Services	$20,757	$–	$41,065	$–
Manufacturing:				
Idaho Timber	1,334	1,323	2,662	2,644
Conwed Plastics	1,351	1,687	2,686	3,483
Oil and Gas Drilling Services	4,938	5,290	10,141	10,583
Gaming Entertainment	4,269	4,140	8,514	8,384
Domestic Real Estate	868	845	1,743	1,748
Medical Product Development	213	212	423	421
Other Operations	2,732	2,105	5,524	4,033
Corporate	7,154	5,633	13,136	10,484
Total consolidated depreciation and amortization expenses	$43,616	$ 21,235	$85,894	$ 41,780

Revenues and other income for each segment include amounts for services rendered and products sold, as well as segment reported amounts classified as investment and other income and net securities gains (losses) in the Company's consolidated statements of operations. Corporate securities gains include gains of $417,887,000 for the six month 2012 period and $527,351,000 for three and six month 2011 periods resulting from the sale of a portion of the Company's investment in the common shares of Fortescue Metals Group Ltd ("Fortescue"). In the six month 2011 period, other income for the domestic real estate segment includes a gain on forgiveness of debt of $81,848,000.

Other operations includes pre-tax losses of $9,442,000 and $8,044,000 for the three month periods ended June 30, 2012 and 2011, respectively, and $15,313,000 and $15,826,000 for the six month periods ended June 30, 2012 and 2011, respectively, for the investigation and evaluation of various energy related projects. There were no significant operating revenues associated with these activities; however, other income for the three and six month 2011 periods includes $889,000 and $2,879,000, respectively, with respect to government grants to reimburse the Company for certain of its prior expenditures, which were fully expensed as incurred.

Depreciation and amortization expenses for the manufacturing and other operations segments include amounts classified as cost of sales.

For the three and six month 2012 periods, interest expense was primarily comprised of beef processing services ($3,284,000 and $6,300,000, respectively) and corporate ($18,059,000 and $43,888,000, respectively). For 2011, interest expense was primarily comprised of corporate; interest expense for other segments was not significant.

4. Investments in Associated Companies

A summary of investments in associated companies at June 30, 2012 and December 31, 2011 is as follows:

	June 30, 2012	December 31, 2011
	(In thousands)	
Investments in associated companies accounted for under the equity method of accounting:		
Jefferies High Yield Holdings, LLC (“JHYH”)	$332,222	$323,262
Berkadia Commercial Mortgage LLC (“Berkadia”)	174,737	193,496
Garcadia companies	74,562	72,303
Linkem S.p.A. (“Linkem”)	72,115	86,332
HomeFed Corporation (“HomeFed”)	46,931	47,493
Brooklyn Renaissance Plaza	32,304	31,931
Other	33,889	38,949
Total accounted for under the equity method of accounting	766,760	793,766
Investments in associated companies carried at fair value:		
Jefferies Group, Inc. (“Jefferies”)	753,498	797,583
Mueller Industries, Inc. (“Mueller”)	443,909	400,446
Total accounted for at fair value	1,197,407	1,198,029
Total investments in associated companies	$1,964,167	$1,991,795

Income (losses) related to associated companies includes the following for the three and six month periods ended June 30, 2012 and 2011:

	For the Three Month Period Ended June 30, 2012	2011	For the Six Month Period Ended June 30, 2012	2011
Jefferies	$(334,985)	$(239,813)	$(35,384)	$(319,515)
Mueller	(28,767)	–	45,548	–
JHYH	4,579	(1,003)	14,273	13,925
Berkadia	2,410	7,037	14,230	21,696
Garcadia companies	8,888	4,703	16,982	8,998
Linkem	(4,078)	–	(8,268)	–
HomeFed	(447)	(404)	(562)	(422)
Brooklyn Renaissance Plaza	1,540	2,071	1,981	2,714
Other	644	1,469	2,892	2,492
Income (losses) related to associated companies before income taxes	(350,216)	(225,940)	51,692	(270,112)
Income tax provision (benefit)	(123,896)	(80,144)	15,473	(96,268)
Income (losses) related to associated companies, net of taxes	$(226,320)	$(145,796)	$36,219	$(173,844)

Investments accounted for under the equity method of accounting are initially recorded at their original cost and subsequently increased for the Company's share of the investees' earnings, decreased for the Company's share of the investees' losses, reduced for dividends received and impairment charges recorded, if any, and increased for any additional investment of capital.

In accordance with GAAP, the Company is allowed to choose, at specified election dates, to measure many financial instruments and certain other items at fair value (the "fair value option") that would not otherwise be required to be measured at fair value. If the fair value option is elected for a particular financial instrument or other item, the Company is required to report unrealized gains and losses on those items in earnings. The Company's investments Jefferies and Mueller are the only eligible items for which the fair value option was elected, commencing on the date the investments became subject to the equity method of accounting. The Company believes accounting for these investments at fair value better reflects the economics of these investments, and quoted market prices for these investments provide an objectively determined fair value at each balance sheet date. In addition, electing the fair value option eliminates the uncertainty involved with impairment considerations. The Company's investment in HomeFed is the only other investment in an associated company that is also a publicly traded company but for which the Company did not elect the fair value option. HomeFed's common stock is not listed on any stock exchange, and price information for the common stock is not regularly quoted on any automated quotation system. It is traded in the over-the-counter market with high and low bid prices published by the National Association of Securities Dealers OTC Bulletin Board Service; however, trading volume is minimal. For these reasons the Company did not elect the fair value option for HomeFed.

As of June 30, 2012, the Company owns 58,006,024 common shares of Jefferies representing approximately 28.5% of the outstanding common shares of Jefferies. Jefferies, a company listed on the New York Stock Exchange ("NYSE") (Symbol: JEF), is a full-service global investment bank and institutional securities firm serving companies and their investors.

As of June 30, 2012, the Company owns 10,422,859 common shares of Mueller, representing approximately 27.3% of the outstanding common shares of Mueller, a company listed on the NYSE (Symbol: MLI). Mueller is a leading manufacturer of copper, brass, plastic, and aluminum products.

As more fully discussed in the 2011 10-K, the Company has agreed to reimburse Berkshire Hathaway Inc. for up to one-half of any losses incurred under a $2,500,000,000 surety policy securing outstanding commercial paper issued by an affiliate of Berkadia. As of June 30, 2012, the aggregate amount of commercial paper outstanding was $2,470,000,000.

The following tables provide summarized data with respect to significant investments in associated companies. The information is provided for those investments whose current relative significance to the Company could result in the Company including separate audited financial statements for such investments in its Annual Report on Form 10-K for the year ended December 31, 2012. The information for Jefferies is for the six month periods ended May 31, 2012 and 2011.

	2012	2011
	(In thousands)	
Jefferies:		
Total revenues	$1,952,900	$1,936,800
Income from continuing operations before extraordinary items	140,600	168,000
Net income	140,600	168,000
JHYH:		
Total revenues	$96,700	$90,100
Income from continuing operations before extraordinary items	53,800	44,000
Net income	53,800	44,000
Berkadia:		
Total revenues	$193,500	$167,700
Income from continuing operations before extraordinary items	43,400	28,500
Net income	43,400	28,500

Under GAAP, JHYH is considered a variable interest entity that is consolidated by Jefferies, since Jefferies is the primary beneficiary. The Company owns less than half of JHYH's capital, including its indirect interest through its investment in Jefferies and will not absorb a majority of its expected losses or receive a majority of its expected residual returns. The Company has not provided any guarantees, nor is it contingently liable for any of JHYH's liabilities, all of which are non-recourse to the Company. The Company's maximum exposure to loss as a result of its investment in JHYH is limited to the book value of its investment plus any additional capital it decides to invest.

5. Investments

A summary of investments classified as current assets at June 30, 2012 and December 31, 2011 is as follows (in thousands):

	June 30, 2012		December 31, 2011	
	Amortized Cost	Carrying Value and Estimated Fair Value	Amortized Cost	Carrying Value And Estimated Fair Value
Investments available for sale	$189,467	$189,474	$146,594	$145,977
Other investments, including accrued interest income	4,188	4,268	4,113	4,158
Total current investments	$193,655	$193,742	$150,707	$150,135

The amortized cost, gross unrealized gains and losses and estimated fair value of available for sale investments classified as current assets at June 30, 2012 and December 31, 2011 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2012				
Bonds and notes:				
U.S. Government and agencies	$187,861	$9	$4	$187,866
All other corporates	1,515	4	2	1,517
Total fixed maturities	189,376	13	6	189,383
Other investments	91	–	–	91
Total current available for sale investments	$189,467	$13	$6	$189,474