Before the
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Docket No. _____

In re:

Application of STi Prepaid, LLC	:
For a Certificate of Public Convenience	:
And Necessity to Provide Interexchange	:
Telecommunications Services and for	:
Alternative Regulation,	:
	:
and	:
	:
Joint Application of STi Prepaid, LLC	:
and Dialaround Enterprises Inc.	:
for Approval to Transfer the Assets of	:
Dialaround Enterprises Inc.	:
to STi Prepaid, LLC	:

APPLICATION

STi Prepaid, LLC ("STi Prepaid") submits its application for a Certificate of Public Convenience and Necessity to provide intrastate resold telecommunications services in South Carolina. In addition, STi Prepaid requests that the Public Service Commission of South Carolina ("Commission") regulate its long distance business services, consumer card services, private line services, and operator assisted service offerings in accordance with the principles and procedures established for alternative regulations in Orders Nos. 95-1734 and 96-55 in Docket No. 95-661-C, as modified by Order No. 2001-997 in Docket No. 2000-407-C. STi Prepaid and Dialaround Enterprises Inc. ("DEI") (the "Joint Applicants") jointly request authority to transfer certain assets to STi Prepaid. These requests are made pursuant to SC Code Ann. §§ 58-9-280, 58-9-300 and 58-9-310.

This document is an exact duplicate, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.
Active 3926347v.2

Pursuant to an Asset Purchase and Contribution Agreement, by and among Leucadia National Corporation ("Leucadia"), through its subsidiary STi Prepaid, LLC, to acquire a 75% interest in the telecommunications business of DEI and its affiliates ("Sellers"). Sellers will transfer and STi Prepaid will acquire the assets and assume certain liabilities of Sellers' telecommunications business. After consummation of this transaction, STi Prepaid will provide telecommunications services to former DEI customers. Specifically, STi Prepaid plans to provide intrastate resold interexchange telecommunications services in South Carolina, including dial-around and prepaid calling card services. Following approval of this transaction, DEI will cease operations in South Carolina and surrender its authorizations.

For the reasons set forth below, the Joint Applicants respectfully request that the Commission approve this Application by March 31, 2007, so that they can expeditiously close the transaction and meet critical business objectives. STi Prepaid and DEI provide the following information in support of this request:

1. THE APPLICANTS

A. STi Prepaid, LLC

STi Prepaid, a Delaware limited liability company, is an indirect wholly-owned subsidiary of Leucadia, a publicly-traded New York corporation with headquarters at 315 Park Avenue South, New York, NY 10010. STi Prepaid is a newly-formed entity that will hold DEI's authorizations to provide telecommunications services after consummation of the transaction. A copy of STi Prepaid's Certificate of Organization is attached as **EXHIBIT 1.** STi Prepaid's Certificate of Authorization to transact business within the State of South Carolina as a foreign corporation is attached as **EXHIBIT 2.** STi Prepaid is in the process of obtaining authority to

provide interexchange telecommunications services throughout the United States. It does not currently hold authority in any state.

The principal office of STi Prepaid is located at

30-50 Whitestone Expressway
4th Floor
Flushing, NY 11354
718-358-5390 (telephone)
718-732-7751 (facsimile)

Correspondence, orders, or other material concerning this Joint Application should be directed to:

Bonnie D. Shealy
Robinson, McFadden & Moore, P.C.
1901 Main Street, Suite 1200
Post Office Box 944
Columbia, SC 29202
803-779-8900 (telephone)
bshealy@robinsonlaw.com

and

Samer Tawfik
Chief Executive Officer
30-50 Whitestone Expressway, 4th Floor
Flushing, NY 11354
718-358-5390 (telephone)
718-732-7751 (facsimile)

Cherie R. Kiser
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
701 Pennsylvania Avenue, NW, Suite 900
Washington, D.C. 20004
202-434-7300 (telephone)
202-434-7400 (facsimile)
crkiser@mintz.com

B. Dialaround Enterprises Inc.

DEI is a privately-held Delaware corporation. Samer Tawfik, a United States citizen, is DEI's sole owner. The Commission authorized DEI to "resell various types of telephone services including local exchange services (local dial-tone) to the public through the use of facilities or services obtained from other certified carriers" in Docket No. 2003-20-C, Order No. 2003-478. on August 11, 2003 (*hereinafter* "Order No. 2003-478"). DEI currently provides dial-around services in South Carolina. DEI is currently authorized to provide interexchange services in all states except Alaska, Tennessee, and Delaware.

The principal office of DEI is located at

30-50 Whitestone Expressway
4th Floor
Flushing, New York 11354

The designated representatives for DEI for purposes of this application are:

Samer Tawfik
Chief Executive Officer
30-50 Whitestone Expressway, 4th Floor
Flushing, NY 11354
718-358-5390 (telephone)
718-732-7751 (facsimile)

Cherie R. Kiser
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
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2. CERTIFICATION APPLICATION

A. Description of Authority Requested

1. STi Prepaid seeks authority to operate as a reseller of intrastate interexchange telecommunications services to the public on a statewide basis. Applicant seeks authority to offer a full range of "1+" interexchange services on a resale basis. STi Prepaid's switches will be located in New York.

2. STi Prepaid does not intend to provide 900 or 700 services.

3. STi Prepaid intends to offer service on a resold basis using the facilities of other carriers certificated in South Carolina.

B. Proposed Services

4. STi Prepaid will provide dial-around services, which are the same type of telecommunications services currently being offered by DEI in South Carolina, and will also provide prepaid calling card services.

5. DEI currently provides resold interexchange telecommunications services in South Carolina pursuant to the Tariff Applicable to Interexchange Reseller Services Within the State of South Carolina Provided by Dialaround Enterprises, Inc, SC Tariff No. 1, effective August 11, 2003. Immediately following consummation of the transaction, STi Prepaid will adopt DEI's South Carolina intrastate tariff and continue to offer consumers the same services at the same rates, terms, and conditions as were previously offered by DEI. Upon completion of this transaction, DEI will withdraw its existing tariff in its name in connection with the surrender of its telecommunications authority in South Carolina.

C. Description and Fitness of STi Prepaid

6. STi Prepaid is well-qualified to provide telecommunications services in South Carolina. STi Prepaid will utilize a significant number of the same employees and the same assets that DEI currently uses to provide telecommunications services in South Carolina, and will therefore be well-positioned to provide the same quality services that DEI currently provides. Moreover, STi Prepaid, together with DEI, has extensive managerial, financial and technical experience. The biographies of the persons responsible for the day-to-day operations of STi Prepaid are attached as **EXHIBIT 3** and demonstrates STi Prepaid's managerial and technical qualifications to provide telecommunications service in South Carolina.

7. STi Prepaid has access to the capital and resources necessary to provide the services for which authority is requested herein. Since STI Prepaid ia a newly formed entity it will rely on the parent company, Leucadia, to provide financial support if needed during the start-up phase. Attached are the following financial statements for Leucadia:

EXHIBIT 4 - Leucadia's SEC Form 10-Q for the Quarter ending September 30, 2006;
EXHIBIT 5 – Leucadia's SEC Form 10-K for the Year ending December 31, 2005;
EXHIBIT 6 – portion of Leucadia's SEC Form 10-K/A filed on March 9, 2006;[1]
EXHIBIT 7 – portion of Leucadia's SEC Form 10-K/A filed on March 24, 2006;[2]
EXHIBIT 8 – portion of Leucadia's SEC Form 10-K/A filed on November 3, 2006.[3]

8. STi Prepaid will respond to complaints and regulatory maters with the same resources and in the same efficient manner that DEI has done so.

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[1] Due to the size of the 10-K Amendments only the explanation portion for the amendment is filed. The entire 10-K/A filed March 9, 2006, is available on request in paper or electronic version.
[2] Due to the size of the 10-K Amendments only the explanation portion for the amendment is filed. The entire 10-K/A filed March 24, 2006, is available on request in paper or electronic version
[3] Due to the size of the 10-K Amendments only the explanation portion for the amendment is filed. The entire 10-K/A filed November 3, 2006, is available on request in paper or electronic version

D. Public Interest Considerations

9. STi Prepaid's entry into the South Carolina marketplace is in the public interest because STi Prepaid intends to make available an attractive blend of service quality and low rates.

10. In addition to the direct benefits delivered to the public by its services, STi Prepaid's entry into the South Carolina marketplace will benefit the public indirectly by increasing the competitive pressure felt by existing interexchange carriers ("IXCs") spurring them to lower costs and improve services in response.

E. Alternative Regulatory Treatment

11. STi Prepaid is a non-dominant reseller of interexchange telecommunications services. STi Prepaid requests to be regulated by the Commission in the same relaxed fashion extended to other, similarly situated resellers. In Docket No. 95-661-C in response to a Petition for Alternative Regulation by AT&T Communications of the Southern States, this Commission determined that there was sufficient competition in the market for interexchange telecommunication services to justify a relaxation in the manner in which AT&T was regulated. STi Prepaid submits that as a competitor of all interexchange telecommunications service providers, it is appropriate to extend the same reduced regulatory treatment to STi Prepaid that has been granted to AT&T. STi Prepaid requests that its long distance business services, consumer card services, and operator service offerings be regulated under this form of relaxed regulation.

F. Waivers

12. STi Prepaid respectfully requests a waiver of the Commission's requirement under 26 S.C. Regs. 103-610 to keep its books and records in the State of South Carolina. It would present a hardship upon the company to maintain a separate set of books in South

Carolina since the company's headquarters are located in New York. The company will have a registered agent located within the state and understands that it will bear any costs associated with the Commission's inspection of its books and records.

13. STi Prepaid also respectfully requests a waiver of any Commission policy that would require it to maintain its books under the Uniform System of Accounts ("USOA") method. The company currently uses Generally Accepted Accounting Principals ("GAAP") to maintain its books. Therefore, it would create a hardship to maintain a separate accounting system.

3. DESCRIPTION OF THE TRANSACTION

On January 23, 2007, DEI and Sellers entered into an Asset Purchase and Contribution Agreement ("Agreement") with STi Prepaid and certain of its affiliates pursuant to which Sellers agreed to transfer all or substantially all of their assets and liabilities to STi Prepaid, including the authorizations held by DEI to provide telecommunications services (the "Transaction"). Consummation of the Transaction is contingent on, among other things, receipt of all necessary regulatory approvals.

Pursuant to the terms of the Agreement, STi Prepaid will purchase seventy-five percent (75%) of the assets and assume seventy-five percent (75%) of the Sellers' liabilities. The assets to be transferred by the Sellers to STi Prepaid include DEI's authorizations to provide telecommunications services. At the completion of the Transaction, STi Prepaid will hold DEI's authorizations to provide telecommunications services.

The remaining twenty-five percent (25%) of STi Prepaid will be held by Samer Tawfik through a new limited liability company, ST Finance, LLC ("ST Finance"), which will be formed at or prior to the consummation of the Transaction. Samer Tawfik will hold one hundred

percent (100%) of the membership interests in ST Finance. Samer Tawfik will capitalize ST Finance by contributing the remaining twenty-five percent (25%) of Sellers' assets and liabilities to ST Finance (other than assets and liabilities excluded from the Transaction pursuant to the Agreement). ST Finance will then contribute the twenty-five percent (25%) share of the assets and liabilities it received from Sam Tawfik and Sellers to STi Prepaid in exchange for ST Finance holding a twenty-five percent (25%) membership interest in STi Prepaid. A diagram showing the Transaction and pre- and post-close corporate structure is provided in **EXHIBIT 9.**

The proposed Transaction furthers the public interest, convenience, and necessity. The assignment of DEI's assets to STi Prepaid will benefit consumers by ensuring that they continue to have a wide range of telecommunications choices in the long distance market. As an affiliate of Leucadia, a publicly-traded company, STi Prepaid will have access to the public capital markets that can provide support for the expansion of the services that DEI currently offers. STi Prepaid will benefit from DEI's experience providing telecommunications services, which will be further enhanced by STi Prepaid's access to the telecommunications expertise of Leucadia, which previously has managed numerous other providers of telecommunications services through various subsidiaries. The combination of DEI's existing technical experience and Leucadia's financial backing will enhance STi Prepaid's ability to efficiently provide and expand its services.

The proposed Transaction does not present any anticompetitive issues. Consumers utilizing DEI's dial-around services will continue to receive high-quality telecommunications services without interruption and without change in rates, terms, or conditions. Accordingly, the contemplated Transaction will be virtually transparent to consumers. Upon completion of this

Transaction, DEI requests authority to withdraw its existing tariff in connection with the surrender of its telecommunications authorizations in South Carolina.

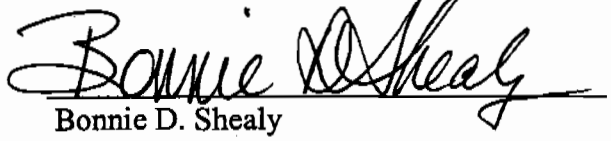
Customer notice is not required in this case because DEI does not have a dedicated customer base. DEI's services can be used by any person at any time by dialing a specified access code prior to making a telephone call. DEI has no knowledge of the identity of the persons that utilize its dial-around services, and has no relationship with the person utilizing the dial-around code (a third-party billing and collection vendor interacts with the customer after the dial-around service is used). Accordingly, customer notification of this Transaction is unnecessary and would be almost impossible.

CONCLUSION

For the reasons stated above, the Joint Applicants submit that approval of the transfer of DEI's assets and liabilities to STi Prepaid pursuant to the Agreement is in the public interest. Moreover, STi Prepaid has demonstrated the requisite financial, managerial, and technical expertise required to hold a certificate of public convenience and necessity to provide resold telecommunications services in South Carolina. Accordingly, the Applicants respectfully request Commission approval of this Joint Application, the issuance of a certificate of public convenience and necessity for STi Prepaid to provide resold telecommunications services, and alternative regulation of STi Prepaid's business long distance, consumer card, and operator service offerings.

Dated this 27th day of February, 2007.

ROBINSON, MCFADDEN & MOORE, PC



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Attorneys for Dialaround Enterprises Inc and STi Prepaid, LLC

LIST OF EXHIBITS

1. **STi Prepaid, LLC Certificate of Organization**

2. **STi Prepaid, LLC Certificate of Authority to Operate in South Carolina as Foreign Corporation**

3. **STi Prepaid, LLC Management Resumes**

4. **Leucadia's SEC Form 10-Q for the Quarter ending September 30, 2006;**

5. **Leucadia's SEC Form 10-K for the Year ending December 31, 2005;**

6. **portion of Leucadia's SEC Form 10-K/A filed on March 9, 2006;**

7. **portion of Leucadia's SEC Form 10-K/A filed on March 24, 2006;**

8. **portion of Leucadia's SEC Form 10-K/A filed on November 3, 2006**

9. **Corporate Diagram for Asset Transfer**

EXHIBIT 1

STi Prepaid, LLC
Certificate of Organization

This document is an exact duplicate, with the exception of the form of the signature, of the e-filed copy submitted to the Commission in accordance with its electronic filing instructions.
Active 3926347v.2

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "STI PREPAID, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWELFTH DAY OF JANUARY, A.D. 2007.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "STI PREPAID, LLC" WAS FORMED ON THE NINETEENTH DAY OF DECEMBER, A.D. 2006.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE NOT BEEN ASSESSED TO DATE.

4271215 8300

070040179

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 5351107

DATE: 01-12-07

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED ARE TRUE AND CORRECT COPIES OF ALL DOCUMENTS ON FILE OF "STI PREPAID, LLC" AS RECEIVED AND FILED IN THIS OFFICE.

THE FOLLOWING DOCUMENTS HAVE BEEN CERTIFIED:

CERTIFICATE OF FORMATION, FILED THE NINETEENTH DAY OF DECEMBER, A.D. 2006, AT 10:23 O'CLOCK P.M.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CERTIFICATES ARE THE ONLY CERTIFICATES ON RECORD OF THE AFORESAID LIMITED LIABILITY COMPANY, "STI PREPAID, LLC".

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

4271215 8100H

070040179

AUTHENTICATION: 5351108

DATE: 01-12-07

State of Delaware
Secretary of State
Division of Corporations
Delivered 11:10 PM 12/19/2006
FILED 10:23 PM 12/19/2006
SRV 061166065 - 4271215 FILE

CERTIFICATE OF FORMATION

OF

STi PREPAID, LLC

This Certificate of Formation of STi Prepaid, LLC (the "LLC") is being duly executed and filed by Andrea A. Bernstein as an authorized person, to form a limited liability company under the Delaware Limited Liability Company Act (6 Del.C. § 18-101, et seq.).

FIRST: The name of the limited liability company formed hereby is

STi Prepaid, LLC

SECOND: The address of the LLC's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware 19801. The Corporation Trust Company is the LLC's registered agent at that address.

THIRD: This Certificate of Formation shall be effective on the date of filing.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation this 19th day of December, 2006.

By: /s/ Andrea A. Bernstein
Name: Andrea A. Bernstein
Title: Authorized Person

EXHIBIT 2

STi Prepaid, LLC
Certificate of Authority for Foreign Corporation

The State of South Carolina

Office of Secretary of State Mark Hammond

Certificate of Authorization

I, Mark Hammond, Secretary of State of South Carolina Hereby certify that:

STI PREPAID, LLC, A Limited Liability Company duly organized under the laws of the State of DELAWARE, and issued a certificate of authority to transact business in South Carolina on February 7th, 2007, with a duration that is at will, has as of this date filed all reports due this office, paid all fees, taxes and penalties owed to the Secretary of State, that the Secretary of State has not mailed notice to the company that it is subject to being dissolved by administrative action pursuant to section 33-44-809 of the South Carolina Code, and that the company has not filed a certificate of cancellation as of the date hereof.

Given under my Hand and the Great Seal of the State of South Carolina this 22nd day of February, 2007.

Mark Hammond

Mark Hammond, Secretary of State

EXHIBIT 3

STi Prepaid, LLC
Management Resumes

STi PREPAID, LLC.
MANAGERIAL AND TECHNICAL EXPERTISE

Sam Tawfik is Chief Executive Officer of STi Prepaid, LLC. Mr. Tawfik also serves as Chairman and CEO of Dialaround Enterprises Inc. Mr. Tawfik has significant telecommunications experience as the founder and CEO of PT-1 Communications Inc. in the early 1990s. He built PT-1 to be the largest prepaid calling card company in the world and the top 10 facilities based long distance provider before selling it to STAR Telecom in 1999. Mr. Tawfik also founded Telco Group Inc. and built that company to be one of the leading facilities based prepaid communication providers in the United States. Mr. Tawfik has over fifteen years of experience in sales, marketing, and distribution with the last five years in the field of telecommunications.

Douglas Barley is Chief financial Officer of STi Prepaid, LLC. Mr. Barley also serves as Assistant Secretary of Dialaround Enterprises Inc. Mr. Barley also serves as Chief Financial Officer and Assistant Secretary for Telco Group, Inc. and Affiliates since March 12, 2001. Immediately prior to joining Telco Group, Inc., he served as Chief Financial Officer for AllNetHoldings.com, a startup enterprise engaged in online brokerage and web-based financial services. From 1996 to 1999, Mr. Barley was a minority shareholder of PT-1 Communications, Inc. where he served as Chief Financial Officer, Secretary, and Director. At the time of its sale to STAR Telecommunications in 1999, PT-1 had reached over $550 million in annual revenues with the combined companies representing the 7th largest long distance service provider in the United States. From 1979 to 1996, Mr. Barley worked for several international and regional auditing and consulting firms performing management advisory and auditing services for a diverse base of multinational and regional public and private enterprises. Mr. Barley specialized in SEC registrations and reporting for numerous high-tech growth and technology companies. Licensed by New York State as a CPA since 1985, Mr. Barley has been a member of the NYSSCPA and served on their Accounting and Auditing Committee. He has also been a member of the AICPA and lectured on various accounting, auditing and financial reporting topics. Mr. Barley attended Duke University and C.W. Post College.

Richard Rebetti is Vice President of Operations of STi Prepaid, LLC. Mr. Rebetti also serves as Senior Vice President of Switched Services of Dialaround Enterprises Inc. Mr. Rebetti has also served as the Chief Operating Officer of Telco Group Inc. since December 2002. He is currently responsible for Information Systems, Customer Service, Quality Assurance, Mobile Activation, Care and Support. Mr. Rebetti was a co-founder of North American Telecommunications Corp. ("NATC") a competitive local exchange carrier, where he was responsible for Information Systems, Internet Services, service delivery and Operational Support Systems, billing, corporate marketing and client care from September of 1997 through February of 2001. Prior to working for NATC, Mr. Rebetti worked for RSL COM, U.S.A., Inc., formally ITC a long distance and prepaid card company. He was a co-founder of ITC and was responsible for setting up and managing the accounting, billing and M.I.S. departments and was President of RSL Com PriceCall, Inc. the prepaid card division of RSL COM, U.S.A., Inc. where he increased revenue from $4,000,000 in 1995 to $40,000,000 in annualized revenue for 1997. Mr.

Rebetti has a Bachelors of Science Degree in Finance and an Advanced Professional Certificate in Accounting from St. John's University, New York, as well as a Masters of Business Administration in Management from City University of New York, Baruch College.

Jason N. Welch is Vice President of Networks for STi Prepaid, LLC. Mr. Welch also serves as Executive Vice President of Network Operations also directing vendor management, provisioning and switch operations of Telco Group Inc. since 2003. Immediately prior to joining Telco Group, Mr. Welch held several management positions with Citizens Communications from 2001 to 2003 managing a portfolio of $125 million in annual vendor accounts and $600 million in carrier revenue. From 1992 to 2001, Mr. Welch held sales and carrier account management positions with Global Crossing, Frontier Corporation and Rochester Tel Mobile.

EXHIBIT 4

Leucadia's SEC Form 10-Q
For Quarter Ending September 30, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 10010-3607
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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 ☒ 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 ☒

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, at November 1, 2006: 216,329,442.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2006 and December 31, 2005
(Dollars in thousands, except par value)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 301,019	$ 386,957
Investments	980,144	1,323,562
Trade, notes and other receivables, net	100,005	377,216
Prepaids and other current assets	173,165	140,880
Total current assets	1,554,333	2,228,615
Restricted cash	18,262	27,018
Non-current investments	1,272,382	977,327
Notes and other receivables, net	29,801	22,747
Intangible assets, net and goodwill	61,293	85,083
Deferred tax asset, net	972,876	1,094,017
Other assets	369,576	213,583
Property, equipment and leasehold improvements, net	236,095	237,021
Investments in associated companies	709,815	375,473
Total	$5,224,433	$5,260,884
Liabilities		
Current liabilities:		
Trade payables and expense accruals	$ 103,327	$ 259,778
Other current liabilities	5,633	23,783
Debt due within one year	184,079	175,664
Income taxes payable	10,978	15,171
Total current liabilities	304,017	474,396
Other non-current liabilities	109,655	121,893
Long-term debt	972,637	986,718
Total liabilities	1,386,309	1,583,007
Commitments and contingencies		
Minority interest	13,513	15,963
Shareholders' Equity		
Common shares, par value $1 per share, authorized 300,000,000 shares; 216,326,442 and 216,058,016 shares issued and outstanding, after deducting 56,875,963 and 56,874,929 shares held in treasury	216,326	216,058
Additional paid-in capital	517,783	501,914
Accumulated other comprehensive loss	(113,132)	(81,502)
Retained earnings	3,203,634	3,025,444
Total shareholders' equity	3,824,611	3,661,914
Total	$5,224,433	$5,260,884

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

For the periods ended September 30, 2006 and 2005

(In thousands, except per share amounts)

(Unaudited)

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and Other Income:				
Manufacturing	**$105,375**	$115,066	**$343,180**	$ 223,991
Investment and other income	**48,609**	47,503	**243,706**	111,899
Net securities gains	**16,259**	85,706	**99,391**	132,732
	170,243	248,275	**686,277**	468,622
Expenses:				
Manufacturing cost of sales	**91,909**	98,019	**290,698**	189,140
Interest	**22,843**	16,203	**61,541**	49,240
Salaries and incentive compensation	**19,971**	13,256	**62,042**	33,216
Depreciation and amortization	**5,855**	4,296	**16,187**	13,675
Selling, general and other expenses	**35,707**	29,641	**108,570**	85,223
	176,285	161,415	**539,038**	370,494
Income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies	**(6,042)**	86,860	**147,239**	98,128
Income taxes	**(8,709)**	(24,885)	**48,871**	(1,131,809)
Income from continuing operations before equity in income (losses) of associated companies	**2,667**	111,745	**98,368**	1,229,937
Equity in income (losses) of associated companies, net of taxes	**1,073**	(66,531)	**24,336**	11,962
Income from continuing operations	**3,740**	45,214	**122,704**	1,241,899
Income (loss) from discontinued operations, net of taxes	**(2,717)**	58,770	**(3,870)**	81,231
Gain on disposal of discontinued operations, net of taxes	**59,454**	130	**59,356**	54,708
Net income	**$ 60,477**	$104,114	**$178,190**	$ 1,377,838
Basic earnings (loss) per common share:				
Income from continuing operations	**$ .02**	$.21	**$ .57**	$5.77
Income (loss) from discontinued operations	**(.01)**	.27	**(.02)**	.38
Gain on disposal of discontinued operations	**.27**	–	**.27**	.25
Net income	**$ .28**	$.48	**$ .82**	$6.40
Diluted earnings (loss) per common share:				
Income from continuing operations	**$ .02**	$.21	**$ .56**	$5.42
Income (loss) from discontinued operations	**(.01)**	.26	**(.02)**	.35
Gain on disposal of discontinued operations	**.26**	–	**.26**	.24
Net income	**$ .27**	$.47	**$ .80**	$6.01

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2006 and 2005

(In thousands)

(Unaudited)

	2006	2005
Net cash flows from operating activities:		
Net income	$ 178,190	$ 1,377,838
Adjustments to reconcile net income to net cash provided by operations:		
Deferred income tax provision (benefit)	96,344	(1,135,100)
Depreciation and amortization of property, equipment and leasehold improvements	28,171	142,374
Other amortization	(9,936)	2,132
Share-based compensation	12,390	–
Excess tax benefit from exercise of stock options	(376)	–
Provision for doubtful accounts	1,005	3,951
Net securities gains	(99,391)	(135,009)
Equity in income of associated companies	(38,792)	(12,692)
Distributions from associated companies	74,209	89,293
Net gains related to real estate, property and equipment, and other assets	(99,344)	(36,968)
Gain on disposal of discontinued operations	(94,616)	(56,708)
Investments classified as trading, net	(3,885)	19,472
Net change in:		
Restricted cash	8,625	(9,152)
Trade, notes and other receivables	156,384	31,860
Prepaids and other assets	(1,394)	(14,743)
Trade payables and expense accruals	(127,152)	(17,133)
Other liabilities	(15,900)	(28,823)
Income taxes payable	(4,179)	(1,634)
Other	8,288	(673)
Net cash provided by operating activities	68,641	218,285
Net cash flows from investing activities:		
Acquisition of property, equipment and leasehold improvements	(33,659)	(109,559)
Acquisitions of and capital expenditures for real estate investments	(57,398)	(20,353)
Proceeds from disposals of real estate, property and equipment, and other assets	179,985	27,579
Proceeds from sale of discontinued operations, net of expenses and cash of operations sold	115,304	101,360
Collection of Premier's insurance proceeds	109,383	–
Acquisitions, net of cash acquired	(105,282)	(172,622)
Net change in restricted cash	(91,640)	(2,415)
Advances on notes and other receivables	(23,588)	(100)
Collections on notes, loan and other receivables	21,790	3,015
Investments in associated companies	(267,273)	(6,241)
Distributions from associated companies	2,040	2,619
Investment in Fortescue Metals Group Ltd	(408,030)	–
Purchases of investments (other than short-term)	(3,010,495)	(2,342,929)
Proceeds from maturities of investments	893,339	977,805
Proceeds from sales of investments	2,483,093	1,417,222
Net cash used for investing activities	(192,431)	(124,619)
Net cash flows from financing activities:		
Net change in customer banking deposits	–	(24,565)
Issuance of long-term debt	61,739	70,765
Reduction of long-term debt	(34,042)	(58,978)
Issuance of common shares	3,404	1,584
Purchase of common shares for treasury	(33)	–
Excess tax benefit from exercise of stock options	376	–
Other	6,364	(664)
Net cash provided by (used for) financing activities	37,808	(11,858)
Effect of foreign exchange rate changes on cash	44	(880)
Net increase (decrease) in cash and cash equivalents	(85,938)	80,928
Cash and cash equivalents at January 1,	386,957	486,948
Cash and cash equivalents at September 30,	$ 301,019	$ 567,876

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended September 30, 2006 and 2005
(In thousands, except par value)
(Unaudited)

	Common Shares $1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2005	$215,201	$490,903	$ 136,138	$1,416,411	$2,258,653
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $0			(95,818)		(95,818)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0			(14,802)		(14,802)
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0			2,395		2,395
Net income				1,377,838	1,377,838
Comprehensive income					1,269,613
Issuance of common shares on acquisition of minority interest in MK Resources Company	668	12,191			12,859
Exercise of options to purchase common shares	192	1,392			1,584
Balance, September 30, 2005	$216,061	$504,486	$ 27,913	$2,794,249	$3,542,709
Balance, January 1, 2006	$216,058	$501,914	$ (81,502)	$3,025,444	$3,661,914
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $18,163			(32,009)		(32,009)
Net change in unrealized foreign exchange gain (loss), net of taxes of $298			526		526
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $84			(147)		(147)
Net income				178,190	178,190
Comprehensive income					146,560
Share-based compensation expense		12,390			12,390
Exercise of options to purchase common shares, including excess tax benefit	269	3,511			3,780
Purchase of common shares for treasury	(1)	(32)			(33)
Balance, September 30, 2006	$216,326	$517,783	$(113,132)	$3,203,634	$3,824,611

See notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

1. The unaudited interim consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to present fairly 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, 2005, which are included in the Company's Annual Report filed on Form 10-K, as amended by Form 10-K/A, for such year (the "2005 10-K"). Results of operations for interim periods are not necessarily indicative of annual results of operations. The consolidated balance sheet at December 31, 2005 was extracted from the audited annual financial statements and does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements.

   On June 14, 2006, a two-for-one stock split was effected in the form of a 100% stock dividend that was paid to shareholders of record on May 30, 2006. The financial statements (and notes thereto) give retroactive effect to the stock split for all periods presented.

   In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes–an Interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes the accounting for and disclosure of uncertainty in income tax positions. FIN 48 defines the criteria that must be met before any part of the benefit of a tax position can be recognized in the financial statements, provides guidance for the measurement of tax benefits recognized and guidance for classification and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which requires companies to recognize on their balance sheet a net liability or asset for the funded status of their defined benefit pension and other postretirement plans, recognize changes in funded status through comprehensive income and provide additional footnote disclosures. SFAS 158 is effective for publicly traded calendar year-end companies as of December 31, 2006. In addition, SFAS 158 requires companies to measure the funded status of their plans as of the date of its fiscal year-end, with limited exceptions, effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 158 on its consolidated financial statements, but does not believe it will have a material impact.

   Certain amounts for prior periods have also been reclassified to be consistent with the 2006 presentation, and to reflect as discontinued operations WilTel Communications Group, LLC ("WilTel"), which was sold during the fourth quarter of 2005, Symphony Health Services, LLC ("Symphony"), which was sold in July 2006, and ATX Communications, Inc. ("ATX"), which was sold in September 2006. For more information concerning the sales, see Note 9.

2. Results of operations for the Company's segments are reflected from the date of acquisition. The primary measure of segment operating results and profitability used by the Company is income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies. As a result of the classification of Symphony and ATX as discontinued operations, the

Company no longer has a healthcare services segment or a telecommunications segment; for information about the Company's new gaming entertainment segment, see Note 17.

Certain information concerning the Company's segments for the three and nine month periods ended September 30, 2006 and 2005 is presented in the following table (in thousands).

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and other income (a):				
Manufacturing:				
Idaho Timber	**$ 77,614**	$ 90,887	**$261,895**	$154,419
Plastics	**27,944**	24,500	**82,175**	69,943
Gaming Entertainment	**1,599**	–	**2,441**	–
Domestic Real Estate	**4,951**	4,824	**76,836**	22,116
Other Operations	**12,474**	31,421	**30,151**	49,614
Corporate (b)	**45,661**	96,643	**232,779**	172,530
Total consolidated revenues and other income	**$170,243**	$248,275	**$686,277**	$468,622
Income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies:				
Manufacturing:				
Idaho Timber	**$ 335**	$ 4,463	**$ 11,871**	$ 4,112
Plastics	**5,150**	4,344	**15,374**	12,289
Gaming Entertainment	**(830)**	–	**(217)**	–
Domestic Real Estate	**(2,353)**	1,034	**48,445**	1,576
Other Operations (c)	**(8,856)**	15,403	**(22,657)**	10,832
Corporate (b)	**512**	61,616	**94,423**	69,319
Total consolidated income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies	**$ (6,042)**	$ 86,860	**$147,239**	$ 98,128

(a) 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 on the Company's consolidated statements of operations.

(b) Includes net securities gains of $16,300,000 and $75,800,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $99,400,000 and $123,500,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Net securities gains include provisions of $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively, to write down investments in certain available for sale securities due to declines in market value determined to be other than temporary.

(c) Losses in other operations for the 2006 periods principally relate to research and development expenses and operating expenses of the Company's medical product development subsidiary.

For the three month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by depreciation and amortization expenses of $10,400,000 and $8,300,000, respectively; such amounts are primarily comprised of Corporate ($2,900,000 and $2,700,000, respectively), manufacturing ($4,400,000 and $4,000,000, respectively) and other operations ($1,700,000 and $1,500,000, respectively). For the nine month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by depreciation and amortization expenses of $29,300,000 and $24,000,000, respectively; such amounts are primarily comprised of Corporate ($8,800,000 and $8,000,000, respectively), manufacturing ($13,000,000 and $9,900,000,

respectively) and other operations ($4,200,000 and $4,500,000, respectively). Depreciation and amortization expenses for other segments are not material.

For the three month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by interest expense of $22,800,000 and $16,200,000, respectively; such amounts are primarily comprised of Corporate ($18,100,000 and $15,900,000, respectively), gaming entertainment ($4,700,000 in 2006) and other operations ($300,000 in 2005). For the nine month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by interest expense of $61,500,000 and $49,200,000, respectively; such amounts are primarily comprised of Corporate ($53,100,000 and $47,000,000, respectively), gaming entertainment ($8,000,000 in 2006) and other operations ($1,200,000 in 2005). Interest expense for other segments is not material.

3. The following tables provide summarized data with respect to significant investments in associated companies accounted for under the equity method of accounting for the periods the investments were owned by the Company. The information is provided for those investments whose 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, 2006 (in thousands).

	September 30, 2006	September 30, 2005
EagleRock Capital Partners (QP), LP ("EagleRock"):		
Total revenues	**$10,200**	$(16,800)
Income (loss) from continuing operations before extraordinary items	**9,600**	(18,000)
Net income (loss)	**9,600**	(18,000)
The Company's equity in net income (loss)	**7,100**	(13,500)
Jefferies Partners Opportunity Fund II, LLC ("JPOF II"):		
Total revenues	**$37,900**	$ 31,600
Income from continuing operations before extraordinary items	**36,300**	29,300
Net income	**36,300**	29,300
The Company's equity in net income	**23,900**	19,500

4. A summary of investments at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006		December 31, 2005	
	Amortized Cost	**Carrying Value and Estimated Fair Value**	Amortized Cost	Carrying Value and Estimated Fair Value
Current Investments:				
Investments available for sale	**$ 859,198**	**$ 862,373**	$1,206,973	$1,206,195
Trading securities	**103,445**	**102,975**	103,978	105,541
Other investments, including accrued interest income	**14,796**	**14,796**	11,826	11,826
Total current investments	**$ 977,439**	**$ 980,144**	$1,322,777	$1,323,562
Non-current Investments:				
Investments available for sale	**$1,094,480**	**$1,101,478**	$ 762,178	$ 825,716
Other investments	**170,904**	**170,904**	151,611	151,611
Total non-current investments	**$1,265,384**	**$1,272,382**	$ 913,789	$ 977,327

During the first quarter of 2006, the Company sold all of its 115,000,000 shares of Level 3 Communications, Inc. common stock that it had received in connection with the sale of WilTel for total proceeds of $376,600,000 and recorded a pre-tax gain of $37,400,000.

5. A summary of intangible assets, net and goodwill at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006	December 31, 2005
Intangibles:		
Customer relationships, net of accumulated amortization of $9,980 and $6,686	**$48,621**	$58,911
Trademarks and tradename, net of accumulated amortization of $192 and $268	**1,662**	4,140
Software, net of accumulated amortization of $0 and $701	**–**	4,399
Patents, net of accumulated amortization of $259 and $142	**2,071**	2,188
Other, net of accumulated amortization of $1,583 and $1,488	**788**	1,446
Goodwill	**8,151**	13,999
	$61,293	$85,083

During the nine months ended September 30, 2006, the Company recorded $4,200,000 of new intangible assets, principally customer relationships, resulting from acquisitions by the plastics manufacturing segment and the other operations segment. Intangible assets, net at December 31, 2005 included $16,500,000 related to ATX, which was sold in September 2006.

Amortization expense on intangible assets was $2,000,000 and $1,500,000, respectively, for the three month periods ended September 30, 2006 and 2005, and $5,700,000 and $3,900,000, respectively, for the nine month periods ended September 30, 2006 and 2005. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2006 (for the remaining three months)–$2,000,000; 2007–$7,100,000; 2008–$6,600,000; 2009–$6,100,000; and 2010–$5,800,000.

At September 30, 2006 and December 31, 2005, goodwill included $8,200,000 within the plastics manufacturing segment; at December 31, 2005, goodwill also included $5,800,000 related to ATX.

6. A summary of accumulated other comprehensive income (loss), net of taxes at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006	December 31, 2005
Net unrealized losses on investments	**$ (54,390)**	$(22,381)
Net unrealized foreign exchange losses	**(2,364)**	(2,890)
Net unrealized losses on derivative instruments	**(1,155)**	(1,008)
Net minimum pension liability	**(55,223)**	(55,223)
	$(113,132)	$(81,502)

7. Investment and other income includes changes in the fair values of derivative financial instruments of $(900,000) and $1,600,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $900,000 and $1,500,000, for the nine month periods ended September 30, 2006 and 2005, respectively.

8. In February 2006, Square 711 Developer, LLC ("Square 711"), a 90% owned subsidiary of the Company, completed the sale of 8 acres of unimproved land in Washington, D.C. for aggregate cash consideration of $121,900,000. The land was acquired by Square 711 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 recorded a pre-tax gain of $48,900,000.

9. In July 2006, the Company sold Symphony to RehabCare Group, Inc. for aggregate cash consideration of approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement ($31,700,000 at date of sale) and other sale related obligations, the Company realized net

cash proceeds of $62,300,000 and recorded a pre-tax gain on sale of discontinued operations of $53,300,000 ($33,500,000 after tax). Results of operations for Symphony for the three month period ended September 30, 2005 and for the nine month periods ended September 30, 2006 and 2005 are as follows (in thousands):

	For the Three Month Period Ended September 30,	For the Nine Month Period Ended September 30,	
	2005	2006	2005
Revenues and other income:			
Healthcare revenues	$54,376	$110,370	$182,791
Investment and other income	208	225	751
	54,584	110,595	183,542
Expenses:			
Healthcare cost of sales	46,308	95,628	154,100
Interest	674	1,195	2,143
Salaries	3,483	5,835	9,968
Depreciation and amortization	280	708	895
Selling, general and other expenses	3,667	7,013	14,059
	54,412	110,379	181,165
Income from discontinued operations before income taxes	172	216	2,377
Income taxes	(3)	107	(11)
Income from discontinued operations	$ 175	$ 109	$ 2,388

The Company has not classified Symphony's assets and liabilities as discontinued operations because the balances are not material. Summarized information for Symphony's assets and liabilities is as follows (in thousands):

	December 31, 2005
Current assets	$52,470
Non-current assets	3,165
Total assets	$55,635
Current liabilities	$45,262
Non-current liabilities	280
Total liabilities	$45,542

At December 31, 2005, current assets principally consisted of trade receivables and current liabilities principally consisted of trade payables and amounts due under Symphony's credit agreement.

In September 2006, the Company sold ATX to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, subject to working capital adjustments, and recorded a pre-tax gain on sale of discontinued operations of $41,600,000 ($26,100,000 after tax).

Results of operations for ATX for the three and nine month periods ended September 30, 2006 and 2005 are as follows (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and other income:				
Telecommunication revenues	**$39,377**	$40,402	**$118,987**	$70,995
Investment and other income	**172**	4	**1,275**	66
	39,549	40,406	**120,262**	71,061
Expenses:				
Telecommunication cost of sales	**25,007**	24,149	**72,231**	43,490
Interest	**38**	35	**126**	64
Salaries	**8,585**	6,456	**21,054**	11,539
Depreciation and amortization	**2,223**	2,412	**7,374**	4,179
Selling, general and other expenses	**6,869**	6,403	**20,629**	11,557
	42,722	39,455	**121,414**	70,829
Income (loss) from discontinued operations before income taxes	**(3,173)**	951	**(1,152)**	232
Income taxes	**(707)**	5	**749**	101
Income (loss) from discontinued operations	**$(2,466)**	$ 946	**$ (1,901)**	$ 131

The Company has not classified ATX's assets and liabilities as discontinued operations because the balances are not material. Summarized information for ATX's assets and liabilities is as follows (in thousands):

	December 31, 2005
Current assets	$40,308
Non-current assets	48,550
Total assets	$88,858
Current liabilities	$32,479
Non-current liabilities	2,001
Total liabilities	$34,480

At December 31, 2005, current assets principally consisted of cash and trade receivables, non-current assets principally consisted of property and equipment and intangible assets and goodwill, and current liabilities principally consisted of trade payables.

For the three and nine month 2006 periods, gain on disposal of discontinued operations also reflects $700,000 and $600,000, respectively, of pre-tax gains ($500,000 and $400,000, respectively, after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel, which was sold in the fourth quarter of 2005. In addition, gain on disposal of discontinued operations for the 2006 periods includes a pre-tax loss of $900,000 ($600,000 after tax) from the sale of the Company's gas properties during the third quarter. Income (loss) from discontinued operations for the nine month 2006 period includes $2,900,000 of pre-tax losses ($2,100,000 after tax) related to these gas properties; amounts for the comparable period in 2005 as well as for the three month 2006 and 2005 periods were not material.

10. Pension expense charged to operations for the three and nine month periods ended September 30, 2006 and 2005 related to the defined benefit pension plan (other than WilTel's plan) included the following components (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Interest cost	**$ 479**	$ 511	**$1,446**	$1,534
Expected return on plan assets	**(263)**	(222)	**(795)**	(679)
Actuarial loss	**226**	220	**697**	636
Amortization of prior service cost	**1**	1	**2**	3
Net pension expense	**$ 443**	$ 510	**$1,350**	$1,494

Employer contributions to the defined benefit pension plan (other than WilTel's plan) were $7,000,000 during the first nine months of 2006.

WilTel's defined benefit pension plan expense charged to operations for the three and nine month periods ended September 30, 2006 and 2005 included the following components (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Interest cost	**$ 2,487**	$ 2,954	**$ 7,463**	$ 7,057
Service cost	**–**	1,528	**–**	3,459
Expected return on plan assets	**(1,766)**	(2,229)	**(5,299)**	(4,882)
Actuarial loss	**397**	2,327	**1,190**	2,350
Net pension expense	**$ 1,118**	$ 4,580	**$ 3,354**	$ 7,984

As more fully discussed in the 2005 10-K, WilTel was sold in December 2005 but its defined benefit pension plan was excluded from the sale. The defined benefit pension plan expense for periods prior to the sale is classified as discontinued operations; expenses subsequent to the sale have been charged to continuing operations.

Employer contributions to WilTel's defined benefit pension plan were $42,800,000 during the first nine months of 2006; as disclosed in the Company's 2005 10-K such contributions were estimated to aggregate $29,100,000 for all of 2006. Additional contributions were made during 2006 to reduce the underfunded status of the plan which has the effect of reducing the cost of government charged variable insurance premiums.

Several subsidiaries provide certain healthcare and other benefits to certain retired employees under plans which are currently unfunded. The Company pays the cost of postretirement benefits as they are incurred. Amounts charged to expense were not material in each of the three and nine month periods ended September 30, 2006 and 2005.

11. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), using the modified prospective method. SFAS 123R requires that the cost of all share-based payments to employees, including grants of employee stock options and warrants, be recognized in the financial statements based on their fair values. The cost is recognized as an expense over the vesting period of the award. Prior to adoption of SFAS 123R, no compensation cost was recognized in the statements of operations for the Company's share-based compensation plans; the Company disclosed certain pro forma amounts as required.

The fair value of each award is estimated at the date of grant using the Black-Scholes option pricing model. As a result of the adoption of SFAS 123R, compensation cost increased by $3,000,000 and $12,400,000, respectively, for the three and nine month 2006 periods and net income decreased by

$2,000,000 and $8,100,000, respectively, for the three and nine month 2006 periods. Had the Company used the fair value based accounting method for the three and nine month 2005 periods, compensation cost would have been higher by $400,000 and $1,400,000, respectively, and primary and diluted earnings per share would not have changed. As of September 30, 2006, total unrecognized compensation cost related to nonvested share-based compensation plans was $29,500,000; this cost is expected to be recognized over a weighted-average period of 1.7 years.

As of September 30, 2006, the Company has two share-based plans: a fixed stock option plan and a senior executive warrant plan. The fixed stock option plan provides for grants of options or rights to non-employee directors and certain employees up to a maximum grant of 450,000 shares to any individual in a given taxable year. The maximum number of common shares that may be acquired through the exercise of options or rights under this plan cannot exceed 2,519,150. The plan provides for the issuance of stock options and stock appreciation rights at not less than the fair market value of the underlying stock at the date of grant. Options granted to employees under this plan are intended to qualify as incentive stock options to the extent permitted under the Internal Revenue Code and become exercisable in five equal annual instalments starting one year from date of grant. Options granted to non-employee directors become exercisable in four equal annual instalments starting one year from date of grant. No stock appreciation rights have been granted. As of September 30, 2006, 2,495,150 shares were available for grant under the plan. During the nine month period ended September 30, 2006, 24,000 options at $30.78 per share were granted; during the nine month period ended September 30, 2005, 12,000 options at $18.03 per share were granted.

The senior executive warrant plan provides for the issuance, subject to shareholder approval, of warrants to purchase up to 2,000,000 common shares to each of the Company's Chairman and President at an exercise price equal to 105% of the closing price per share of a common share on the date of grant. On March 6, 2006, the Company's Board of Directors approved, subject to shareholder approval, the grant of warrants to purchase 2,000,000 common shares to each of the Company's Chairman and President at an exercise price equal to $28.515 per share (105% of the closing price per share of a common share on that date). In May 2006, shareholder approval was received and the warrants were issued. The warrants expire in 2011 and vest in five equal tranches with 20% vesting on the date shareholder approval was received and an additional 20% vesting in each subsequent year.

The following summary presents the weighted-average assumptions used for grants made during the 2006 and 2005 periods:

	2006		2005
	Options	**Warrants**	Options
Risk free interest rate	**4.92%**	**4.95%**	3.77%
Expected volatility	**22.78%**	**23.05%**	23.58%
Expected dividend yield	**.81%**	**.41%**	.69%
Expected life	**4.3 years**	**4.3 years**	4.3 years
Weighted average fair value per grant	**$7.75**	**$9.39**	$4.29

The expected life assumptions were based on historical behavior and incorporated post-vesting forfeitures for each type of award and population identified.

The following table summarizes information about outstanding stock options at September 30, 2006 and changes during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006.....	1,955,260	$17.60		
Granted	24,000	$30.78		
Exercised.....	(269,460)	$12.63		$ 4,000,000
Forfeited	–	$ –		
Outstanding at September 30, 2006..	1,709,800	$18.56	3.5	$13,100,000
Exercisable at September 30, 2006...	556,900	$14.88	2.8	$ 6,300,000

At September 30, 2006, 4,000,000 warrants were outstanding and 800,000 were exercisable but had no aggregate intrinsic value as the exercise price exceeded the market value. Both the outstanding and exercisable warrants had a weighted-average remaining contractual term of 4.4 years. No warrants were exercised or forfeited during the nine month 2006 period.

12. For the 2006 periods, the Company's effective income tax rate is lower than the federal statutory rate because of the reversal of $6,000,000 of state income tax reserves due to the favorable resolution of certain contingencies. The income tax provisions for the three and nine month 2005 periods reflect credits of $25,100,000 and $1,135,100,000, respectively, as a result of the reversal of a portion of the valuation allowance for the deferred tax asset. The Company adjusted the valuation allowance in 2005 since it believed it was more likely than not that it will have future taxable income sufficient to realize that portion of the net deferred tax asset.

13. Basic earnings (loss) per share amounts are calculated by dividing net income by the sum of the weighted average number of common shares outstanding. To determine diluted earnings (loss) per share, the weighted average number of common shares is adjusted for the incremental weighted average number of shares issuable upon exercise of outstanding options and warrants, unless the effect is antidilutive. In addition, the calculations of diluted earnings (loss) per share assume the 3¾% Convertible Notes are converted into common shares and earnings increased for the interest on such notes, net of the income tax effect, unless the effect is antidilutive. The number of shares used to calculate basic earnings (loss) per share amounts was 216,291,000 and 215,595,000 for the three month periods ended September 30, 2006 and 2005, respectively, and 216,202,000 and 215,387,000 for the nine month periods ended September 30, 2006 and 2005, respectively. The number of shares used to calculate diluted earnings (loss) per share amounts was 231,906,000 and 231,328,000 for the three month periods ended September 30, 2006 and 2005, respectively, and 231,875,000 and 231,132,000 for the nine month periods ended September 30, 2006 and 2005, respectively.

14. Cash paid for interest and income taxes (net of refunds) was $70,200,000 and $6,400,000, respectively, for the nine month period ended September 30, 2006 and $83,900,000 and $3,900,000, respectively, for the nine month period ended September 30, 2005.

15. Debt due within one year includes $149,600,000 and $92,100,000 as of September 30, 2006 and December 31, 2005, respectively, relating to repurchase agreements. These fixed rate repurchase agreements have a weighted average interest rate of approximately 5.28%, mature at various dates through March 2007 and are secured by non-current investments with a carrying value of $153,300,000.

16. In April 2006, the Company acquired a 30% limited liability company interest in Goober Drilling, LLC, ("Goober Drilling") for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober Drilling, on a secured basis, up to $80,000,000 to finance new equipment

purchases and construction costs, and to repay existing debt. In June 2006, the Company agreed to increase the secured loan amount to an aggregate of $126,000,000 to finance additional equipment purchases and construction costs. As of September 30, 2006, the outstanding loan amount was $93,100,000. Goober Drilling is an on-shore contract oil and gas drilling company based in Stillwater, Oklahoma that provides drilling services to exploration and production companies. The Company's investment in Goober Drilling is classified as an investment in an associated company.

17. During the second quarter of 2006, the Company indirectly acquired a controlling voting interest in Premier for an aggregate purchase price of $90,800,000, excluding expenses. The Company owns approximately 46% of the common units of Premier and all of Premier's preferred units, which accrue an annual preferred return of 17%. The Company also acquired Premier's junior subordinated note due August 2012, with an outstanding balance at acquisition of $13,400,000, and has made an $8,100,000 12% loan to Premier that matures in May 2007. Premier is the owner of the Hard Rock Hotel & Casino Biloxi ("Hard Rock Biloxi"), located in Biloxi, Mississippi, which was severely damaged prior to opening by Hurricane Katrina and which, pending receipt of insurance proceeds, is to be rebuilt. All of Premier's equity interests are pledged to secure repayment of Premier's outstanding $160,000,000 principal amount of 10¾% First Mortgage Notes due February 1, 2012 (the "Premier Notes"). In addition, the Company agreed to provide up to $40,000,000 of construction financing to Premier's general contractor by purchasing the contractor's receivables from Premier if the receivables are more than ten days past due. At acquisition, the Company consolidated Premier as a result of its controlling voting interest.

    On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), before the United States Bankruptcy Court for the Southern District of Mississippi, Southern Division (the "Court"). Premier is seeking the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which has been denied to Premier by its pre-petition secured bondholders. Premier will continue to operate its business as "debtors in possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Premier believes that its insurance proceeds and permitted equipment financing are sufficient to pay its creditors in full and to rebuild the Hard Rock Biloxi.

    The Company has deconsolidated Premier effective with the filing of the voluntary petitions, and has classified its net investment in Premier as an investment in an associated company ($116,900,000 as of September 30, 2006, including all loans and equity interests). The bankruptcy filings were made solely to allow Premier access to the insurance proceeds, the proceedings are not expected to last for an extended period and creditors are expected to receive the amounts owed to them. For these reasons, the Company believes that the application of the equity method of accounting during the pendency of the bankruptcy proceedings is appropriate.

    Summarized financial information for Premier is as follows (in thousands):

	September 30, 2006
Assets:	
Current assets	$ 9,358
Non-current assets (a)	315,588
Total assets	$324,946
Liabilities:	
Current liabilities (b)	$196,051
Non-current liabilities	11,962
Total liabilities	208,013
Shareholders' equity	116,933
Total liabilities and shareholders' equity	$324,946

(a) Includes $11,900,000 of intangible assets, $148,500,000 of net property and equipment and $152,600,000 of restricted cash for amounts held by the indenture trustee of the Premier Notes.

(b) Includes bonds and notes payable of $165,300,000.

Premier has filed a motion with the Court seeking approval for $180,000,000 debtor in possession financing to be provided by a subsidiary of the Company. If approved, proceeds from the financing would be used by Premier to pay the Premier Notes in full, to pay for post-petition operating expenses including the repair, reconstruction and eventual operation of the Hard Rock Biloxi, and to pay certain other costs and expenses to be determined. The financing would bear interest at 10¾% per annum, would have a scheduled maturity of February 1, 2012, and would be subject to the satisfaction of certain conditions at the Company's discretion.

Prior to Hurricane Katrina, Premier purchased a comprehensive blanket insurance policy providing up to $181,100,000 in coverage for damage to real and personal property, including business interruption coverage. Premier has received payments from various insurance carriers aggregating $160,800,000 with respect to $168,100,000 face amount of coverage; the remaining $13,000,000 face amount of coverage has not been settled and is currently in litigation. All insurance settlements have been placed on deposit into restricted accounts under the control of the indenture trustee of the Premier Notes.

Hurricane Katrina completely destroyed the Hard Rock Biloxi's casino, which was a facility built on floating barges, and caused significant damage to the hotel and related structures. The threat of hurricanes remains a significant risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that are expected to greatly improve the structural integrity of the facility. In July 2006, Premier purchased a new insurance policy providing up to $149,300,000 in coverage for damage to real and personal property and up to the lesser of six months or $30,000,000 of business interruption and delayed opening coverage. The coverage is syndicated through several insurance carriers, each with an A.M. Best rating of A- (Excellent) or better. The policy provides coverage for the existing structures, as well as for the repair and rebuild of the hotel, low rise building and parking garage and the construction of the new casino.

Although the insurance policy is an "all risk" policy, weather catastrophe occurrence ("WCO"), which is defined to include damage caused by a named storm, is limited to $50,000,000 with a deductible equal to the greater of $7,000,000 or 5% of total insured values at risk. WCO coverage is subject to mandatory reinstatement of coverage for an additional pre-determined premium.

Since the WCO coverage purchased by Premier is substantially less than the coverage in place prior to Hurricane Katrina, Premier has more exposure to property damage resulting from similar catastrophic storms. However, Premier's assessment of the probability of a similar type of loss occurring during the remainder of this year's hurricane season is remote, an assessment based in large part on the less severe damage sustained to the non-casino facilities from Hurricane Katrina last year, and the amount of new construction that will be at risk during the balance of the 2006 hurricane season. Premiums for WCO policies have increased dramatically as a result of Hurricane Katrina, and the amount of coverage that can be purchased has also been reduced as insurance companies seek to reduce their exposure to such events.

18. In June 2006, the Company entered into a new credit agreement with various bank lenders for a $100,000,000 unsecured credit facility that matures in five years and bears interest based on the Eurocurrency rate or the prime rate. The Company's existing credit agreement was terminated. At September 30, 2006, no amounts were outstanding under this bank credit facility.

19. In August 2006, pursuant to a subscription agreement with Fortescue Metals Group Ltd ("Fortescue") and its subsidiary, FMG Chichester Pty Ltd ("FMG"), the Company invested an aggregate of $408,000,000, including expenses, in Fortescue's Pilbara iron ore infrastructure project in Western Australia. In exchange for its cash investment, the Company acquired 26,400,000 common shares of Fortescue, representing approximately 9.99% of the outstanding Fortescue common stock, and a 13 year, $100,000,000 note of FMG. Interest on the note is calculated as 4%

of the revenue, net of government royalties, invoiced from the iron ore produced from the project. The note is unsecured and subordinate to the project's secured debt. Fortescue is a publicly traded company on the Australian Stock Exchange, and the shares acquired by the Company may be sold without restriction. At the date of acquisition, the Company's investment in Fortescue's common shares was recorded at an aggregate fair value of $202,100,000, based on the closing price of Fortescue's common shares on that date. The Company has classified the Fortescue common shares as a non-current available for sale investment.

For accounting purposes, the Company bifurcated its remaining $205,900,000 investment into a 13 year zero-coupon note and a prepaid mining interest. The zero-coupon note was recorded at an estimated initial fair value of $21,600,000, representing the present value of the principal amount discounted at 12.5%. The prepaid mining interest of $184,300,000 has been classified with other non-current assets, and will be amortized to expense as the 4% of revenue is earned.

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

The following should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2005 10-K. As more fully discussed in the 2005 10-K, 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.

Liquidity and Capital Resources

Net cash provided by operating activities decreased by $149,600,000 in 2006 as compared to the same period in 2005, due principally to no 2006 cash flows from WilTel, which was sold in December 2005, reduced distributions of earnings from associated companies, reduced funds generated from activity in the trading portfolio and payment of incentive compensation and pension plan contributions. During 2006, cash provided by operating activities reflect the collection of $179,800,000 of certain receivables from AT&T Inc. (as more fully discussed in the 2005 10-K) and increased cash flow from the Company's operating units, principally the manufacturing businesses. WilTel's 2005 cash flow from operating activities for the nine month period ended September 30, 2005 was $119,000,000. The increased cash flow from the Company's manufacturing units reflects Idaho Timber, which was acquired during the second quarter of 2005, and increased operating income at the plastics manufacturing segment resulting from increased revenues. In 2006, distributions from associated companies principally include earnings distributed by EagleRock, which is discussed below. In 2005, distributions from associated companies principally resulted from the sale of Union Square.

Net cash flows used for investing activities increased by $67,800,000 in 2006 as compared to 2005. During the 2006 period, proceeds from the disposal of discontinued operations net of expenses and cash sold were $115,300,000, principally reflecting the sale of Symphony and ATX and the resolution of WilTel's working capital adjustment, as compared to $101,400,000 in the 2005 period, principally reflecting the sale of the Waikiki Beach hotel. During 2006, funds provided by the disposal of real estate and other assets include the sales of Square 711 and certain associated companies, and funds used for investing activities include the investment in Fortescue; these transactions are discussed in greater detail below. Premier's obligation to place insurance proceeds in restricted accounts (see below) is the principal reason for the net change in restricted cash during 2006. The use of funds during 2006 for acquisitions (net of cash acquired) principally reflects the acquisition of Premier. The use of funds during 2005 for acquisitions (net of cash acquired) totaled $172,600,000 for the acquisitions of NSW, ATX and Idaho Timber. Funds used for WilTel's acquisition of property, equipment and leasehold improvements totaled $79,100,000 in 2005; as a result of the sale of WilTel the Company's use of funds for property, equipment and leasehold improvements declined significantly. The use of funds for investments in associated companies increased by $261,000,000 in 2006 as compared to 2005, principally reflecting the investment in Safe Harbor Domestic Partners L.P. ("Safe Harbor") and Goober Drilling, which are discussed below.

During 2006, net cash provided by financing activities was $37,800,000, as compared to net cash used for financing activities of $11,900,000 in 2005. During 2005, funds were used to retire customer banking deposits of the banking and lending operations as they became due and the remaining deposits were sold. Issuance of long-term debt during the 2006 and 2005 periods principally relates to repurchase agreements. The reduction of long-term debt during 2006 includes the repayment of $32,000,000 of debt of Square 711, which was sold. The reduction of long-term debt during 2005 includes the repayment of $22,100,000 of debt of operations sold (Waikiki Beach hotel) and the maturity of the Company's 8¼% Senior Subordinated Notes.

As reflected on the Company's September 30, 2006 consolidated balance sheet, the sum of the Company's cash and cash equivalents, investments classified as current assets and non-current investments aggregated $2,553,500,000. However, since $400,000,000 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, the Company does not consider those amounts to be readily available to meet the Parent's liquidity needs. The $2,153,500,000 that is readily available is comprised of cash and short-term bonds and notes of the United States Government and its agencies of $808,000,000 (37.5%), U.S. Government-Sponsored Enterprises of $300,700,000 (14.0%) and other publicly traded debt and equity securities aggregating $1,044,800,000 (48.5%), including the Company's investment in Fortescue's common stock. 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.

As of September 30, 2006, the Company had outstanding $149,600,000 of fixed rate repurchase agreements (an increase of $57,500,000 from December 31, 2005). These repurchase agreements, which are reflected in debt due within one year, have a weighted average interest rate of approximately 5.28%, mature at various dates through March 2007 and are secured by non-current investments with a carrying value of $153,300,000.

In January, April and July 2006, the Company received $16,600,000, $20,100,000 and $11,500,000, respectively, as distributions from its investment in EagleRock. The amount received in January was included in current trade, notes and other receivables, net in the Company's December 31, 2005 consolidated balance sheet. In October 2006, the Company informed EagleRock that it does not intend to redeem its remaining interest at this time. At September 30, 2006, the book value of the Company's investment in EagleRock was $51,000,000.

In January 2006, the Company invested $50,000,000 in Safe Harbor, a limited partnership which will principally invest in the securities of Japanese public companies. Although the general partner is permitted to invest directly in securities, the general partner expects that substantially all funds will be invested in a master fund managed by the general partner.

In February 2006, Square 711 completed the sale of 8 acres of unimproved land in Washington, D.C. for aggregate cash consideration of $121,900,000. The land was acquired by Square 711 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.

During the first quarter of 2006, the Company received aggregate cash proceeds of $56,400,000 from the sale of its equity interest in and loan repayment by two associated companies and recorded a pre-tax gain totaling $27,500,000, which is reflected in investment and other income for the nine month period ended September 30, 2006.

In the second quarter of 2006, the Company acquired a 30% limited liability company interest in Goober Drilling for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober Drilling, on a secured basis, up to $126,000,000 to finance new equipment purchases and construction costs, and to repay existing debt. As of September 30, 2006, the outstanding loan amount was $93,100,000. Goober Drilling is an on-shore contract oil and gas drilling company based in Stillwater, Oklahoma that provides drilling services to exploration and production companies.

As discussed above, during the second quarter of 2006, the Company indirectly acquired a controlling voting interest in Premier for an aggregate purchase price of $90,800,000, excluding expenses. The Company owns approximately 46% of the common units of Premier and all of Premier's preferred units, which accrue an annual preferred return of 17%. The Company also acquired Premier's junior subordinated note due August 2012, with an outstanding balance at acquisition of $13,400,000, and has made an $8,100,000 12% loan to Premier that matures in May 2007. All of Premier's equity interests are pledged to secure repayment of Premier's outstanding $160,000,000 principal amount of 10¾% First Mortgage Notes due February 1, 2012 (the "Premier Notes"). In addition, the Company agreed to provide up to $40,000,000 of construction financing to Premier's general contractor by purchasing the contractor's receivables from Premier if the receivables are more than ten days past due.

On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), before the United States

Bankruptcy Court for the Southern District of Mississippi, Southern Division (the "Court"). Premier is seeking the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which has been denied to Premier by its pre-petition secured bondholders. Premier will continue to operate its business as "debtors in possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Premier believes that its insurance proceeds and permitted equipment financing are sufficient to pay its creditors in full and to rebuild the Hard Rock Biloxi.

The Company has deconsolidated Premier effective with the filing of the voluntary petitions, and has classified its net investment in Premier as an investment in an associated company ($116,900,000 as of September 30, 2006, including all loans and equity interests). The bankruptcy filings were made solely to allow Premier access to the insurance proceeds, the proceedings are not expected to last for an extended period and creditors are expected to receive the amounts owed to them. For these reasons, the Company believes that the application of the equity method of accounting during the pendency of the bankruptcy proceedings is appropriate.

Premier has filed a motion with the Court seeking approval for $180,000,000 debtor-in-possession financing to be provided by a subsidiary of the Company. If approved, proceeds from the financing would be used by Premier to pay the Premier Notes in full, to pay for post-petition operating expenses including the repair, reconstruction and eventual operation of the Hard Rock Biloxi, and to pay certain other costs and expenses to be determined. The financing would bear interest at 10¾% per annum, would have a scheduled maturity of February 1, 2012, and would be subject to the satisfaction of certain conditions at the Company's discretion.

Prior to Hurricane Katrina, Premier purchased a comprehensive blanket insurance policy providing up to $181,100,000 in coverage for damage to real and personal property, including business interruption coverage. Premier has received payments from various insurance carriers aggregating $160,800,000 with respect to $168,100,000 face amount of coverage; the remaining $13,000,000 face amount of coverage has not been settled and is currently in litigation. All insurance settlements have been placed on deposit into restricted accounts under the control of the indenture trustee of the Premier Notes.

Hurricane Katrina completely destroyed the Hard Rock Biloxi's casino, which was a facility built on floating barges, and caused significant damage to the hotel and related structures. The threat of hurricanes remains a significant risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that are expected to greatly improve the structural integrity of the facility. In July 2006, Premier purchased a new insurance policy providing up to $149,300,000 in coverage for damage to real and personal property and up to the lesser of six months or $30,000,000 of business interruption and delayed opening coverage. The coverage is syndicated through several insurance carriers, each with an A.M. Best rating of A- (Excellent) or better. The policy provides coverage for the existing structures, as well as for the repair and rebuild of the hotel, low rise building and parking garage and the construction of the new casino. Although the insurance policy is an "all risk" policy, weather catastrophe occurrence ("WCO"), which is defined to include damage caused by a named storm, is limited to $50,000,000 with a deductible equal to the greater of $7,000,000 or 5% of total insured values at risk. WCO coverage is subject to mandatory reinstatement of coverage for an additional pre-determined premium.

Since the WCO coverage purchased by Premier is substantially less than the coverage in place prior to Hurricane Katrina, Premier has more exposure to property damage resulting from similar catastrophic storms. However, Premier's assessment of the probability of a similar type of loss occurring during the remainder of this year's hurricane season is remote, an assessment based in large part on the less severe damage sustained to the non-casino facilities from Hurricane Katrina last year, and the amount of new construction that will be at risk during the balance of the 2006 hurricane season. Premiums for WCO policies have increased dramatically as a result of Hurricane Katrina, and the amount of coverage that can be purchased has also been reduced as insurance companies seek to reduce their exposure to such events.

In June 2006, the Company entered into a new credit agreement with various bank lenders for a $100,000,000 unsecured credit facility that matures in five years and bears interest based on the

Eurocurrency rate or the prime rate. The Company's existing credit agreement was terminated. At September 30, 2006, no amounts were outstanding under this bank credit facility.

In July 2006, the Company sold Symphony to RehabCare Group, Inc., for aggregate cash consideration of approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement ($31,700,000 at date of sale) and other sale related obligations, the Company realized net cash proceeds of $62,300,000 and recorded a pre-tax gain on sale of discontinued operations of $53,300,000.

In August 2006, pursuant to a subscription agreement with Fortescue and FMG, the Company invested an aggregate of $408,000,000, including expenses, in Fortescue's Pilbara iron ore infrastructure project in Western Australia. In exchange for its cash investment, the Company acquired 26,400,000 common shares of Fortescue, representing approximately 9.99% of the outstanding Fortescue common stock, and a 13 year, $100,000,000 note of FMG. Interest on the note is calculated as 4% of the revenue, net of government royalties, invoiced from the iron ore produced from the project. The note is unsecured and subordinate to the project's secured debt. Fortescue is a publicly traded company on the Australian Stock Exchange, and the shares acquired by the Company may be sold without restriction. At the date of acquisition, the Company's investment in Fortescue's common shares was recorded at an aggregate fair value of $202,100,000, based on the closing price of Fortescue's common shares on that date. The Company has classified the Fortescue common shares as a non-current available for sale investment.

For accounting purposes, the Company bifurcated its remaining $205,900,000 investment into a 13 year zero-coupon note and a prepaid mining interest. The zero-coupon note was recorded at an estimated initial fair value of $21,600,000, representing the present value of the principal amount discounted at 12.5%. The prepaid mining interest of $184,300,000 has been classified with other non-current assets, and will be amortized to expense as the 4% of revenue is earned.

In September 2006, the Company sold ATX to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, subject to working capital adjustments and recorded a pre-tax gain on sale of discontinued operations of $41,600,000.

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 in the future the Company were to determine that it would be able to realize its deferred tax asset in excess of its net recorded amount, an adjustment would increase income in such period. Similarly, if in the future the Company were to determine that it would not be able to realize all or part of its deferred tax asset, 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, the Company's 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 (principally during the second quarter of 2005). The Company's conclusion that a portion of the deferred tax asset was more likely than not to be realizable is strongly influenced by its historical ability to generate significant amounts of taxable income. The Company's

estimate of future taxable income considers all available evidence, both positive and negative, about its current operations and investments, includes an aggregation of individual projections for each material operation and investment, and includes all future years that the Company estimated it would have available net operating losses. 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 September 30, 2006, the balance of the deferred valuation allowance was approximately $911,600,000.

Impairment of Securities–Investments with an impairment in value considered to be other than temporary are written down to estimated fair value. The write-downs 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 $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, 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.

Results of Operations

The 2006 Periods Compared to the 2005 Periods

Manufacturing–Idaho Timber

For the three and nine months ended September 30, 2006, revenues and other income for Idaho Timber were $77,600,000 and $261,900,000, respectively; gross profit was $4,200,000 and $25,500,000, respectively; and pre-tax income was $300,000 and $11,900,000, respectively. Results of operations for the three and nine months ended September 30, 2006 include salaries and incentive compensation expenses of $1,900,000 and $7,100,000, respectively, and depreciation and amortization expenses of $1,200,000 and $3,700,000, respectively. For the three months ended September 30, 2005 and for the period from acquisition (May 2005) through September 30, 2005, revenues and other income were $90,900,000 and $154,400,000, respectively; gross profit was $9,100,000 and $12,600,000, respectively; and pre-tax income was $4,500,000 and $4,100,000, respectively. Results of operations for the three months ended September 30, 2005 and for the period from acquisition through September 30, 2005 include salaries and incentive compensation expenses of $3,000,000 and $4,200,000, respectively, and depreciation and amortization expenses of $1,100,000 and $2,900,000, respectively.

Idaho Timber's revenues for the third quarter of 2006 declined as compared to the prior quarters of 2006 due to lower average selling prices and reduced shipment volume. This decline was principally due to weakening demand resulting from reductions in housing starts and the abundant supply of lumber in the marketplace. In October 2006, the trade dispute between the U.S. and Canada over Canadian lumber imports was resolved and a new Softwood Lumber Agreement became effective that restricts and imposes a tax on Canadian lumber imports. During the third quarter, imports from Canada increased in anticipation of the implementation of the new agreement adding to the oversupply in the market.

While raw material costs (the largest component of its cost of sales) declined slightly in the third quarter of 2006 due to the continued decline in market conditions and the diminished uncertainty concerning the impact of the Softwood Lumber Agreement, this reduction lagged behind the reduction in selling prices. Gross profit and pre-tax results for the third quarter of 2006 reflect this compression. Pre-tax results for the third quarter of 2006 also reflect a reduction in salaries and incentive compensation as compared to the prior quarters of 2006 principally due to lower incentive compensation as a result of Idaho Timber's decreased profitability.

Manufacturing–Plastics

Pre-tax income for the plastics division was $5,200,000 and $4,300,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $15,400,000 and $12,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively. The plastics division's revenues and other income were $27,900,000 and $24,500,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $82,200,000 and $69,900,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gross profits were $9,200,000 and $7,900,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $27,000,000 and $22,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Revenues for the nine months ended September 30, 2006 reflects $3,900,000 of increased revenues from NSW (which was acquired in February 2005). In addition, revenues in the three and nine month 2006 periods reflect increases in the carpet cushion and erosion control markets, partially reduced by a decline in the consumer products market due to lower demand for certain products. These revenue changes result from a variety of factors including increased road construction and the impact of price increases implemented in 2005. While the carpet cushion market continued to benefit from the previously strong housing market through the first half of 2006, it has begun to experience a reduction in sales volume resulting from a slowdown in housing starts. Gross margins for the three and nine month 2006 periods also reflect an increase in the cost of polypropylene, the principal raw material used and a byproduct of the oil refining process whose price tends to fluctuate with the price of oil. In addition, gross margin for the nine month 2006 period reflects $1,000,000 of greater amortization expense on intangible assets resulting from

acquisitions and depreciation expense as compared to the same period in 2005. Pre-tax results for the three and nine month 2006 periods also reflect $400,000 and $1,400,000 of higher salaries and incentive compensation expense than for the comparable periods in 2005.

Gaming Entertainment

For the three month period and the period from date of acquisition to September 30, 2006, Premier had pre-tax losses of $800,000 and $200,000, respectively. Such amounts reflect Premier's interest expense of $4,700,000 and $8,000,000, respectively, all other expenses of $3,600,000 and $6,800,000, respectively, insurance recoveries and charges for minority interests. As more fully discussed above, the Company has deconsolidated Premier as a result of its filing voluntary petitions with the Bankruptcy Court; during the pendency of the bankruptcy, Premier's results will be reflected as equity in income (losses) of associated companies. Until such time as the Hard Rock Biloxi reopens, Premier's operating results will consist primarily of overhead costs, interest expense, charges or credits for minority interests and remaining insurance recoveries.

Domestic Real Estate

Pre-tax income (loss) for the domestic real estate segment was $(2,400,000) and $1,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $48,400,000 and $1,600,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Pre-tax income for this segment for the nine month period ended September 30, 2006 principally reflects the sale by Square 711, which resulted in a pre-tax gain of $48,900,000. In addition, the Company recognized pre-tax profit related to its 95-lot development project in South Walton County, Florida of $100,000 and $1,800,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $3,600,000 and $4,200,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Such amounts principally result from the completion of certain required improvements.

Corporate and Other Operations

Investment and other income increased in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 primarily due to greater interest income of $12,100,000 and $50,100,000, respectively, reflecting a larger amount of invested assets and higher interest rates, and for the nine month 2006 period, $27,500,000 of gain from the sales of two associated companies and $7,100,000 from the recovery of a bankruptcy claim. Investment and other income for the three and nine month 2005 periods includes a gain of $10,500,000 on the sale of 70% of the Company's interest in Cobre Las Cruces, S.A. to Inmet Mining Corporation. Investment and other income also reflects income (charges) of $(900,000) and $1,600,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $900,000 and $1,500,000 for the nine month periods ended September 30, 2006 and 2005, respectively, related to the accounting for mark-to-market values of Corporate derivatives.

Net securities gains for Corporate and Other Operations aggregated $16,300,000 and $85,700,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $99,400,000 and $132,700,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Included in net securities gains for the nine month 2006 period is a gain of $37,400,000 from the sale of 115,000,000 shares of Level 3 common stock for $376,600,000. Included in net securities gains for the 2005 periods is a gain of $70,000,000 from the sale of 175,000 shares of White Mountain Insurance Group, Ltd. common stock. Net securities gains include provisions of $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively, to write down the Company's investments in certain available for sale securities. The write-down of the securities resulted from a decline in market value determined to be other than temporary.

The increase in interest expense during the 2006 periods as compared to the same periods in 2005 primarily reflects interest expense relating to fixed rate repurchase agreements.

Salaries and incentive compensation expense increased by $6,600,000 and $23,200,000, respectively, in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 principally due to share-based compensation expense recorded as a result of the adoption of SFAS 123R. For the three and nine month 2006 periods, salaries and incentive compensation expense included $3,000,000 and $12,400,000, respectively, relating to grants made under the Company's senior executive warrant plan and the fixed stock option plan. Salaries and incentive compensation also increased in the three and nine month 2006 periods as compared to the same periods in 2005 due to greater Corporate bonus expense, compensation expense of a subsidiary that was acquired in the fourth quarter of 2005 that is engaged in the development of a new medical product, and for the nine month 2006 period, greater compensation expense for the winery operations.

The increase in selling, general and other expenses of $6,200,000 and $20,300,000 in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 primarily reflects research and development costs and operating expenses of the medical product development subsidiary, greater employee benefit costs including pension costs relating to WilTel's retained plan (which were classified with discontinued operations in 2005 for periods prior to the sale of WilTel), and higher professional fees, which largely relate to potential and existing investments. The 2006 periods also reflect increased corporate aircraft expenses. In addition, selling, general and administrative expenses for the three and nine month 2005 periods include $2,400,000 and $4,500,000, respectively, related to Indular, an Argentine shoe manufacturing company that was sold in the fourth quarter of 2005.

For the three and nine month periods ended September 30, 2006, the Company's effective income tax rate is lower than the federal statutory rate primarily because of the reversal of $6,000,000 of state income tax reserves due to the favorable resolution of certain contingencies. The income tax provisions for the three and nine month periods ended September 30, 2005 reflect credits of $25,100,000 and $1,135,100,000, respectively, as a result of the reversal of a portion of the valuation allowance for the deferred tax asset. The Company adjusted the valuation allowance in 2005 since it believes it is more likely than not that it will have future taxable income sufficient to realize that portion of the net deferred tax asset.

Associated Companies

Equity in income (losses) of associated companies for the three and nine month periods ended September 30, 2006 and 2005 includes the following (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Olympus Re Holdings, Ltd.	**$ –**	$(81,700)	**$ –**	$(69,700)
EagleRock	**(4,900)**	6,100	**7,100**	(13,500)
JPOF II	**4,200**	8,400	**23,900**	19,500
HomeFed Corporation	**300**	800	**1,200**	1,300
Union Square	**–**	–	**–**	72,300
Safe Harbor	**(3,800)**	–	**(7,300)**	–
Other	**5,400**	(100)	**13,900**	2,800
Equity in income (losses) before income taxes	**1,200**	(66,500)	**38,800**	12,700
Income tax expense	**100**	–	**14,500**	700
Equity in income (losses), net of taxes	**$ 1,100**	$(66,500)	**$24,300**	$ 12,000

In early 2006, Olympus Re Holdings, Ltd. raised a significant amount of new equity to replace some, but not all of the capital that was lost as a result of the 2005 hurricanes. Since the Company did not invest additional capital in Olympus, its equity interest was diluted (to less than 4%) such that it no longer applies the equity method of accounting for this investment subsequent to December 31, 2005. The Company wrote down the book value of its remaining investment in Olympus to zero in 2005.

In May 2005, Union Square sold its interest in an office complex located on Capitol Hill in Washington, D.C. During the second quarter of 2005, the Company received its share of the net proceeds totaling $71,800,000 and received an additional $1,000,000 in the fourth quarter for its share of escrowed proceeds. The Company recognized a pre-tax gain on the sale, including the escrowed proceeds, of $71,900,000.

Discontinued Operations

Healthcare Services

As discussed above, in July 2006 the Company sold Symphony and classified its historical operating results as a discontinued operation during the second quarter. Pre-tax income of the healthcare services segment was $200,000 for the three month period ended September 30, 2005 and $200,000 and $2,400,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gain on disposal of discontinued operations for the 2006 periods includes a pre-tax gain on the sale of Symphony of $53,300,000 ($33,500,000 after tax).

Telecommunications–ATX

As discussed above, in September 2006 the Company sold ATX and classified its historical operating results as a discontinued operation during the third quarter. Pre-tax income (loss) of ATX was $(3,200,000) and $1,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $(1,200,000) and $200,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gain on disposal of discontinued operations for the 2006 periods includes a pre-tax gain on the sale of ATX of $41,600,000 ($26,100,000 after tax).

Real Estate

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. The Company recorded a pre-tax gain of $56,600,000 ($54,600,000 after tax), which is reflected in gain on disposal of discontinued operations for the nine month period ended September 30, 2005.

WilTel

Gain on disposal of discontinued operations for the three and nine month 2006 periods includes $700,000 and $600,000, respectively of pre-tax gains ($500,000 and $400,000, respectively, after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel, which was sold in the fourth quarter of 2005. WilTel's pre-tax income classified as a discontinued operation was $57,300,000 and $78,300,000 for the three and nine month periods ended September 30, 2005, respectively.

Other

In the third quarter of 2006, the Company sold its gas properties and recorded a pre-tax loss on disposal of $900,000 ($600,000 after tax). Income (loss) from discontinued operations for the nine month 2006 period includes $2,900,000 of pre-tax losses related to these gas properties; amounts for the comparable period in 2005 as well as for the three month 2006 and 2005 periods were not material.

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 the following: potential acquisitions and dispositions of our operations and investments could change our risk profile; dependence on certain key personnel; economic downturns; changes in the U.S. housing market; changes in telecommunications laws and regulations; risks associated with the increased volatility in raw material prices and the availability of key raw materials; compliance with government laws and regulations; changes in mortgage interest rate levels or changes in consumer lending practices; a decrease in consumer spending or general increases in the cost of living; proper functioning of our information systems; intense competition in the operation of our businesses; our ability to generate sufficient taxable income to fully realize our deferred tax asset; weather related conditions and significant natural disasters, including hurricanes, tornadoes, windstorms, earthquakes and hailstorms; our ability to insure certain risks economically; reduction or cessation of dividend payments on our common shares. For additional information see Part I, Item 1A. Risk Factors in the 2005 10-K and Part II, Item 1A. Risk Factors contained herein.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information required under this Item is contained in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and is incorporated by reference herein.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

(a) The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2006. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006.

Changes in internal control over financial reporting

(b) There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006 and the disclosure contained in such Report with respect to litigation concerning The Thaxton Group, Inc. (together with its subsidiaries, "Thaxton"). On September 12, 2006, Thaxton and the Company's affiliate, The FINOVA Group Inc. and its subsidiaries (collectively, "Finova") reached a preliminary settlement to resolve all outstanding claims in the ongoing litigation involving Thaxton and Finova (the "Settlement"). As part of the Settlement, the previously disclosed lawsuit pending in the United States District Court for the District of South Carolina, Anderson Division in which the Company and one of its executive officers were named as defendants is also being settled without any payment by or adverse finding against the Company and its executive. An agreement reflecting the Settlement has been signed by the parties and is subject to the satisfaction of certain conditions, including (i) approval of the District Court and the Thaxton and Finova bankruptcy courts and (ii) final District Court approval of the fairness of the Settlement.

For additional information concerning Finova and Thaxton-related litigation, reference is made to the Form 10-K for the year ended December 31, 2005 filed by The FINOVA Group Inc. and its Form 10-Q for the quarter ended September 30, 2006.

Item 1A. Risk Factors.

As a result of the chapter 11 filing of Premier in September 2006, the Company is adding to its risk factors the item listed below that is specific to the Premier investment.

As a debtor in possession, Premier must obtain bankruptcy court approval for the conduct of its business. Premier is currently operating under bankruptcy court supervision as a debtor in possession, and the bankruptcy court will need to approve its access to financing and any other transactions outside the ordinary course of business. If the court does not authorize Premier to enter into the $180,000,000 debtor in possession financing offered by an affiliate of the Company (to repay the Premier Notes), or if the court does not otherwise provide Premier access to insurance proceeds already paid to Premier but held under the control of Premier's pre-petition bondholders, Premier would not have sufficient funds to repair and rebuild the Hard Rock Biloxi and fund its pre-opening expenses. Risks and uncertainties related to Premier's chapter 11 filing also include those related to the actions of Premier's creditors and other third parties with an interest in Premier's chapter 11 proceedings.

Item 6. Exhibits.

10.1 Form of Subscription Agreement, dated as of July 15, 2006, by and among FMG Chichester Pty Ltd, the Company, and Fortescue Metals Group Ltd.

10.2 Form of Amending Agreement, dated as of August 18, 2006, by and among FMG Chichester Pty Ltd, the Company, and Fortescue Metals Group Ltd.

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

SIGNATURES

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

LEUCADIA NATIONAL CORPORATION
(Registrant)

Date: November 9, 2006

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller
(Chief Accounting Officer)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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 10010-3607
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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 ☒ 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 ☒

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, at November 1, 2006: 216,329,442.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2006 and December 31, 2005
(Dollars in thousands, except par value)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	**$ 301,019**	$ 386,957
Investments	**980,144**	1,323,562
Trade, notes and other receivables, net	**100,005**	377,216
Prepaids and other current assets	**173,165**	140,880
Total current assets	**1,554,333**	2,228,615
Restricted cash	**18,262**	27,018
Non-current investments	**1,272,382**	977,327
Notes and other receivables, net	**29,801**	22,747
Intangible assets, net and goodwill	**61,293**	85,083
Deferred tax asset, net	**972,876**	1,094,017
Other assets	**369,576**	213,583
Property, equipment and leasehold improvements, net	**236,095**	237,021
Investments in associated companies	**709,815**	375,473
Total	**$5,224,433**	$5,260,884
Liabilities		
Current liabilities:		
Trade payables and expense accruals	**$ 103,327**	$ 259,778
Other current liabilities	**5,633**	23,783
Debt due within one year	**184,079**	175,664
Income taxes payable	**10,978**	15,171
Total current liabilities	**304,017**	474,396
Other non-current liabilities	**109,655**	121,893
Long-term debt	**972,637**	986,718
Total liabilities	**1,386,309**	1,583,007
Commitments and contingencies		
Minority interest	**13,513**	15,963
Shareholders' Equity		
Common shares, par value $1 per share, authorized 300,000,000 shares; 216,326,442 and 216,058,016 shares issued and outstanding, after deducting 56,875,963 and 56,874,929 shares held in treasury	**216,326**	216,058
Additional paid-in capital	**517,783**	501,914
Accumulated other comprehensive loss	**(113,132)**	(81,502)
Retained earnings	**3,203,634**	3,025,444
Total shareholders' equity	**3,824,611**	3,661,914
Total	**$5,224,433**	$5,260,884

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
For the periods ended September 30, 2006 and 2005
(In thousands, except per share amounts)
(Unaudited)

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and Other Income:				
Manufacturing	**$105,375**	$115,066	**$343,180**	$ 223,991
Investment and other income	**48,609**	47,503	**243,706**	111,899
Net securities gains	**16,259**	85,706	**99,391**	132,732
	170,243	248,275	**686,277**	468,622
Expenses:				
Manufacturing cost of sales	**91,909**	98,019	**290,698**	189,140
Interest	**22,843**	16,203	**61,541**	49,240
Salaries and incentive compensation	**19,971**	13,256	**62,042**	33,216
Depreciation and amortization	**5,855**	4,296	**16,187**	13,675
Selling, general and other expenses	**35,707**	29,641	**108,570**	85,223
	176,285	161,415	**539,038**	370,494
Income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies	**(6,042)**	86,860	**147,239**	98,128
Income taxes	**(8,709)**	(24,885)	**48,871**	(1,131,809)
Income from continuing operations before equity in income (losses) of associated companies	**2,667**	111,745	**98,368**	1,229,937
Equity in income (losses) of associated companies, net of taxes	**1,073**	(66,531)	**24,336**	11,962
Income from continuing operations	**3,740**	45,214	**122,704**	1,241,899
Income (loss) from discontinued operations, net of taxes	**(2,717)**	58,770	**(3,870)**	81,231
Gain on disposal of discontinued operations, net of taxes	**59,454**	130	**59,356**	54,708
Net income	**$ 60,477**	$104,114	**$178,190**	$ 1,377,838
Basic earnings (loss) per common share:				
Income from continuing operations	**$ .02**	$.21	**$ .57**	$5.77
Income (loss) from discontinued operations	**(.01)**	.27	**(.02)**	.38
Gain on disposal of discontinued operations	**.27**	–	**.27**	.25
Net income	**$ .28**	$.48	**$ .82**	$6.40
Diluted earnings (loss) per common share:				
Income from continuing operations	**$ .02**	$.21	**$ .56**	$5.42
Income (loss) from discontinued operations	**(.01)**	.26	**(.02)**	.35
Gain on disposal of discontinued operations	**.26**	–	**.26**	.24
Net income	**$ .27**	$.47	**$ .80**	$6.01

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2006 and 2005

(In thousands)

(Unaudited)

	2006	2005
Net cash flows from operating activities:		
Net income	$ 178,190	$ 1,377,838
Adjustments to reconcile net income to net cash provided by operations:		
Deferred income tax provision (benefit)	96,344	(1,135,100)
Depreciation and amortization of property, equipment and leasehold improvements	28,171	142,374
Other amortization	(9,936)	2,132
Share-based compensation	12,390	–
Excess tax benefit from exercise of stock options	(376)	–
Provision for doubtful accounts	1,005	3,951
Net securities gains	(99,391)	(135,009)
Equity in income of associated companies	(38,792)	(12,692)
Distributions from associated companies	74,209	89,293
Net gains related to real estate, property and equipment, and other assets	(99,344)	(36,968)
Gain on disposal of discontinued operations	(94,616)	(56,708)
Investments classified as trading, net	(3,885)	19,472
Net change in:		
Restricted cash	8,625	(9,152)
Trade, notes and other receivables	156,384	31,860
Prepaids and other assets	(1,394)	(14,743)
Trade payables and expense accruals	(127,152)	(17,133)
Other liabilities	(15,900)	(28,823)
Income taxes payable	(4,179)	(1,634)
Other	8,288	(673)
Net cash provided by operating activities	68,641	218,285
Net cash flows from investing activities:		
Acquisition of property, equipment and leasehold improvements	(33,659)	(109,559)
Acquisitions of and capital expenditures for real estate investments	(57,398)	(20,353)
Proceeds from disposals of real estate, property and equipment, and other assets	179,985	27,579
Proceeds from sale of discontinued operations, net of expenses and cash of operations sold	115,304	101,360
Collection of Premier's insurance proceeds	109,383	–
Acquisitions, net of cash acquired	(105,282)	(172,622)
Net change in restricted cash	(91,640)	(2,415)
Advances on notes and other receivables	(23,588)	(100)
Collections on notes, loan and other receivables	21,790	3,015
Investments in associated companies	(267,273)	(6,241)
Distributions from associated companies	2,040	2,619
Investment in Fortescue Metals Group Ltd	(408,030)	–
Purchases of investments (other than short-term)	(3,010,495)	(2,342,929)
Proceeds from maturities of investments	893,339	977,805
Proceeds from sales of investments	2,483,093	1,417,222
Net cash used for investing activities	(192,431)	(124,619)
Net cash flows from financing activities:		
Net change in customer banking deposits	–	(24,565)
Issuance of long-term debt	61,739	70,765
Reduction of long-term debt	(34,042)	(58,978)
Issuance of common shares	3,404	1,584
Purchase of common shares for treasury	(33)	–
Excess tax benefit from exercise of stock options	376	–
Other	6,364	(664)
Net cash provided by (used for) financing activities	37,808	(11,858)
Effect of foreign exchange rate changes on cash	44	(880)
Net increase (decrease) in cash and cash equivalents	(85,938)	80,928
Cash and cash equivalents at January 1,	386,957	486,948
Cash and cash equivalents at September 30,	$ 301,019	$ 567,876

See notes to interim consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2006 and 2005

(In thousands, except par value)

(Unaudited)

	Common Shares $1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2005	$215,201	$490,903	$ 136,138	$1,416,411	$2,258,653
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $0			(95,818)		(95,818)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0			(14,802)		(14,802)
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0			2,395		2,395
Net income				1,377,838	1,377,838
Comprehensive income					1,269,613
Issuance of common shares on acquisition of minority interest in MK Resources Company	668	12,191			12,859
Exercise of options to purchase common shares	192	1,392			1,584
Balance, September 30, 2005	$216,061	$504,486	$ 27,913	$2,794,249	$3,542,709
Balance, January 1, 2006	$216,058	$501,914	$ (81,502)	$3,025,444	$3,661,914
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $18,163			(32,009)		(32,009)
Net change in unrealized foreign exchange gain (loss), net of taxes of $298			526		526
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $84			(147)		(147)
Net income				178,190	178,190
Comprehensive income					146,560
Share-based compensation expense		12,390			12,390
Exercise of options to purchase common shares, including excess tax benefit	269	3,511			3,780
Purchase of common shares for treasury	(1)	(32)			(33)
Balance, September 30, 2006	$216,326	$517,783	$(113,132)	$3,203,634	$3,824,611

See notes to interim consolidated financial statements.

Notes to Interim Consolidated Financial Statements

1. The unaudited interim consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to present fairly 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, 2005, which are included in the Company's Annual Report filed on Form 10-K, as amended by Form 10-K/A, for such year (the "2005 10-K"). Results of operations for interim periods are not necessarily indicative of annual results of operations. The consolidated balance sheet at December 31, 2005 was extracted from the audited annual financial statements and does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements.

   On June 14, 2006, a two-for-one stock split was effected in the form of a 100% stock dividend that was paid to shareholders of record on May 30, 2006. The financial statements (and notes thereto) give retroactive effect to the stock split for all periods presented.

   In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes–an Interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes the accounting for and disclosure of uncertainty in income tax positions. FIN 48 defines the criteria that must be met before any part of the benefit of a tax position can be recognized in the financial statements, provides guidance for the measurement of tax benefits recognized and guidance for classification and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

   In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS 158"), which requires companies to recognize on their balance sheet a net liability or asset for the funded status of their defined benefit pension and other postretirement plans, recognize changes in funded status through comprehensive income and provide additional footnote disclosures. SFAS 158 is effective for publicly traded calendar year-end companies as of December 31, 2006. In addition, SFAS 158 requires companies to measure the funded status of their plans as of the date of its fiscal year-end, with limited exceptions, effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 158 on its consolidated financial statements, but does not believe it will have a material impact.

   Certain amounts for prior periods have also been reclassified to be consistent with the 2006 presentation, and to reflect as discontinued operations WilTel Communications Group, LLC ("WilTel"), which was sold during the fourth quarter of 2005, Symphony Health Services, LLC ("Symphony"), which was sold in July 2006, and ATX Communications, Inc. ("ATX"), which was sold in September 2006. For more information concerning the sales, see Note 9.

2. Results of operations for the Company's segments are reflected from the date of acquisition. The primary measure of segment operating results and profitability used by the Company is income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies. As a result of the classification of Symphony and ATX as discontinued operations, the

Company no longer has a healthcare services segment or a telecommunications segment; for information about the Company's new gaming entertainment segment, see Note 17.

Certain information concerning the Company's segments for the three and nine month periods ended September 30, 2006 and 2005 is presented in the following table (in thousands).

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and other income (a):				
Manufacturing:				
Idaho Timber	**$ 77,614**	$ 90,887	**$261,895**	$154,419
Plastics	**27,944**	24,500	**82,175**	69,943
Gaming Entertainment	**1,599**	–	**2,441**	–
Domestic Real Estate	**4,951**	4,824	**76,836**	22,116
Other Operations	**12,474**	31,421	**30,151**	49,614
Corporate (b)	**45,661**	96,643	**232,779**	172,530
Total consolidated revenues and other income	**$170,243**	$248,275	**$686,277**	$468,622
Income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies:				
Manufacturing:				
Idaho Timber	**$ 335**	$ 4,463	**$ 11,871**	$ 4,112
Plastics	**5,150**	4,344	**15,374**	12,289
Gaming Entertainment	**(830)**	–	**(217)**	–
Domestic Real Estate	**(2,353)**	1,034	**48,445**	1,576
Other Operations (c)	**(8,856)**	15,403	**(22,657)**	10,832
Corporate (b)	**512**	61,616	**94,423**	69,319
Total consolidated income (loss) from continuing operations before income taxes and equity in income (losses) of associated companies	**$ (6,042)**	$ 86,860	**$147,239**	$ 98,128

(a) 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 on the Company's consolidated statements of operations.

(b) Includes net securities gains of $16,300,000 and $75,800,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $99,400,000 and $123,500,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Net securities gains include provisions of $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively, to write down investments in certain available for sale securities due to declines in market value determined to be other than temporary.

(c) Losses in other operations for the 2006 periods principally relate to research and development expenses and operating expenses of the Company's medical product development subsidiary.

For the three month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by depreciation and amortization expenses of $10,400,000 and $8,300,000, respectively; such amounts are primarily comprised of Corporate ($2,900,000 and $2,700,000, respectively), manufacturing ($4,400,000 and $4,000,000, respectively) and other operations ($1,700,000 and $1,500,000, respectively). For the nine month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by depreciation and amortization expenses of $29,300,000 and $24,000,000, respectively; such amounts are primarily comprised of Corporate ($8,800,000 and $8,000,000, respectively), manufacturing ($13,000,000 and $9,900,000,

respectively) and other operations ($4,200,000 and $4,500,000, respectively). Depreciation and amortization expenses for other segments are not material.

For the three month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by interest expense of $22,800,000 and $16,200,000, respectively; such amounts are primarily comprised of Corporate ($18,100,000 and $15,900,000, respectively), gaming entertainment ($4,700,000 in 2006) and other operations ($300,000 in 2005). For the nine month periods ended September 30, 2006 and 2005, income from continuing operations has been reduced by interest expense of $61,500,000 and $49,200,000, respectively; such amounts are primarily comprised of Corporate ($53,100,000 and $47,000,000, respectively), gaming entertainment ($8,000,000 in 2006) and other operations ($1,200,000 in 2005). Interest expense for other segments is not material.

3. The following tables provide summarized data with respect to significant investments in associated companies accounted for under the equity method of accounting for the periods the investments were owned by the Company. The information is provided for those investments whose 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, 2006 (in thousands).

	September 30, 2006	September 30, 2005
EagleRock Capital Partners (QP), LP ("EagleRock"):		
Total revenues	**$10,200**	$(16,800)
Income (loss) from continuing operations before extraordinary items	**9,600**	(18,000)
Net income (loss)	**9,600**	(18,000)
The Company's equity in net income (loss)	**7,100**	(13,500)
Jefferies Partners Opportunity Fund II, LLC ("JPOF II"):		
Total revenues	**$37,900**	$ 31,600
Income from continuing operations before extraordinary items	**36,300**	29,300
Net income	**36,300**	29,300
The Company's equity in net income	**23,900**	19,500

4. A summary of investments at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006		December 31, 2005	
	Amortized Cost	**Carrying Value and Estimated Fair Value**	Amortized Cost	Carrying Value and Estimated Fair Value
Current Investments:				
Investments available for sale	**$ 859,198**	**$ 862,373**	$1,206,973	$1,206,195
Trading securities	**103,445**	**102,975**	103,978	105,541
Other investments, including accrued interest income	**14,796**	**14,796**	11,826	11,826
Total current investments	**$ 977,439**	**$ 980,144**	$1,322,777	$1,323,562
Non-current Investments:				
Investments available for sale	**$1,094,480**	**$1,101,478**	$ 762,178	$ 825,716
Other investments	**170,904**	**170,904**	151,611	151,611
Total non-current investments	**$1,265,384**	**$1,272,382**	$ 913,789	$ 977,327

During the first quarter of 2006, the Company sold all of its 115,000,000 shares of Level 3 Communications, Inc. common stock that it had received in connection with the sale of WilTel for total proceeds of $376,600,000 and recorded a pre-tax gain of $37,400,000.

5. A summary of intangible assets, net and goodwill at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006	December 31, 2005
Intangibles:		
Customer relationships, net of accumulated amortization of $9,980 and $6,686	**$48,621**	$58,911
Trademarks and tradename, net of accumulated amortization of $192 and $268	**1,662**	4,140
Software, net of accumulated amortization of $0 and $701	**–**	4,399
Patents, net of accumulated amortization of $259 and $142	**2,071**	2,188
Other, net of accumulated amortization of $1,583 and $1,488	**788**	1,446
Goodwill	**8,151**	13,999
	$61,293	$85,083

During the nine months ended September 30, 2006, the Company recorded $4,200,000 of new intangible assets, principally customer relationships, resulting from acquisitions by the plastics manufacturing segment and the other operations segment. Intangible assets, net at December 31, 2005 included $16,500,000 related to ATX, which was sold in September 2006.

Amortization expense on intangible assets was $2,000,000 and $1,500,000, respectively, for the three month periods ended September 30, 2006 and 2005, and $5,700,000 and $3,900,000, respectively, for the nine month periods ended September 30, 2006 and 2005. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2006 (for the remaining three months)–$2,000,000; 2007–$7,100,000; 2008–$6,600,000; 2009–$6,100,000; and 2010–$5,800,000.

At September 30, 2006 and December 31, 2005, goodwill included $8,200,000 within the plastics manufacturing segment; at December 31, 2005, goodwill also included $5,800,000 related to ATX.

6. A summary of accumulated other comprehensive income (loss), net of taxes at September 30, 2006 and December 31, 2005 is as follows (in thousands):

	September 30, 2006	December 31, 2005
Net unrealized losses on investments	**$ (54,390)**	$(22,381)
Net unrealized foreign exchange losses	**(2,364)**	(2,890)
Net unrealized losses on derivative instruments	**(1,155)**	(1,008)
Net minimum pension liability	**(55,223)**	(55,223)
	$(113,132)	$(81,502)

7. Investment and other income includes changes in the fair values of derivative financial instruments of $(900,000) and $1,600,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $900,000 and $1,500,000, for the nine month periods ended September 30, 2006 and 2005, respectively.

8. In February 2006, Square 711 Developer, LLC ("Square 711"), a 90% owned subsidiary of the Company, completed the sale of 8 acres of unimproved land in Washington, D.C. for aggregate cash consideration of $121,900,000. The land was acquired by Square 711 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 recorded a pre-tax gain of $48,900,000.

9. In July 2006, the Company sold Symphony to RehabCare Group, Inc. for aggregate cash consideration of approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement ($31,700,000 at date of sale) and other sale related obligations, the Company realized net

cash proceeds of $62,300,000 and recorded a pre-tax gain on sale of discontinued operations of $53,300,000 ($33,500,000 after tax). Results of operations for Symphony for the three month period ended September 30, 2005 and for the nine month periods ended September 30, 2006 and 2005 are as follows (in thousands):

	For the Three Month Period Ended September 30,	For the Nine Month Period Ended September 30,	
	2005	2006	2005
Revenues and other income:			
Healthcare revenues	$54,376	**$110,370**	$182,791
Investment and other income	208	**225**	751
	54,584	**110,595**	183,542
Expenses:			
Healthcare cost of sales	46,308	**95,628**	154,100
Interest	674	**1,195**	2,143
Salaries	3,483	**5,835**	9,968
Depreciation and amortization	280	**708**	895
Selling, general and other expenses	3,667	**7,013**	14,059
	54,412	**110,379**	181,165
Income from discontinued operations before income taxes	172	**216**	2,377
Income taxes	(3)	**107**	(11)
Income from discontinued operations	$ 175	**$ 109**	$ 2,388

The Company has not classified Symphony's assets and liabilities as discontinued operations because the balances are not material. Summarized information for Symphony's assets and liabilities is as follows (in thousands):

	December 31, 2005
Current assets	$52,470
Non-current assets	3,165
Total assets	$55,635
Current liabilities	$45,262
Non-current liabilities	280
Total liabilities	$45,542

At December 31, 2005, current assets principally consisted of trade receivables and current liabilities principally consisted of trade payables and amounts due under Symphony's credit agreement.

In September 2006, the Company sold ATX to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, subject to working capital adjustments, and recorded a pre-tax gain on sale of discontinued operations of $41,600,000 ($26,100,000 after tax).

Results of operations for ATX for the three and nine month periods ended September 30, 2006 and 2005 are as follows (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Revenues and other income:				
Telecommunication revenues	**$39,377**	$40,402	**$118,987**	$70,995
Investment and other income	**172**	4	**1,275**	66
	39,549	40,406	**120,262**	71,061
Expenses:				
Telecommunication cost of sales	**25,007**	24,149	**72,231**	43,490
Interest	**38**	35	**126**	64
Salaries	**8,585**	6,456	**21,054**	11,539
Depreciation and amortization	**2,223**	2,412	**7,374**	4,179
Selling, general and other expenses	**6,869**	6,403	**20,629**	11,557
	42,722	39,455	**121,414**	70,829
Income (loss) from discontinued operations before income taxes	**(3,173)**	951	**(1,152)**	232
Income taxes	**(707)**	5	**749**	101
Income (loss) from discontinued operations	**$(2,466)**	$ 946	**$ (1,901)**	$ 131

The Company has not classified ATX's assets and liabilities as discontinued operations because the balances are not material. Summarized information for ATX's assets and liabilities is as follows (in thousands):

	December 31, 2005
Current assets	$40,308
Non-current assets	48,550
Total assets	$88,858
Current liabilities	$32,479
Non-current liabilities	2,001
Total liabilities	$34,480

At December 31, 2005, current assets principally consisted of cash and trade receivables, non-current assets principally consisted of property and equipment and intangible assets and goodwill, and current liabilities principally consisted of trade payables.

For the three and nine month 2006 periods, gain on disposal of discontinued operations also reflects $700,000 and $600,000, respectively, of pre-tax gains ($500,000 and $400,000, respectively, after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel, which was sold in the fourth quarter of 2005. In addition, gain on disposal of discontinued operations for the 2006 periods includes a pre-tax loss of $900,000 ($600,000 after tax) from the sale of the Company's gas properties during the third quarter. Income (loss) from discontinued operations for the nine month 2006 period includes $2,900,000 of pre-tax losses ($2,100,000 after tax) related to these gas properties; amounts for the comparable period in 2005 as well as for the three month 2006 and 2005 periods were not material.

10. Pension expense charged to operations for the three and nine month periods ended September 30, 2006 and 2005 related to the defined benefit pension plan (other than WilTel's plan) included the following components (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Interest cost	**$ 479**	$ 511	**$1,446**	$1,534
Expected return on plan assets	**(263)**	(222)	**(795)**	(679)
Actuarial loss	**226**	220	**697**	636
Amortization of prior service cost	**1**	1	**2**	3
Net pension expense	**$ 443**	$ 510	**$1,350**	$1,494

Employer contributions to the defined benefit pension plan (other than WilTel's plan) were $7,000,000 during the first nine months of 2006.

WilTel's defined benefit pension plan expense charged to operations for the three and nine month periods ended September 30, 2006 and 2005 included the following components (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Interest cost	**$ 2,487**	$ 2,954	**$ 7,463**	$ 7,057
Service cost	**–**	1,528	**–**	3,459
Expected return on plan assets	**(1,766)**	(2,229)	**(5,299)**	(4,882)
Actuarial loss	**397**	2,327	**1,190**	2,350
Net pension expense	**$ 1,118**	$ 4,580	**$ 3,354**	$ 7,984

As more fully discussed in the 2005 10-K, WilTel was sold in December 2005 but its defined benefit pension plan was excluded from the sale. The defined benefit pension plan expense for periods prior to the sale is classified as discontinued operations; expenses subsequent to the sale have been charged to continuing operations.

Employer contributions to WilTel's defined benefit pension plan were $42,800,000 during the first nine months of 2006; as disclosed in the Company's 2005 10-K such contributions were estimated to aggregate $29,100,000 for all of 2006. Additional contributions were made during 2006 to reduce the underfunded status of the plan which has the effect of reducing the cost of government charged variable insurance premiums.

Several subsidiaries provide certain healthcare and other benefits to certain retired employees under plans which are currently unfunded. The Company pays the cost of postretirement benefits as they are incurred. Amounts charged to expense were not material in each of the three and nine month periods ended September 30, 2006 and 2005.

11. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("SFAS 123R"), using the modified prospective method. SFAS 123R requires that the cost of all share-based payments to employees, including grants of employee stock options and warrants, be recognized in the financial statements based on their fair values. The cost is recognized as an expense over the vesting period of the award. Prior to adoption of SFAS 123R, no compensation cost was recognized in the statements of operations for the Company's share-based compensation plans; the Company disclosed certain pro forma amounts as required.

The fair value of each award is estimated at the date of grant using the Black-Scholes option pricing model. As a result of the adoption of SFAS 123R, compensation cost increased by $3,000,000 and $12,400,000, respectively, for the three and nine month 2006 periods and net income decreased by

$2,000,000 and $8,100,000, respectively, for the three and nine month 2006 periods. Had the Company used the fair value based accounting method for the three and nine month 2005 periods, compensation cost would have been higher by $400,000 and $1,400,000, respectively, and primary and diluted earnings per share would not have changed. As of September 30, 2006, total unrecognized compensation cost related to nonvested share-based compensation plans was $29,500,000; this cost is expected to be recognized over a weighted-average period of 1.7 years.

As of September 30, 2006, the Company has two share-based plans: a fixed stock option plan and a senior executive warrant plan. The fixed stock option plan provides for grants of options or rights to non-employee directors and certain employees up to a maximum grant of 450,000 shares to any individual in a given taxable year. The maximum number of common shares that may be acquired through the exercise of options or rights under this plan cannot exceed 2,519,150. The plan provides for the issuance of stock options and stock appreciation rights at not less than the fair market value of the underlying stock at the date of grant. Options granted to employees under this plan are intended to qualify as incentive stock options to the extent permitted under the Internal Revenue Code and become exercisable in five equal annual instalments starting one year from date of grant. Options granted to non-employee directors become exercisable in four equal annual instalments starting one year from date of grant. No stock appreciation rights have been granted. As of September 30, 2006, 2,495,150 shares were available for grant under the plan. During the nine month period ended September 30, 2006, 24,000 options at $30.78 per share were granted; during the nine month period ended September 30, 2005, 12,000 options at $18.03 per share were granted.

The senior executive warrant plan provides for the issuance, subject to shareholder approval, of warrants to purchase up to 2,000,000 common shares to each of the Company's Chairman and President at an exercise price equal to 105% of the closing price per share of a common share on the date of grant. On March 6, 2006, the Company's Board of Directors approved, subject to shareholder approval, the grant of warrants to purchase 2,000,000 common shares to each of the Company's Chairman and President at an exercise price equal to $28.515 per share (105% of the closing price per share of a common share on that date). In May 2006, shareholder approval was received and the warrants were issued. The warrants expire in 2011 and vest in five equal tranches with 20% vesting on the date shareholder approval was received and an additional 20% vesting in each subsequent year.

The following summary presents the weighted-average assumptions used for grants made during the 2006 and 2005 periods:

	2006		2005
	Options	**Warrants**	Options
Risk free interest rate	**4.92%**	**4.95%**	3.77%
Expected volatility	**22.78%**	**23.05%**	23.58%
Expected dividend yield	**.81%**	**.41%**	.69%
Expected life	**4.3 years**	**4.3 years**	4.3 years
Weighted average fair value per grant	**$7.75**	**$9.39**	$4.29

The expected life assumptions were based on historical behavior and incorporated post-vesting forfeitures for each type of award and population identified.

The following table summarizes information about outstanding stock options at September 30, 2006 and changes during the nine months then ended:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006.....	1,955,260	$17.60		
Granted	24,000	$30.78		
Exercised.....	(269,460)	$12.63		$ 4,000,000
Forfeited	–	$ –		
Outstanding at September 30, 2006..	1,709,800	$18.56	3.5	$13,100,000
Exercisable at September 30, 2006...	556,900	$14.88	2.8	$ 6,300,000

At September 30, 2006, 4,000,000 warrants were outstanding and 800,000 were exercisable but had no aggregate intrinsic value as the exercise price exceeded the market value. Both the outstanding and exercisable warrants had a weighted-average remaining contractual term of 4.4 years. No warrants were exercised or forfeited during the nine month 2006 period.

12. For the 2006 periods, the Company's effective income tax rate is lower than the federal statutory rate because of the reversal of $6,000,000 of state income tax reserves due to the favorable resolution of certain contingencies. The income tax provisions for the three and nine month 2005 periods reflect credits of $25,100,000 and $1,135,100,000, respectively, as a result of the reversal of a portion of the valuation allowance for the deferred tax asset. The Company adjusted the valuation allowance in 2005 since it believed it was more likely than not that it will have future taxable income sufficient to realize that portion of the net deferred tax asset.

13. Basic earnings (loss) per share amounts are calculated by dividing net income by the sum of the weighted average number of common shares outstanding. To determine diluted earnings (loss) per share, the weighted average number of common shares is adjusted for the incremental weighted average number of shares issuable upon exercise of outstanding options and warrants, unless the effect is antidilutive. In addition, the calculations of diluted earnings (loss) per share assume the 3¾% Convertible Notes are converted into common shares and earnings increased for the interest on such notes, net of the income tax effect, unless the effect is antidilutive. The number of shares used to calculate basic earnings (loss) per share amounts was 216,291,000 and 215,595,000 for the three month periods ended September 30, 2006 and 2005, respectively, and 216,202,000 and 215,387,000 for the nine month periods ended September 30, 2006 and 2005, respectively. The number of shares used to calculate diluted earnings (loss) per share amounts was 231,906,000 and 231,328,000 for the three month periods ended September 30, 2006 and 2005, respectively, and 231,875,000 and 231,132,000 for the nine month periods ended September 30, 2006 and 2005, respectively.

14. Cash paid for interest and income taxes (net of refunds) was $70,200,000 and $6,400,000, respectively, for the nine month period ended September 30, 2006 and $83,900,000 and $3,900,000, respectively, for the nine month period ended September 30, 2005.

15. Debt due within one year includes $149,600,000 and $92,100,000 as of September 30, 2006 and December 31, 2005, respectively, relating to repurchase agreements. These fixed rate repurchase agreements have a weighted average interest rate of approximately 5.28%, mature at various dates through March 2007 and are secured by non-current investments with a carrying value of $153,300,000.

16. In April 2006, the Company acquired a 30% limited liability company interest in Goober Drilling, LLC, ("Goober Drilling") for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober Drilling, on a secured basis, up to $80,000,000 to finance new equipment

purchases and construction costs, and to repay existing debt. In June 2006, the Company agreed to increase the secured loan amount to an aggregate of $126,000,000 to finance additional equipment purchases and construction costs. As of September 30, 2006, the outstanding loan amount was $93,100,000. Goober Drilling is an on-shore contract oil and gas drilling company based in Stillwater, Oklahoma that provides drilling services to exploration and production companies. The Company's investment in Goober Drilling is classified as an investment in an associated company.

17. During the second quarter of 2006, the Company indirectly acquired a controlling voting interest in Premier for an aggregate purchase price of $90,800,000, excluding expenses. The Company owns approximately 46% of the common units of Premier and all of Premier's preferred units, which accrue an annual preferred return of 17%. The Company also acquired Premier's junior subordinated note due August 2012, with an outstanding balance at acquisition of $13,400,000, and has made an $8,100,000 12% loan to Premier that matures in May 2007. Premier is the owner of the Hard Rock Hotel & Casino Biloxi ("Hard Rock Biloxi"), located in Biloxi, Mississippi, which was severely damaged prior to opening by Hurricane Katrina and which, pending receipt of insurance proceeds, is to be rebuilt. All of Premier's equity interests are pledged to secure repayment of Premier's outstanding $160,000,000 principal amount of 10¾% First Mortgage Notes due February 1, 2012 (the "Premier Notes"). In addition, the Company agreed to provide up to $40,000,000 of construction financing to Premier's general contractor by purchasing the contractor's receivables from Premier if the receivables are more than ten days past due. At acquisition, the Company consolidated Premier as a result of its controlling voting interest.

    On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), before the United States Bankruptcy Court for the Southern District of Mississippi, Southern Division (the "Court"). Premier is seeking the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which has been denied to Premier by its pre-petition secured bondholders. Premier will continue to operate its business as "debtors in possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Premier believes that its insurance proceeds and permitted equipment financing are sufficient to pay its creditors in full and to rebuild the Hard Rock Biloxi.

    The Company has deconsolidated Premier effective with the filing of the voluntary petitions, and has classified its net investment in Premier as an investment in an associated company ($116,900,000 as of September 30, 2006, including all loans and equity interests). The bankruptcy filings were made solely to allow Premier access to the insurance proceeds, the proceedings are not expected to last for an extended period and creditors are expected to receive the amounts owed to them. For these reasons, the Company believes that the application of the equity method of accounting during the pendency of the bankruptcy proceedings is appropriate.

    Summarized financial information for Premier is as follows (in thousands):

	September 30, 2006
Assets:	
Current assets	$ 9,358
Non-current assets (a)	315,588
Total assets	$324,946
Liabilities:	
Current liabilities (b)	$196,051
Non-current liabilities	11,962
Total liabilities	208,013
Shareholders' equity	116,933
Total liabilities and shareholders' equity	$324,946

(a) Includes $11,900,000 of intangible assets, $148,500,000 of net property and equipment and $152,600,000 of restricted cash for amounts held by the indenture trustee of the Premier Notes.

(b) Includes bonds and notes payable of $165,300,000.

Premier has filed a motion with the Court seeking approval for $180,000,000 debtor in possession financing to be provided by a subsidiary of the Company. If approved, proceeds from the financing would be used by Premier to pay the Premier Notes in full, to pay for post-petition operating expenses including the repair, reconstruction and eventual operation of the Hard Rock Biloxi, and to pay certain other costs and expenses to be determined. The financing would bear interest at 10¾% per annum, would have a scheduled maturity of February 1, 2012, and would be subject to the satisfaction of certain conditions at the Company's discretion.

Prior to Hurricane Katrina, Premier purchased a comprehensive blanket insurance policy providing up to $181,100,000 in coverage for damage to real and personal property, including business interruption coverage. Premier has received payments from various insurance carriers aggregating $160,800,000 with respect to $168,100,000 face amount of coverage; the remaining $13,000,000 face amount of coverage has not been settled and is currently in litigation. All insurance settlements have been placed on deposit into restricted accounts under the control of the indenture trustee of the Premier Notes.

Hurricane Katrina completely destroyed the Hard Rock Biloxi's casino, which was a facility built on floating barges, and caused significant damage to the hotel and related structures. The threat of hurricanes remains a significant risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that are expected to greatly improve the structural integrity of the facility. In July 2006, Premier purchased a new insurance policy providing up to $149,300,000 in coverage for damage to real and personal property and up to the lesser of six months or $30,000,000 of business interruption and delayed opening coverage. The coverage is syndicated through several insurance carriers, each with an A.M. Best rating of A- (Excellent) or better. The policy provides coverage for the existing structures, as well as for the repair and rebuild of the hotel, low rise building and parking garage and the construction of the new casino.

Although the insurance policy is an "all risk" policy, weather catastrophe occurrence ("WCO"), which is defined to include damage caused by a named storm, is limited to $50,000,000 with a deductible equal to the greater of $7,000,000 or 5% of total insured values at risk. WCO coverage is subject to mandatory reinstatement of coverage for an additional pre-determined premium.

Since the WCO coverage purchased by Premier is substantially less than the coverage in place prior to Hurricane Katrina, Premier has more exposure to property damage resulting from similar catastrophic storms. However, Premier's assessment of the probability of a similar type of loss occurring during the remainder of this year's hurricane season is remote, an assessment based in large part on the less severe damage sustained to the non-casino facilities from Hurricane Katrina last year, and the amount of new construction that will be at risk during the balance of the 2006 hurricane season. Premiums for WCO policies have increased dramatically as a result of Hurricane Katrina, and the amount of coverage that can be purchased has also been reduced as insurance companies seek to reduce their exposure to such events.

18. In June 2006, the Company entered into a new credit agreement with various bank lenders for a $100,000,000 unsecured credit facility that matures in five years and bears interest based on the Eurocurrency rate or the prime rate. The Company's existing credit agreement was terminated. At September 30, 2006, no amounts were outstanding under this bank credit facility.

19. In August 2006, pursuant to a subscription agreement with Fortescue Metals Group Ltd ("Fortescue") and its subsidiary, FMG Chichester Pty Ltd ("FMG"), the Company invested an aggregate of $408,000,000, including expenses, in Fortescue's Pilbara iron ore infrastructure project in Western Australia. In exchange for its cash investment, the Company acquired 26,400,000 common shares of Fortescue, representing approximately 9.99% of the outstanding Fortescue common stock, and a 13 year, $100,000,000 note of FMG. Interest on the note is calculated as 4%

of the revenue, net of government royalties, invoiced from the iron ore produced from the project. The note is unsecured and subordinate to the project's secured debt. Fortescue is a publicly traded company on the Australian Stock Exchange, and the shares acquired by the Company may be sold without restriction. At the date of acquisition, the Company's investment in Fortescue's common shares was recorded at an aggregate fair value of $202,100,000, based on the closing price of Fortescue's common shares on that date. The Company has classified the Fortescue common shares as a non-current available for sale investment.

For accounting purposes, the Company bifurcated its remaining $205,900,000 investment into a 13 year zero-coupon note and a prepaid mining interest. The zero-coupon note was recorded at an estimated initial fair value of $21,600,000, representing the present value of the principal amount discounted at 12.5%. The prepaid mining interest of $184,300,000 has been classified with other non-current assets, and will be amortized to expense as the 4% of revenue is earned.

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

The following should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2005 10-K. As more fully discussed in the 2005 10-K, 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.

Liquidity and Capital Resources

Net cash provided by operating activities decreased by $149,600,000 in 2006 as compared to the same period in 2005, due principally to no 2006 cash flows from WilTel, which was sold in December 2005, reduced distributions of earnings from associated companies, reduced funds generated from activity in the trading portfolio and payment of incentive compensation and pension plan contributions. During 2006, cash provided by operating activities reflect the collection of $179,800,000 of certain receivables from AT&T Inc. (as more fully discussed in the 2005 10-K) and increased cash flow from the Company's operating units, principally the manufacturing businesses. WilTel's 2005 cash flow from operating activities for the nine month period ended September 30, 2005 was $119,000,000. The increased cash flow from the Company's manufacturing units reflects Idaho Timber, which was acquired during the second quarter of 2005, and increased operating income at the plastics manufacturing segment resulting from increased revenues. In 2006, distributions from associated companies principally include earnings distributed by EagleRock, which is discussed below. In 2005, distributions from associated companies principally resulted from the sale of Union Square.

Net cash flows used for investing activities increased by $67,800,000 in 2006 as compared to 2005. During the 2006 period, proceeds from the disposal of discontinued operations net of expenses and cash sold were $115,300,000, principally reflecting the sale of Symphony and ATX and the resolution of WilTel's working capital adjustment, as compared to $101,400,000 in the 2005 period, principally reflecting the sale of the Waikiki Beach hotel. During 2006, funds provided by the disposal of real estate and other assets include the sales of Square 711 and certain associated companies, and funds used for investing activities include the investment in Fortescue; these transactions are discussed in greater detail below. Premier's obligation to place insurance proceeds in restricted accounts (see below) is the principal reason for the net change in restricted cash during 2006. The use of funds during 2006 for acquisitions (net of cash acquired) principally reflects the acquisition of Premier. The use of funds during 2005 for acquisitions (net of cash acquired) totaled $172,600,000 for the acquisitions of NSW, ATX and Idaho Timber. Funds used for WilTel's acquisition of property, equipment and leasehold improvements totaled $79,100,000 in 2005; as a result of the sale of WilTel the Company's use of funds for property, equipment and leasehold improvements declined significantly. The use of funds for investments in associated companies increased by $261,000,000 in 2006 as compared to 2005, principally reflecting the investment in Safe Harbor Domestic Partners L.P. ("Safe Harbor") and Goober Drilling, which are discussed below.

During 2006, net cash provided by financing activities was $37,800,000, as compared to net cash used for financing activities of $11,900,000 in 2005. During 2005, funds were used to retire customer banking deposits of the banking and lending operations as they became due and the remaining deposits were sold. Issuance of long-term debt during the 2006 and 2005 periods principally relates to repurchase agreements. The reduction of long-term debt during 2006 includes the repayment of $32,000,000 of debt of Square 711, which was sold. The reduction of long-term debt during 2005 includes the repayment of $22,100,000 of debt of operations sold (Waikiki Beach hotel) and the maturity of the Company's 8¼% Senior Subordinated Notes.

As reflected on the Company's September 30, 2006 consolidated balance sheet, the sum of the Company's cash and cash equivalents, investments classified as current assets and non-current investments aggregated $2,553,500,000. However, since $400,000,000 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, the Company does not consider those amounts to be readily available to meet the Parent's liquidity needs. The $2,153,500,000 that is readily available is comprised of cash and short-term bonds and notes of the United States Government and its agencies of $808,000,000 (37.5%), U.S. Government-Sponsored Enterprises of $300,700,000 (14.0%) and other publicly traded debt and equity securities aggregating $1,044,800,000 (48.5%), including the Company's investment in Fortescue's common stock. 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.

As of September 30, 2006, the Company had outstanding $149,600,000 of fixed rate repurchase agreements (an increase of $57,500,000 from December 31, 2005). These repurchase agreements, which are reflected in debt due within one year, have a weighted average interest rate of approximately 5.28%, mature at various dates through March 2007 and are secured by non-current investments with a carrying value of $153,300,000.

In January, April and July 2006, the Company received $16,600,000, $20,100,000 and $11,500,000, respectively, as distributions from its investment in EagleRock. The amount received in January was included in current trade, notes and other receivables, net in the Company's December 31, 2005 consolidated balance sheet. In October 2006, the Company informed EagleRock that it does not intend to redeem its remaining interest at this time. At September 30, 2006, the book value of the Company's investment in EagleRock was $51,000,000.

In January 2006, the Company invested $50,000,000 in Safe Harbor, a limited partnership which will principally invest in the securities of Japanese public companies. Although the general partner is permitted to invest directly in securities, the general partner expects that substantially all funds will be invested in a master fund managed by the general partner.

In February 2006, Square 711 completed the sale of 8 acres of unimproved land in Washington, D.C. for aggregate cash consideration of $121,900,000. The land was acquired by Square 711 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.

During the first quarter of 2006, the Company received aggregate cash proceeds of $56,400,000 from the sale of its equity interest in and loan repayment by two associated companies and recorded a pre-tax gain totaling $27,500,000, which is reflected in investment and other income for the nine month period ended September 30, 2006.

In the second quarter of 2006, the Company acquired a 30% limited liability company interest in Goober Drilling for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober Drilling, on a secured basis, up to $126,000,000 to finance new equipment purchases and construction costs, and to repay existing debt. As of September 30, 2006, the outstanding loan amount was $93,100,000. Goober Drilling is an on-shore contract oil and gas drilling company based in Stillwater, Oklahoma that provides drilling services to exploration and production companies.

As discussed above, during the second quarter of 2006, the Company indirectly acquired a controlling voting interest in Premier for an aggregate purchase price of $90,800,000, excluding expenses. The Company owns approximately 46% of the common units of Premier and all of Premier's preferred units, which accrue an annual preferred return of 17%. The Company also acquired Premier's junior subordinated note due August 2012, with an outstanding balance at acquisition of $13,400,000, and has made an $8,100,000 12% loan to Premier that matures in May 2007. All of Premier's equity interests are pledged to secure repayment of Premier's outstanding $160,000,000 principal amount of 10¾% First Mortgage Notes due February 1, 2012 (the "Premier Notes"). In addition, the Company agreed to provide up to $40,000,000 of construction financing to Premier's general contractor by purchasing the contractor's receivables from Premier if the receivables are more than ten days past due.

On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), before the United States

Bankruptcy Court for the Southern District of Mississippi, Southern Division (the "Court"). Premier is seeking the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which has been denied to Premier by its pre-petition secured bondholders. Premier will continue to operate its business as "debtors in possession" under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court. Premier believes that its insurance proceeds and permitted equipment financing are sufficient to pay its creditors in full and to rebuild the Hard Rock Biloxi.

The Company has deconsolidated Premier effective with the filing of the voluntary petitions, and has classified its net investment in Premier as an investment in an associated company ($116,900,000 as of September 30, 2006, including all loans and equity interests). The bankruptcy filings were made solely to allow Premier access to the insurance proceeds, the proceedings are not expected to last for an extended period and creditors are expected to receive the amounts owed to them. For these reasons, the Company believes that the application of the equity method of accounting during the pendency of the bankruptcy proceedings is appropriate.

Premier has filed a motion with the Court seeking approval for $180,000,000 debtor-in-possession financing to be provided by a subsidiary of the Company. If approved, proceeds from the financing would be used by Premier to pay the Premier Notes in full, to pay for post-petition operating expenses including the repair, reconstruction and eventual operation of the Hard Rock Biloxi, and to pay certain other costs and expenses to be determined. The financing would bear interest at 10¾% per annum, would have a scheduled maturity of February 1, 2012, and would be subject to the satisfaction of certain conditions at the Company's discretion.

Prior to Hurricane Katrina, Premier purchased a comprehensive blanket insurance policy providing up to $181,100,000 in coverage for damage to real and personal property, including business interruption coverage. Premier has received payments from various insurance carriers aggregating $160,800,000 with respect to $168,100,000 face amount of coverage; the remaining $13,000,000 face amount of coverage has not been settled and is currently in litigation. All insurance settlements have been placed on deposit into restricted accounts under the control of the indenture trustee of the Premier Notes.

Hurricane Katrina completely destroyed the Hard Rock Biloxi's casino, which was a facility built on floating barges, and caused significant damage to the hotel and related structures. The threat of hurricanes remains a significant risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that are expected to greatly improve the structural integrity of the facility. In July 2006, Premier purchased a new insurance policy providing up to $149,300,000 in coverage for damage to real and personal property and up to the lesser of six months or $30,000,000 of business interruption and delayed opening coverage. The coverage is syndicated through several insurance carriers, each with an A.M. Best rating of A- (Excellent) or better. The policy provides coverage for the existing structures, as well as for the repair and rebuild of the hotel, low rise building and parking garage and the construction of the new casino. Although the insurance policy is an "all risk" policy, weather catastrophe occurrence ("WCO"), which is defined to include damage caused by a named storm, is limited to $50,000,000 with a deductible equal to the greater of $7,000,000 or 5% of total insured values at risk. WCO coverage is subject to mandatory reinstatement of coverage for an additional pre-determined premium.

Since the WCO coverage purchased by Premier is substantially less than the coverage in place prior to Hurricane Katrina, Premier has more exposure to property damage resulting from similar catastrophic storms. However, Premier's assessment of the probability of a similar type of loss occurring during the remainder of this year's hurricane season is remote, an assessment based in large part on the less severe damage sustained to the non-casino facilities from Hurricane Katrina last year, and the amount of new construction that will be at risk during the balance of the 2006 hurricane season. Premiums for WCO policies have increased dramatically as a result of Hurricane Katrina, and the amount of coverage that can be purchased has also been reduced as insurance companies seek to reduce their exposure to such events.

In June 2006, the Company entered into a new credit agreement with various bank lenders for a $100,000,000 unsecured credit facility that matures in five years and bears interest based on the

Eurocurrency rate or the prime rate. The Company's existing credit agreement was terminated. At September 30, 2006, no amounts were outstanding under this bank credit facility.

In July 2006, the Company sold Symphony to RehabCare Group, Inc., for aggregate cash consideration of approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement ($31,700,000 at date of sale) and other sale related obligations, the Company realized net cash proceeds of $62,300,000 and recorded a pre-tax gain on sale of discontinued operations of $53,300,000.

In August 2006, pursuant to a subscription agreement with Fortescue and FMG, the Company invested an aggregate of $408,000,000, including expenses, in Fortescue's Pilbara iron ore infrastructure project in Western Australia. In exchange for its cash investment, the Company acquired 26,400,000 common shares of Fortescue, representing approximately 9.99% of the outstanding Fortescue common stock, and a 13 year, $100,000,000 note of FMG. Interest on the note is calculated as 4% of the revenue, net of government royalties, invoiced from the iron ore produced from the project. The note is unsecured and subordinate to the project's secured debt. Fortescue is a publicly traded company on the Australian Stock Exchange, and the shares acquired by the Company may be sold without restriction. At the date of acquisition, the Company's investment in Fortescue's common shares was recorded at an aggregate fair value of $202,100,000, based on the closing price of Fortescue's common shares on that date. The Company has classified the Fortescue common shares as a non-current available for sale investment.

For accounting purposes, the Company bifurcated its remaining $205,900,000 investment into a 13 year zero-coupon note and a prepaid mining interest. The zero-coupon note was recorded at an estimated initial fair value of $21,600,000, representing the present value of the principal amount discounted at 12.5%. The prepaid mining interest of $184,300,000 has been classified with other non-current assets, and will be amortized to expense as the 4% of revenue is earned.

In September 2006, the Company sold ATX to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, subject to working capital adjustments and recorded a pre-tax gain on sale of discontinued operations of $41,600,000.

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 in the future the Company were to determine that it would be able to realize its deferred tax asset in excess of its net recorded amount, an adjustment would increase income in such period. Similarly, if in the future the Company were to determine that it would not be able to realize all or part of its deferred tax asset, 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, the Company's 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 (principally during the second quarter of 2005). The Company's conclusion that a portion of the deferred tax asset was more likely than not to be realizable is strongly influenced by its historical ability to generate significant amounts of taxable income. The Company's

estimate of future taxable income considers all available evidence, both positive and negative, about its current operations and investments, includes an aggregation of individual projections for each material operation and investment, and includes all future years that the Company estimated it would have available net operating losses. 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 September 30, 2006, the balance of the deferred valuation allowance was approximately $911,600,000.

Impairment of Securities–Investments with an impairment in value considered to be other than temporary are written down to estimated fair value. The write-downs 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 $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, 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.

Results of Operations

The 2006 Periods Compared to the 2005 Periods

Manufacturing–Idaho Timber

For the three and nine months ended September 30, 2006, revenues and other income for Idaho Timber were $77,600,000 and $261,900,000, respectively; gross profit was $4,200,000 and $25,500,000, respectively; and pre-tax income was $300,000 and $11,900,000, respectively. Results of operations for the three and nine months ended September 30, 2006 include salaries and incentive compensation expenses of $1,900,000 and $7,100,000, respectively, and depreciation and amortization expenses of $1,200,000 and $3,700,000, respectively. For the three months ended September 30, 2005 and for the period from acquisition (May 2005) through September 30, 2005, revenues and other income were $90,900,000 and $154,400,000, respectively; gross profit was $9,100,000 and $12,600,000, respectively; and pre-tax income was $4,500,000 and $4,100,000, respectively. Results of operations for the three months ended September 30, 2005 and for the period from acquisition through September 30, 2005 include salaries and incentive compensation expenses of $3,000,000 and $4,200,000, respectively, and depreciation and amortization expenses of $1,100,000 and $2,900,000, respectively.

Idaho Timber's revenues for the third quarter of 2006 declined as compared to the prior quarters of 2006 due to lower average selling prices and reduced shipment volume. This decline was principally due to weakening demand resulting from reductions in housing starts and the abundant supply of lumber in the marketplace. In October 2006, the trade dispute between the U.S. and Canada over Canadian lumber imports was resolved and a new Softwood Lumber Agreement became effective that restricts and imposes a tax on Canadian lumber imports. During the third quarter, imports from Canada increased in anticipation of the implementation of the new agreement adding to the oversupply in the market.

While raw material costs (the largest component of its cost of sales) declined slightly in the third quarter of 2006 due to the continued decline in market conditions and the diminished uncertainty concerning the impact of the Softwood Lumber Agreement, this reduction lagged behind the reduction in selling prices. Gross profit and pre-tax results for the third quarter of 2006 reflect this compression. Pre-tax results for the third quarter of 2006 also reflect a reduction in salaries and incentive compensation as compared to the prior quarters of 2006 principally due to lower incentive compensation as a result of Idaho Timber's decreased profitability.

Manufacturing–Plastics

Pre-tax income for the plastics division was $5,200,000 and $4,300,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $15,400,000 and $12,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively. The plastics division's revenues and other income were $27,900,000 and $24,500,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $82,200,000 and $69,900,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gross profits were $9,200,000 and $7,900,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $27,000,000 and $22,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Revenues for the nine months ended September 30, 2006 reflects $3,900,000 of increased revenues from NSW (which was acquired in February 2005). In addition, revenues in the three and nine month 2006 periods reflect increases in the carpet cushion and erosion control markets, partially reduced by a decline in the consumer products market due to lower demand for certain products. These revenue changes result from a variety of factors including increased road construction and the impact of price increases implemented in 2005. While the carpet cushion market continued to benefit from the previously strong housing market through the first half of 2006, it has begun to experience a reduction in sales volume resulting from a slowdown in housing starts. Gross margins for the three and nine month 2006 periods also reflect an increase in the cost of polypropylene, the principal raw material used and a byproduct of the oil refining process whose price tends to fluctuate with the price of oil. In addition, gross margin for the nine month 2006 period reflects $1,000,000 of greater amortization expense on intangible assets resulting from

acquisitions and depreciation expense as compared to the same period in 2005. Pre-tax results for the three and nine month 2006 periods also reflect $400,000 and $1,400,000 of higher salaries and incentive compensation expense than for the comparable periods in 2005.

Gaming Entertainment

For the three month period and the period from date of acquisition to September 30, 2006, Premier had pre-tax losses of $800,000 and $200,000, respectively. Such amounts reflect Premier's interest expense of $4,700,000 and $8,000,000, respectively, all other expenses of $3,600,000 and $6,800,000, respectively, insurance recoveries and charges for minority interests. As more fully discussed above, the Company has deconsolidated Premier as a result of its filing voluntary petitions with the Bankruptcy Court; during the pendency of the bankruptcy, Premier's results will be reflected as equity in income (losses) of associated companies. Until such time as the Hard Rock Biloxi reopens, Premier's operating results will consist primarily of overhead costs, interest expense, charges or credits for minority interests and remaining insurance recoveries.

Domestic Real Estate

Pre-tax income (loss) for the domestic real estate segment was $(2,400,000) and $1,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $48,400,000 and $1,600,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Pre-tax income for this segment for the nine month period ended September 30, 2006 principally reflects the sale by Square 711, which resulted in a pre-tax gain of $48,900,000. In addition, the Company recognized pre-tax profit related to its 95-lot development project in South Walton County, Florida of $100,000 and $1,800,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $3,600,000 and $4,200,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Such amounts principally result from the completion of certain required improvements.

Corporate and Other Operations

Investment and other income increased in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 primarily due to greater interest income of $12,100,000 and $50,100,000, respectively, reflecting a larger amount of invested assets and higher interest rates, and for the nine month 2006 period, $27,500,000 of gain from the sales of two associated companies and $7,100,000 from the recovery of a bankruptcy claim. Investment and other income for the three and nine month 2005 periods includes a gain of $10,500,000 on the sale of 70% of the Company's interest in Cobre Las Cruces, S.A. to Inmet Mining Corporation. Investment and other income also reflects income (charges) of $(900,000) and $1,600,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $900,000 and $1,500,000 for the nine month periods ended September 30, 2006 and 2005, respectively, related to the accounting for mark-to-market values of Corporate derivatives.

Net securities gains for Corporate and Other Operations aggregated $16,300,000 and $85,700,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $99,400,000 and $132,700,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Included in net securities gains for the nine month 2006 period is a gain of $37,400,000 from the sale of 115,000,000 shares of Level 3 common stock for $376,600,000. Included in net securities gains for the 2005 periods is a gain of $70,000,000 from the sale of 175,000 shares of White Mountain Insurance Group, Ltd. common stock. Net securities gains include provisions of $9,700,000 and $4,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $12,300,000 and $7,300,000 for the nine month periods ended September 30, 2006 and 2005, respectively, to write down the Company's investments in certain available for sale securities. The write-down of the securities resulted from a decline in market value determined to be other than temporary.

The increase in interest expense during the 2006 periods as compared to the same periods in 2005 primarily reflects interest expense relating to fixed rate repurchase agreements.

Salaries and incentive compensation expense increased by $6,600,000 and $23,200,000, respectively, in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 principally due to share-based compensation expense recorded as a result of the adoption of SFAS 123R. For the three and nine month 2006 periods, salaries and incentive compensation expense included $3,000,000 and $12,400,000, respectively, relating to grants made under the Company's senior executive warrant plan and the fixed stock option plan. Salaries and incentive compensation also increased in the three and nine month 2006 periods as compared to the same periods in 2005 due to greater Corporate bonus expense, compensation expense of a subsidiary that was acquired in the fourth quarter of 2005 that is engaged in the development of a new medical product, and for the nine month 2006 period, greater compensation expense for the winery operations.

The increase in selling, general and other expenses of $6,200,000 and $20,300,000 in the three and nine month periods ended September 30, 2006 as compared to the same periods in 2005 primarily reflects research and development costs and operating expenses of the medical product development subsidiary, greater employee benefit costs including pension costs relating to WilTel's retained plan (which were classified with discontinued operations in 2005 for periods prior to the sale of WilTel), and higher professional fees, which largely relate to potential and existing investments. The 2006 periods also reflect increased corporate aircraft expenses. In addition, selling, general and administrative expenses for the three and nine month 2005 periods include $2,400,000 and $4,500,000, respectively, related to Indular, an Argentine shoe manufacturing company that was sold in the fourth quarter of 2005.

For the three and nine month periods ended September 30, 2006, the Company's effective income tax rate is lower than the federal statutory rate primarily because of the reversal of $6,000,000 of state income tax reserves due to the favorable resolution of certain contingencies. The income tax provisions for the three and nine month periods ended September 30, 2005 reflect credits of $25,100,000 and $1,135,100,000, respectively, as a result of the reversal of a portion of the valuation allowance for the deferred tax asset. The Company adjusted the valuation allowance in 2005 since it believes it is more likely than not that it will have future taxable income sufficient to realize that portion of the net deferred tax asset.

Associated Companies

Equity in income (losses) of associated companies for the three and nine month periods ended September 30, 2006 and 2005 includes the following (in thousands):

	For the Three Month Period Ended September 30,		For the Nine Month Period Ended September 30,	
	2006	2005	**2006**	2005
Olympus Re Holdings, Ltd.	**$ –**	$(81,700)	**$ –**	$(69,700)
EagleRock	**(4,900)**	6,100	**7,100**	(13,500)
JPOF II	**4,200**	8,400	**23,900**	19,500
HomeFed Corporation	**300**	800	**1,200**	1,300
Union Square	**–**	–	**–**	72,300
Safe Harbor	**(3,800)**	–	**(7,300)**	–
Other	**5,400**	(100)	**13,900**	2,800
Equity in income (losses) before income taxes	**1,200**	(66,500)	**38,800**	12,700
Income tax expense	**100**	–	**14,500**	700
Equity in income (losses), net of taxes	**$ 1,100**	$(66,500)	**$24,300**	$ 12,000

In early 2006, Olympus Re Holdings, Ltd. raised a significant amount of new equity to replace some, but not all of the capital that was lost as a result of the 2005 hurricanes. Since the Company did not invest additional capital in Olympus, its equity interest was diluted (to less than 4%) such that it no longer applies the equity method of accounting for this investment subsequent to December 31, 2005. The Company wrote down the book value of its remaining investment in Olympus to zero in 2005.

In May 2005, Union Square sold its interest in an office complex located on Capitol Hill in Washington, D.C. During the second quarter of 2005, the Company received its share of the net proceeds totaling $71,800,000 and received an additional $1,000,000 in the fourth quarter for its share of escrowed proceeds. The Company recognized a pre-tax gain on the sale, including the escrowed proceeds, of $71,900,000.

Discontinued Operations

Healthcare Services

As discussed above, in July 2006 the Company sold Symphony and classified its historical operating results as a discontinued operation during the second quarter. Pre-tax income of the healthcare services segment was $200,000 for the three month period ended September 30, 2005 and $200,000 and $2,400,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gain on disposal of discontinued operations for the 2006 periods includes a pre-tax gain on the sale of Symphony of $53,300,000 ($33,500,000 after tax).

Telecommunications–ATX

As discussed above, in September 2006 the Company sold ATX and classified its historical operating results as a discontinued operation during the third quarter. Pre-tax income (loss) of ATX was $(3,200,000) and $1,000,000 for the three month periods ended September 30, 2006 and 2005, respectively, and $(1,200,000) and $200,000 for the nine month periods ended September 30, 2006 and 2005, respectively. Gain on disposal of discontinued operations for the 2006 periods includes a pre-tax gain on the sale of ATX of $41,600,000 ($26,100,000 after tax).

Real Estate

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. The Company recorded a pre-tax gain of $56,600,000 ($54,600,000 after tax), which is reflected in gain on disposal of discontinued operations for the nine month period ended September 30, 2005.

WilTel

Gain on disposal of discontinued operations for the three and nine month 2006 periods includes $700,000 and $600,000, respectively of pre-tax gains ($500,000 and $400,000, respectively, after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel, which was sold in the fourth quarter of 2005. WilTel's pre-tax income classified as a discontinued operation was $57,300,000 and $78,300,000 for the three and nine month periods ended September 30, 2005, respectively.

Other

In the third quarter of 2006, the Company sold its gas properties and recorded a pre-tax loss on disposal of $900,000 ($600,000 after tax). Income (loss) from discontinued operations for the nine month 2006 period includes $2,900,000 of pre-tax losses related to these gas properties; amounts for the comparable period in 2005 as well as for the three month 2006 and 2005 periods were not material.

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 the following: potential acquisitions and dispositions of our operations and investments could change our risk profile; dependence on certain key personnel; economic downturns; changes in the U.S. housing market; changes in telecommunications laws and regulations; risks associated with the increased volatility in raw material prices and the availability of key raw materials; compliance with government laws and regulations; changes in mortgage interest rate levels or changes in consumer lending practices; a decrease in consumer spending or general increases in the cost of living; proper functioning of our information systems; intense competition in the operation of our businesses; our ability to generate sufficient taxable income to fully realize our deferred tax asset; weather related conditions and significant natural disasters, including hurricanes, tornadoes, windstorms, earthquakes and hailstorms; our ability to insure certain risks economically; reduction or cessation of dividend payments on our common shares. For additional information see Part I, Item 1A. Risk Factors in the 2005 10-K and Part II, Item 1A. Risk Factors contained herein.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Information required under this Item is contained in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and is incorporated by reference herein.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

(a) The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2006. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006.

Changes in internal control over financial reporting

(b) There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006 and the disclosure contained in such Report with respect to litigation concerning The Thaxton Group, Inc. (together with its subsidiaries, "Thaxton"). On September 12, 2006, Thaxton and the Company's affiliate, The FINOVA Group Inc. and its subsidiaries (collectively, "Finova") reached a preliminary settlement to resolve all outstanding claims in the ongoing litigation involving Thaxton and Finova (the "Settlement"). As part of the Settlement, the previously disclosed lawsuit pending in the United States District Court for the District of South Carolina, Anderson Division in which the Company and one of its executive officers were named as defendants is also being settled without any payment by or adverse finding against the Company and its executive. An agreement reflecting the Settlement has been signed by the parties and is subject to the satisfaction of certain conditions, including (i) approval of the District Court and the Thaxton and Finova bankruptcy courts and (ii) final District Court approval of the fairness of the Settlement.

For additional information concerning Finova and Thaxton-related litigation, reference is made to the Form 10-K for the year ended December 31, 2005 filed by The FINOVA Group Inc. and its Form 10-Q for the quarter ended September 30, 2006.

Item 1A. Risk Factors.

As a result of the chapter 11 filing of Premier in September 2006, the Company is adding to its risk factors the item listed below that is specific to the Premier investment.

As a debtor in possession, Premier must obtain bankruptcy court approval for the conduct of its business. Premier is currently operating under bankruptcy court supervision as a debtor in possession, and the bankruptcy court will need to approve its access to financing and any other transactions outside the ordinary course of business. If the court does not authorize Premier to enter into the $180,000,000 debtor in possession financing offered by an affiliate of the Company (to repay the Premier Notes), or if the court does not otherwise provide Premier access to insurance proceeds already paid to Premier but held under the control of Premier's pre-petition bondholders, Premier would not have sufficient funds to repair and rebuild the Hard Rock Biloxi and fund its pre-opening expenses. Risks and uncertainties related to Premier's chapter 11 filing also include those related to the actions of Premier's creditors and other third parties with an interest in Premier's chapter 11 proceedings.

Item 6. Exhibits.

10.1 Form of Subscription Agreement, dated as of July 15, 2006, by and among FMG Chichester Pty Ltd, the Company, and Fortescue Metals Group Ltd.

10.2 Form of Amending Agreement, dated as of August 18, 2006, by and among FMG Chichester Pty Ltd, the Company, and Fortescue Metals Group Ltd.

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

SIGNATURES

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

LEUCADIA NATIONAL CORPORATION
(Registrant)

Date: November 9, 2006

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller
(Chief Accounting Officer)

EXHIBIT 5

Leucadia's SEC Form 10-K
For Year Ending December 31, 2005

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

10-K

LEUCADIA NATIONAL 2005 FORM 10-K
Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[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.

PART I

Item 1. Business.

The Company

The Company is a diversified holding company engaged in a variety of businesses, including manufacturing, healthcare services, telecommunications, real estate activities, winery operations and residual banking and lending activities that are in run-off. The Company also owns equity interests in investment partnerships and in operating businesses which are accounted for under the equity method of accounting, including development of a copper mine in Spain, real estate activities and property and casualty reinsurance operations. The Company concentrates on return on investment and cash flow to maximize long-term shareholder value. Additionally, the Company continuously evaluates the retention and disposition of its existing operations and investigates possible acquisitions of new businesses in order to maximize shareholder value. In identifying possible acquisitions, the Company tends to seek assets and companies that are out of favor or troubled and, as a result, are selling substantially below the values the Company believes to be present.

Shareholders' equity has grown from a deficit of $7,700,000 at December 31, 1978 (prior to the acquisition of a controlling interest in the Company by the Company's Chairman and President), to a positive shareholders' equity of $3,661,900,000 at December 31, 2005, equal to a book value per common share of the Company (a "common share") of negative $.07 at December 31, 1978 and $33.90 at December 31, 2005. The significant increase in shareholders' equity during 2005 reflects both profitable results of operations and the recognition of $1,135,100,000 of the deferred tax asset that was deemed to be realizable. Shareholders' equity and book value per share amounts have also been reduced by the $811,900,000 special cash dividend paid in 1999.

In December 2005, the Company sold its largest telecommunications subsidiary, WilTel Communications Group, LLC ("WilTel"), to Level 3 Communications, Inc. ("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 (valued at $339,300,000 on the closing date). In connection with the sale, the Company retained certain assets and liabilities of WilTel that were not purchased by Level 3, which assets and liabilities had a net book value of $254,000,000 on the closing date. The retained assets included all of WilTel's right to receive certain cash payments from SBC Communications Inc. ("SBC") totaling $236,000,000, of which $37,500,000 had been received prior to closing. 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 a $220,000,000 capital contribution made to WilTel in 2005 to enable WilTel to repay its debt obligations. The Company recorded a pre-tax gain on the sale of WilTel of $243,800,000. For more information, see Note 5 of Notes to Consolidated Financial Statements.

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 net operating tax loss carryforwards ("NOLs"), as well as any tax losses generated by the sale, remained with the Company. As of December 31, 2005, the Company has approximately $5,100,000,000 of NOLs, which are available to reduce the federal income taxes that would otherwise be payable on that amount of pre-tax income in the future (a potential federal tax savings of approximately $1,800,000,000). The amount and availability of the NOLs are subject to certain qualifications, limitations and uncertainties as discussed in Note 16 of Notes to Consolidated Financial Statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

During 2005, the Company recorded net security gains of approximately $208,800,000, principally from the sale of publicly traded debt and equity securities that had been classified as available for sale securities. Net security gains include $146,000,000 from the sale of the Company's entire equity interest in White Mountains Insurance Group, Ltd. ("WMIG"). The Company acquired the 375,000 common shares of WMIG in a private transaction in 2001 for $75,000,000.

The manufacturing operations are conducted through Idaho Timber Corporation ("Idaho Timber") and the Company's plastics manufacturing segment. In May 2005, the Company acquired Idaho Timber for total cash consideration of $133,600,000, including working capital adjustments and expenses. Idaho Timber is headquartered in Boise, Idaho and primarily remanufactures dimension lumber and remanufactures, packages and/or produces other specialized wood products. The Company's plastics manufacturing operations manufacture and market lightweight plastic netting used for a variety of purposes including, among other things, building and construction, erosion control, agriculture, packaging, carpet padding, filtration and consumer products. In February 2005, the plastics manufacturing segment increased its product offerings and customer base through the purchase of the assets of NSW, LLC U.S. ("NSW") for $26,600,000, including working capital adjustments.

The Company's healthcare services operations are conducted by subsidiaries of Symphony Health Services, LLC ("Symphony"), which was acquired in September 2003. Symphony is engaged in the provision of physical, occupational and speech therapy services, healthcare staffing services and Medicare consulting services.

The Company's telecommunications operations are principally conducted through ATX Communications, Inc. ("ATX"). Upon the effectiveness of its bankruptcy plan in April 2005, ATX became a majority owned subsidiary of the Company and has been consolidated since that date. ATX is an integrated communications provider that offers telephone, data, Internet and other services principally to small to medium sized businesses in the Mid-Atlantic region of the United States. The aggregate purchase price for ATX was $56,300,000, which includes the cost of claims purchased prior to its bankruptcy filing, all financing provided to ATX by the Company and acquisition expenses.

The Company's domestic real estate operations include a mixture of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. In May 2005, the Company sold its 716-room Waikiki Beach hotel for net cash proceeds of approximately $73,000,000 and recorded a pre-tax gain of $56,600,000 (reflected in gain on disposal of discontinued operations).

The Company's winery operations consist of Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon. These wineries primarily produce and sell wines in the luxury segment of the premium table wine market.

During 2005, the Company's banking and lending operations sold its remaining customer deposits and surrendered its national bank charter. Residual operating activities are concentrated on collecting and servicing the remaining loan portfolio.

The Company owns 30% of Cobre Las Cruces, S.A. ("CLC"), a former subsidiary of the Company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. During 2005, the Company sold a 70% interest in CLC to Inmet Mining Corporation ("Inmet"), a Canadian-based global mining company, 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. The Inmet shares were recorded at their fair value at the time of the transaction of approximately $78,000,000, and the Company recorded a pre-tax gain on the sale of $10,500,000.

During 2005, the Company sold its non-controlling equity interests in an office complex located on Capitol Hill in Washington, D.C. 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.

The Company's property and casualty reinsurance equity investment is conducted through its 20% common stock interest in Olympus Re Holdings, Ltd. ("Olympus"), a Bermuda reinsurance company primarily engaged in the property excess, marine and aviation reinsurance business. During 2005, Olympus recorded significant losses from hurricanes Katrina, Rita and Wilma; the sum of the Company's share of Olympus' losses under the equity method of accounting plus an impairment loss aggregated $123,800,000 during 2005. In early 2006, Olympus raised new equity capital (in which the Company did not participate), that will dilute the Company's interest such that it will not apply the equity method of accounting for this investment subsequent to December 31, 2005.

As used herein, the term "Company" refers to Leucadia National Corporation, a New York corporation organized in 1968, and its subsidiaries, except as the context otherwise may require.

Investor Information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Accordingly, the Company files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding the Company and other issuers that file electronically. In addition, material filed by the Company can be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, NY 10005, on which the Company's common shares are listed. The Company has submitted to the NYSE a certificate of the Chief Executive Officer of the Company, dated May 17, 2005, certifying that he is not aware of any violations by the Company of NYSE corporate governance listing standards.

The Company's website address is www.leucadia.com. The Company makes available, without charge, through its website copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after such reports are filed with or furnished to the SEC.

Financial Information about Segments

The Company's reportable segments consist of its operating units, which offer different products and services and are managed separately. The Company's manufacturing operations are conducted through Idaho Timber and its plastics manufacturing segment. Idaho Timber primarily remanufactures, manufactures and/or distributes wood products. The Company's plastics manufacturing operations manufacture and market lightweight plastic netting used for a variety of purposes. The Company's healthcare services operations provide physical, occupational and speech therapy services, healthcare staffing services and Medicare consulting services. The Company's telecommunications operations are principally conducted through ATX, an integrated communications provider that offers a wide range of telecommunication services in the Mid-Atlantic region of the United States. The Company's domestic real estate operations consist of a variety of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. Other operations primarily consist of the Company's wineries and residual banking and lending activities that are in run-off.

Associated companies include equity interests in entities that the Company accounts for on the equity method of accounting. Investments in associated companies include Berkadia LLC ("Berkadia"), a joint venture formed to facilitate the chapter 11 restructuring of The FINOVA Group Inc. ("FINOVA"), HomeFed Corporation ("HomeFed"), a corporation engaged in real estate activities, Jefferies Partners Opportunity Fund II, LLC ("JPOF II"), EagleRock Capital Partners (QP), LP ("EagleRock"), CLC and Olympus. Both JPOF II and EagleRock are engaged in investing and/or securities transactions activities.

Corporate assets primarily consist of investments and cash and cash equivalents and corporate revenues primarily consist of investment income and securities gains and losses. Corporate assets, revenues, overhead expenses and interest expense are not allocated to the operating units. The Company has a manufacturing facility located in Belgium, which is the only foreign operation with non-U.S. revenue or assets that the Company consolidates, and it is not material. In addition to its investment in Bermuda-based Olympus, the Company owns 36% of Light and Power Holdings Ltd., the parent company of the principal electric utility in Barbados, and an interest, through its 30% ownership of CLC, in a copper deposit in Spain. From time to time the Company invests in the securities of non-U.S. entities or in investment partnerships that invest in non-U.S. securities.

Certain information concerning the Company's segments for 2005, 2004 and 2003 is presented in the following table. Consolidated subsidiaries are reflected as of the date of acquisition, which was September 2003 for Symphony, April 2005 for ATX and May 2005 for Idaho Timber. Associated Companies are only reflected in the table below under identifiable assets employed.

	2005	2004	2003
		(In millions)	
Revenues and other income (a):			
Manufacturing:			
Idaho Timber	$ 239.0	$ --	$ --
Plastics	93.6	64.4	54.1
Healthcare Services	239.9	258.4	71.1
Telecommunications	111.4	--	--
Domestic Real Estate	29.8	63.5	50.4
Other Operations	59.1	70.8	95.6
Corporate (b)	268.3	180.9	42.5
Total consolidated revenues and other income	$ 1,041.1	$ 638.0	$ 313.7
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies:			
Manufacturing:			
Idaho Timber	$ 8.2	$ --	$ --
Plastics	14.2	7.9	4.4
Healthcare Services	3.3	5.1	(2.3)
Telecommunications	(1.9)	--	--
Domestic Real Estate	4.1	20.7	18.1
Other Operations	6.1	18.6	9.1
Corporate (b)	101.9	59.6	(37.5)
Elimination (c)	2.3	--	--
Total consolidated income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies	$ 138.2	$ 111.9	$ (8.2)
Identifiable assets employed:			
Manufacturing:			
Idaho Timber	$ 162.7	$ --	$ --
Plastics	81.9	50.4	50.8
Healthcare Services	55.5	65.6	54.6
Telecommunications	88.6	--	--
Domestic Real Estate	182.7	253.2	275.8
Other Operations	252.0	403.7	505.8
Investments in Associated Companies	375.5	460.8	430.9
Corporate	4,062.0	2,070.1	1,456.9
Assets of discontinued operations	--	1,496.6	1,622.4
Total consolidated assets	$ 5,260.9	$ 4,800.4	$ 4,397.2

(a) 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 on the Company's consolidated statements of operations.

(b) Net securities gains for Corporate aggregated $199,500,000, $123,100,000 and $10,100,000 during 2005, 2004 and 2003, respectively, which primarily resulted from the sale of publicly traded debt and equity securities that had been classified as available for sale securities. Security gains in 2005 include a gain from the sale of WMIG of $146,000,000. For 2005 and 2004, security gains include provisions of $12,200,000 and $4,600,000, respectively, to write down investments in certain available for sale securities. For 2003, security gains include a provision of $6,500,000 to write down investments in certain available for sale securities and an investment in a non-public security. The write downs of the available for sale securities resulted from declines in market value determined to be other than temporary.

(c) Eliminates services purchased by ATX from WilTel and recorded as a cost of sales by ATX.

(d) For the years ended December 31, 2005, 2004 and 2003, income (loss) from continuing operations has been reduced by depreciation and amortization expenses of $41,300,000, $29,400,000 and $29,100,000, respectively; such amounts are primarily comprised of Corporate ($10,700,000, $11,400,000 and $11,700,000, respectively), manufacturing ($14,200,000, $5,200,000 and $4,700,000, respectively), other operations ($5,500,000, $6,900,000 and $7,800,000, respectively) and telecommunications ($7,500,000 in 2005). Depreciation and amortization expenses for other segments are not material.

(e) For the years ended December 31, 2005, 2004 and 2003, income (loss) from continuing operations has been reduced by interest expense of $68,400,000, $62,700,000 and $37,900,000, respectively; such amounts are primarily comprised of Corporate ($63,200,000, $55,300,000 and $26,000,000, respectively), healthcare services ($2,800,000, $2,200,000 and $600,000, respectively) and banking and lending, which is included in other operations ($1,100,000, $2,700,000 and $8,800,000, respectively). Interest expense for other segments is not material.

At December 31, 2005, the Company and its consolidated subsidiaries had 3,969 full-time employees.

Manufacturing

Idaho Timber

Business Description

In May 2005, the Company acquired Idaho Timber for total cash consideration of $133,600,000, including working capital adjustments and expenses. Idaho Timber is headquartered in Boise, Idaho and is engaged in the manufacture and/or distribution of various wood products. Idaho Timber's principal product lines include remanufacturing of dimension lumber; remanufacturing, bundling and bar coding of home center boards for large retailers; and producing of 5/4" radius-edge, pine decking. Idaho Timber also manufactures or distributes a number of other specialty wood products. Idaho Timber has over 25 years of operating experience in its industry.

Remanufactured dimension lumber is Idaho Timber's largest product line. Dimension lumber is used for general construction and home improvement, remodeling and repair projects, the demand for which is normally a function of housing starts and home size. All dimension lumber is assigned a quality grade, based on the imperfections in the wood, and higher-grade lumber is sold at a higher price than lower-grade lumber. Idaho Timber purchases low-grade dimension lumber from sawmills located in North America and Europe and upgrades it into higher-grade dimension lumber products. The remanufacturing process includes ripping, trimming and planing lumber to reduce imperfections and produce a variety of lumber sizes. These products are produced at plants located in Florida, North Carolina, Texas, Kansas, Idaho and New Mexico. Each plant distributes its product primarily by truck to lumber yards and contractors within a 300 mile shipping radius from the plant site.

Idaho Timber's next largest product line is home center board products, which are principally sold to large home improvement retailers. Idaho Timber purchases high-grade boards from sawmills in the western United States, South America and New Zealand (primarily pine but other wood species are also used), performs minor re-work on those boards to upgrade the quality, and then packages and bar codes those boards according to customer specifications. Services provided include managing delivery to off-site inventory positions at customer-owned distribution centers near retail locations so that adequate stock is available for the customers to draw upon when needed. Production takes place in owned plants in Idaho and Montana, and goods are shipped nationwide by rail and truck to customer-owned distribution centers. The sale is not completed and revenue is not recognized until the customer takes the product from the distribution center.

Idaho Timber also operates a sawmill in Arkansas that produces 5/4" radius-edge, pine decking cut to a variety of lengths. Rights to cut timber are purchased from private land owners located near the sawmill, known as timber deeds, and Idaho Timber employs third-party contractors to cut the timber and transport the logs to the sawmill. Logs are also acquired in the spot market (gate logs) when trucks loaded with logs arrive at the sawmill, are inspected for quality and purchased if an agreement can be reached on price. Idaho Timber performs traditional sawmill processes (cutting, drying and planing) to manufacture the final product. The product is shipped to various regions throughout the central and eastern parts of the United States via truck and rail to lumber treaters and others for resale to the final consumer.

Idaho Timber's profitability is dependent upon its ability to manage manufacturing costs and process efficiency, minimize capital expenditures through the purchase of used, lower-cost equipment and repairing its existing equipment, and effective management of the spread between what it pays for dimension lumber and boards and the selling prices of the remanufactured products. Selling prices for remanufactured products may rise quicker than supplier prices in strong markets creating greater spread; however, during periods of declining product demand and reduced selling prices, supply price declines may lag behind resulting in lower spreads. Idaho Timber's business is generally not seasonal, except in those locations that have weather related construction slowdowns.

The dimension lumber product does not require significant build up of inventory to cover peak periods of activity, nor are there any other unusually significant needs for working capital. Home center board products experience a longer cycle to convert raw material to product sales due to cross country shipping and consignment inventory programs, resulting in an investment in working capital. Working capital requirements are greater for the sawmill operation. In addition to cash outlays for timber deeds, the sawmill will have a seasonal build up of log inventory.

Idaho Timber owns nine plants, one sawmill that principally produces decking products and one sawmill that produces split-rail fencing. These eleven facilities in the aggregate have approximately 939,000 square feet of manufacturing and office space, covering approximately 230 acres. Two plants are principally dedicated to home center board products and the remaining plants principally produce remanufactured dimension lumber products. All plant locations can produce and distribute specialty wood products. Idaho Timber has the capacity to ship approximately 70 million board feet per month; during 2005 actual shipments averaged approximately 62 million board feet per month.

Idaho Timber believes that its diverse remanufacturing, sawmill, and distribution operations provide it with purchasing power to secure sources of supply from multiple suppliers while minimizing freight costs. Idaho Timber's diverse geographic footprint also mitigates geographic concentration risk.

Sales and Marketing

Idaho Timber primarily markets to local, regional and national lumber retailers for its dimension lumber products, home improvement centers for its home center board products and decking treaters for its sawmill product, and other resellers of home construction materials. Demand for its products is dependent, in part, upon the strength of the U.S housing market and the do-it-yourself home improvement market which are subject to cyclical fluctuations. Its success in attracting and retaining customers depends in large part on its ability to provide quicker delivery of specified customer products than its competitors. For dimension lumber products, sales are primarily generated at each of the plants, with a dedicated sales force located in the same geographic region as the customers the plant serves. Board and decking products are sold and managed centrally. The home center board product is heavily dependent on two customers, Lowe's and The Home Depot, which account for approximately 90% of that product line. The combined revenue of these two customers was 14% of Idaho Timber's total revenue for the period from acquisition to December 31, 2005. The customer base for the dimension lumber business is much less concentrated; no customer accounts for more than 5% of revenue. Idaho Timber's sales are somewhat concentrated in regions where its facilities are located, with the largest being Florida, 27%; North Carolina, 16%; and Texas, 13%.

Competition

Idaho Timber sells commodity products, and operates in an industry that is currently oversupplied and very competitive. Idaho Timber competes against domestic and foreign sawmills and intermediate distributors for its dimension lumber and decking products. In some cases, Idaho Timber competes on a limited basis with the same sawmills that are a source of supply of low-grade dimension lumber. Foreign suppliers have been growing their sales in the U.S. market, particularly European competitors, which has added to the current oversupply condition in the industry and may continue to do so. The home center board business has many competitors, and suppliers to large home centers are always under pressure to reduce prices.

Idaho Timber also competes for raw material purchases needed for its remanufactured dimension lumber and home center board products, and in the past the availability and pricing of certain raw materials has been adversely affected by import duties (tariffs) imposed on Canadian imports, the largest source of these supplies. A decades old trade dispute between the U.S. and Canada resurfaced with the expiration of the Softwood Lumber Agreement on March 31, 2001. The dispute involves claims that lumber from government-owned land in Canada is subsidized and sold into the U.S. market for less than fair value, the effect of which is to injure or threaten to injure U.S. competitors. In the past, the U.S. has argued for the right to impose extra duties to prevent cheap Canadian wood from harming U.S. manufacturers. However, the North American Free Trade Agreement ("NAFTA") review panel rejected claims that U.S. lumber producers had suffered damage as a result of Canadian imports. On September 10, 2004, the U.S. International Trade Commission complied with the NAFTA ruling and issued a statement saying that the U.S. lumber industry is not threatened by Canadian softwood imports; however, the Commission expressed some disagreement with the panel's decision. There have been a number of challenges and appeals made through various channels attempting to reverse NAFTA's decision. Currently, restrictions on Canadian imports are not adversely affecting Idaho Timber's operations; however, if tariffs increase or import limitations are imposed in the future, it is possible that raw material costs could increase or supplies could be constrained. Idaho Timber is examining alternative sources of supply to increase its raw material purchasing flexibility.

Idaho Timber's manufacturing process is very labor intensive, and its labor force is not unionized. Idaho Timber's low cost labor force allows it to be competitive and flexible in its operating activities; however, its labor force is in high demand in its own industry and also from non-industry employers. If Idaho Timber is unable to continue to attract and retain a cost efficient labor force, sales volumes and profitability could suffer.

Government Regulation

Lumber and decking are identified at Idaho Timber facilities with a grade stamp that shows the grade, moisture content, mill number, species and grading agency. All lumber is graded in compliance with the National Grading Rule for Dimension Lumber, which is published by the U.S. Department of Commerce. Idaho Timber facilities are subject to regular inspection by agencies approved by the American Lumber Standards Committee. Idaho Timber believes that its procedure for grading lumber is highly accurate; however, the company could be exposed to product liability claims if it can be demonstrated its products are inappropriately rated. Currently, Idaho Timber does not have any material product liability claims outstanding.

Since Idaho Timber's sawmills do not treat its wood with chemicals, and since timber deeds purchased from private land owners do not impose a re-planting obligation, Idaho Timber does not have any unusual environmental compliance issues.

Plastics Manufacturing

Business Description

Through its plastics division, the Company manufactures and markets lightweight plastic netting used for a variety of purposes including, among other things, building and construction, erosion control, agriculture, packaging, carpet padding, filtration and consumer products. The products are primarily used to add strength to other materials or act as barriers, such as warning fences and crop protection from birds. The plastics division is a market leader in netting products used in carpet cushion, erosion control, nonwoven reinforcement and crop protection.

In February 2005, the Company acquired the assets of NSW for approximately $26,600,000, thereby increasing its mix of products and customer base. NSW has a manufacturing and distribution facility in Roanoke, Virginia, and has generated revenues of approximately $17,500,000 for the period from acquisition to December 31, 2005. Although the Company has integrated certain of NSW's operating activities into its own, principally in the administration and raw materials purchasing areas, NSW's manufacturing facility will continue as a stand-alone operation. Products manufactured by NSW include produce and packaging nets, header label bags, case liners and heavy weight nets for drainage and erosion control purposes.

Certain of the division's products are proprietary, protected by patents and/or trade secrets. The Company holds patents on certain improvements to the basic manufacturing processes it uses and on applications thereof. The Company believes that the expiration of these patents, individually or in the aggregate, is unlikely to have a material effect on the plastics division.

Sales and Marketing

Plastics manufacturing revenues were $93,300,000, $64,100,000 and $53,300,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Products are marketed both domestically and internationally, with approximately 11% of 2005 revenues generated by customers in Europe, Latin America, Japan and Australia. Products are sold primarily through an employee sales force, located in the United States and Europe. New product development focuses on market niches where the division's proprietary technology and expertise can lead to sustainable competitive economic advantages. Historically, this targeted product development generally has been carried out in partnership with a prospective customer or industry where the value of the product has been recognized. The plastics division is now also focusing on developing products which provide an upgrade to a current product used by an existing customer. Over the last several years, the plastics division has spent approximately 2% to 5% of annual sales on the development and marketing of new products and new applications of existing products.

Competition

The plastics division is subject to domestic and international competition, generally on the basis of price, service and quality. Additionally, certain products are dependent on cyclical industries, including the construction industry. The cost of the principal raw material used in its products, polypropylene, has increased by approximately 85% from 2002. The division has been able to raise prices to its customers during this period but the contribution margin percentage has dropped by 6% as a result of higher raw material costs. High oil and natural gas prices along with high capacity utilization in the polypropylene industry are expected to keep raw material costs higher than historical levels for the next few years.

The plastics division has had excess manufacturing capacity, principally in its Belgium facility which became operational during 2001. Utilization of this capacity has taken longer than anticipated primarily due to the loss of a major customer for whom the facility was expected to produce products. However, operating results at the facility have improved, as sales grew 67% in 2005 as compared to 2003 and the business achieved positive cash flow during 2004. In addition, manufacturing production for customers in Australia and Asia has been moved away from domestic facilities to the Belgium facility, thereby enabling the domestic facilities to meet sales growth. In October 2005, the plastics division acquired the manufacturing assets of a competitor for approximately $4,300,000, and relocated and installed the equipment in the Belgium facility. The asset acquisition is expected to increase sales in the filtration, packaging and agricultural markets at the Belgium facility.

Healthcare Services

Business Description

Established in 1994, Symphony provides post-acute healthcare services including contract therapy, long-term care consulting and temporary staffing to skilled nursing facilities, hospitals, sub-acute care centers, assisted living facilities, schools and other healthcare providers. Symphony currently operates in 46 states, providing services at approximately 1,650 locations through its employee workforce of approximately 2,900 part-time and full-time skilled healthcare professionals (excluding temporary personnel). The businesses owned by Symphony operate under the names RehabWorks, VTA Management Services, VTA Staffing Services, NurseWorks and Polaris Group. The Company has consolidated Symphony in its financial statements since it was acquired in September 2003.

The principal services offered by Symphony are described below.

- Contract Therapy Services - Physical therapy, occupational therapy and speech pathology services provided to various health care providers and schools. Services include compliance and clinical training, recruitment, orientation and staffing, management information and reimbursement expertise.
- Healthcare Staffing Services - Placement of temporary healthcare professionals in hospitals and skilled nursing facilities generally ranging from one day to 13-week assignments.
- Consulting Services - These services assist healthcare providers in managing Medicare reimbursement to ensure that systems and procedures are in place to manage costs and cash flow.

When determining how to meet their rehabilitation therapy and healthcare staffing needs, healthcare providers are faced with an "in-source" or "outsource" decision, to either manage the rehabilitation therapy unit in-house or to contract the service to an outside vendor. As healthcare expenditures in the U.S. have continued to increase, healthcare providers have experienced increased cost reduction pressures as a result of managed care and the implementation of prospective payment systems, where fixed fee schedules are set by the Center for Medicare and Medicaid Services ("CMS"). Symphony's services give its customers increased flexibility in managing staffing levels and enables them to reduce their overall costs by converting a fixed cost into a variable cost. Contract therapy is available on a full-time, part-time and on-call basis, and can be customized at each location according to the particular needs of a facility or patient. Contract therapy services also include full therapy program management with a full-time program manager who is also a therapist and two to four professionals trained in physical and occupational therapy or speech/language pathology. Symphony generally bills its customers either on the basis of a negotiated patient per diem rate or a negotiated fee schedule based on the type of service rendered. Symphony is also the largest provider of therapy services to the Department of Education of New York City.

Symphony's revenues and growth are affected by trends and developments in healthcare spending, which has been increasing at an accelerated rate over the past five years. Demographic considerations also affect the amount spent on healthcare. Due to the increasing life expectancy of Americans, the number of people aged 65 years or older has been growing and is expected to increase in the future. These trends, combined with the need for healthcare providers to find more cost effective means to deliver their services, may encourage healthcare providers to use the services offered by Symphony and its competitors.

Competition

The contract therapy and healthcare staffing services businesses compete in national, regional and local markets with full service staffing companies and with specialized staffing agencies. The program management services business competes with companies that may offer one or more of the same services and with hospitals and skilled nursing facilities that do not choose to outsource these services. The managed inpatient units and outpatient programs are in highly competitive markets and compete for patients with other hospitals and skilled nursing facilities.

There is a significant shortage of skilled healthcare professionals who provide Symphony's services, and Symphony's revenues are dependent on its ability to attract, develop and retain qualified therapists and other healthcare personnel who possess the skills, experience and, as required, licensure necessary to meet the specified requirements of customers. Symphony competes for healthcare staffing personnel, with other healthcare companies, as well as actual and potential customers, some of whom seek to fill positions with either regular or temporary employees.

Government Regulation

Healthcare providers are subject to a complex array of federal, state and local regulations which include but are not limited to Medicare and Medicaid regulations, licensure regulations, fraud and abuse regulations, as well as regulations regarding the confidentiality and security of health-related information. If Symphony fails to comply with these laws it can result in civil penalties, criminal penalties and/or exclusion from participation with programs such as Medicare and Medicaid. Failure of Symphony's customers to meet regulatory requirements could have an adverse impact on its business.

Symphony's customers are subject to state licensure and Medicare certification requirements with respect to their facilities and healthcare professionals. Symphony is also subject to these requirements when it is the direct provider of the service. Systems are in place to assure that these requirements are met before Symphony's healthcare professionals treat patients.

In most instances, customers participate in the Medicare and Medicaid programs as do certain of Symphony's outpatient therapy facilities. As such, they are subject to Medicare and Medicaid's regulations regarding quality of care, qualifications of personnel, adequacy of physical plant, as well as billing and payment regulations. These regulations are written, published and administered by the CMS and are monitored for compliance.

Various federal and state laws prohibit the knowing and willful submission of false claims or fraudulent claims to obtain payment from Medicare, Medicaid or other government programs. The federal anti-kickback statute also prohibits individuals and entities from knowingly and willfully paying, offering, receiving or soliciting money or anything else of value in order to induce the referral of patients or to induce a person to purchase, lease, order, arrange for or recommend services or goods covered by Medicare, Medicaid or other government healthcare programs.

The Balanced Budget Act of 1997 mandated a Medicare Part A prospective payment system for skilled nursing facilities based on the category of patient care under the resource utilization group classifications ("RUGs") established by CMS. The 2006 Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities Final Rule refined the RUGs system to more appropriately reimburse providers for patients requiring extensive nursing and rehabilitative services. Nine new categories were added and the nursing case-mix index was shifted such that the nursing component of the per diem increased, while the rehab component (the services Symphony provides) remained unchanged. To the extent that Symphony's customer contracts link billing for services with the RUGs classification, revenues could be adversely impacted even though a patient may require the same level of care. Although Symphony has successfully renegotiated many of its contracts with respect to this matter, Part A revenues for certain customers could decline.

On January 1, 2006, most Medicare Part B therapy 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. However, the Deficit Budget Reconciliation Act that was enacted in February 2006 mandated the development of an exception process to permit services above these limitations for services deemed medically appropriate, retroactive to January 1, 2006. On February 17, 2006, CMS published three Change Request Transmittals ("Guidance"), which detail the process by which beneficiaries may obtain exceptions to the cap limitation. The process 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.

The Health Insurance Portability and Accountability Act of 1996 is designed to improve efficiency in healthcare delivery by standardizing electronic data interchange and by protecting the confidentiality and security of an individual's health data by setting and enforcing national standards of practice. Virtually all healthcare providers are affected by the law, which consists of three primary areas, standards for electronic transactions, privacy and security. Symphony is currently in compliance with these standards.

Telecommunications

Acquisition

The Company purchased all of ATX's debt obligations under its senior secured credit facility for $25,000,000 in December 2003, and ATX commenced a voluntary Chapter 11 case to reorganize its financial affairs shortly thereafter. The bankruptcy plan (the "Plan") of ATX was confirmed by the Bankruptcy Court for the Southern District of New York and became effective on April 22, 2005. As contemplated by the Plan, in exchange for its investment in the credit facility the Company received approximately 90% of the new common stock of the reorganized ATX, a new $25,000,000 senior secured 10% note, and the Company provided ATX with $10,000,000 of additional financing. The aggregate purchase price for ATX was $56,300,000, which includes all the financing provided by the Company and acquisition expenses. The Company has consolidated ATX since the effective date of the Plan.

Business

ATX is an integrated communications provider that offers customers a full range of communications services, including local and long distance telephone services, data and Internet services, web development, collocation and managed services. Additionally, ATX provides conference calling, travel services, enhanced fax and Web-based billing. ATX's target market is small to medium sized enterprises located in the Mid-Atlantic region of the U.S.

The Telecommunications Act of 1996 (the "Telecom Act") established a framework for creating competition in the local and long distance telecommunications markets. At that time, most local markets received services from one dominant local service provider, known as the Incumbent Local Exchange Carrier ("ILEC"), who typically owned the entire infrastructure necessary to provide local telecommunication services to businesses and consumers. As a result of the Telecom Act, ATX and others were able to use or purchase various components of an ILEC's network and infrastructure, referred to as Unbundled Network Elements ("UNE"s), Unbundled Network Element Platform ("UNE-P") and enhanced extended loops ("EEL"s), at favorable cost-based rates that were subject to the jurisdiction of the Federal Communications Commission ("FCC"). UNE-P is a combination of a loop (the part of an ILEC's telephone network that connects their central office to a customer), local switching and transport. EELs are typically a combination of UNEs, loops and local transport that ATX uses to provide service to its customers. ATX, which is known as a Competitive Local Exchange Carrier ("CLEC"), would not be able to provide existing local services to its customers without the right and ability to purchase UNEs and EELs from the ILEC at reasonable rates.

ATX owns certain equipment and facilities which enable it to reduce the cost of the components it would otherwise have to purchase from an ILEC. ATX currently owns and operates five carrier class switches in Philadelphia, Pennsylvania and Meraden, Virginia that provide a combination of local, long distance, and Voice-over-Internet Protocol ("VoIP") services, which connect calls to the public switched telephone network. These switches are connected via transport purchased from an ILEC or other competitive network providers. ATX connects its network to the networks of the ILEC and other third party providers through collocations, which gives it the ability to service customers inside of its immediate network area via ATX's switches.

ATX's principal products and services include the following:

CoreConnect. CoreConnect provides ATX's business customers dedicated local, long distance, toll, data and Internet access services bundled over a multi-purpose broadband connection. Through this integrated product, ATX is also able to offer additional products and services.

Local Telephone Services. Local telephone services include local dial tone and a set of custom calling features that customers can tailor to meet their needs. Calling features include automatic callback, busy line transfer, call blocking, call forwarding, call waiting, caller ID with name, multi-ring service, repeat dialing, remote access call forwarding, and speed calling.

Long Distance Telephone Services. Long distance telephone services include inbound/outbound service, international, toll free service and calling card telephone service. ATX currently provides intrastate and interstate long distance services nationwide and international termination.

Network/Internet Services. ATX provides high-speed network/Internet connectivity products to its customers.

Web Services/E-commerce. Web services include Web design, development and hosting, electronic commerce, Intranet development, database integration, Internet security, and collocation.

Consulting and Managed Network Services. ATX assists in the design, construction, implementation and management of local and wide area networks. Consulting services include wide area network architecture, router and customer premise equipment configuration and virtual private network design and implementation.

Wireless Services. ATX offers wireless services primarily as a customer retention tool, consisting of both cellular and paging service.

CoreConnect, local and long distance telephone services currently account for approximately 86% of ATX's revenues. For the period from acquisition to December 31, 2005, ATX's revenues were concentrated in certain states, principally Pennsylvania, 45%; New Jersey, 31%; Maryland, 6%; Virginia and Washington D.C., 6%; and Delaware, 5%.

Some of ATX's telecommunication services are not connected to its network or switches. For these services ATX may simply be a reseller of the ILECs services, or a seller of UNE-P services. ATX typically provides these services to customers in areas where ATX does not maintain network facilities or where customers do not have sufficient line needs to qualify for CoreConnect. ATX's margins for these services are typically lower than services provided on its network. Recent regulatory action has increased the rates that ILECs can charge for these services, which has forced ATX to raise its prices, adversely impacting ATX's ability to remain competitive for these products. ATX expects that its revenues for UNE-P and reseller services will decline over time. For the period from acquisition through December 31, 2005, these services accounted for approximately 22% of ATX's revenues.

Sales and Marketing

ATX's sales model is based on a consultative approach. Each sale begins with a consultation that evaluates the needs of the prospective customer. ATX then designs a tailored, integrated and cost-effective solution that addresses the specific customer's communications needs. The average sales cycle is approximately 90 days for customers with extensive and/or complex needs, and approximately 30 days for smaller customers.

ATX has approximately 18,000 customers. ATX's customers are billed on a single, consolidated invoice, delivered by traditional means. It does not depend upon any single customer for any significant portion of its revenue. Neither ATX's business nor the telecommunications industry is generally characterized as having a material seasonal element and it does not expect the business or the industry to become seasonal in the future.

Competition

The telecommunications industry is highly competitive, and is impacted by regulatory changes, product substitution, technological advances, excess network capacity and the entrance of new competitors. Competition for products and services is based on price, quality, network reliability, service features and responsiveness to customers' needs.

ATX faces competition from regional Bell operating companies such as Verizon Communications, Inc. and AT&T, Inc., as well as other providers of wireline telecommunications services, wireless telephone companies and VoIP providers. In the local telephone markets, ATX's principal competitor is the ILEC, which is usually Verizon. Verizon is also ATX's principal supplier of UNEs, UNE-P and EELs. Wireless telephone companies have been taking market share from providers of wireline voice communications. Cable television companies that offer high-speed Internet access are expanding their offerings to voice based telephone services.

Many facilities-based CLECs have committed substantial resources to building their networks or to purchasing other industry participants with complementary facilities. By building or purchasing a network or entering into interconnection agreements or resale agreements with ILECs or long distance carriers, a provider can offer a single source for local and long distance services similar to those offered by ATX. Many of ATX's competitors have substantially greater financial, personnel and other resources, with greater flexibility and a lower cost structure than ATX. The completion of large mergers within the telecommunications industry during the past year could result in improved cost structures for ATX's competitors, which could result in competitors offering lower prices.

Government Regulation

ATX is subject to significant federal, state and local laws, regulations and orders that affect the rates, terms and conditions of certain of its service offerings, its costs and other aspects of its operations. Regulation of the telecommunications industry varies from state to state, and changes in response to technological developments, competition, government policies and judicial proceedings. The Company cannot predict the impact, nor give any assurances about the materiality of any potential impact that such changes may have on its business or results of operations, nor can it guarantee that regulatory authorities will not raise material issues regarding its compliance with applicable laws and regulations.

The FCC has jurisdiction over ATX's facilities and services to the extent those facilities are used to provide interstate telecommunications services. State regulatory commissions generally have jurisdiction over facilities and services to the extent the facilities are used in intrastate telecommunications services. Generally, the FCC and state commissions do not regulate Internet, video conferencing or certain data services, although the underlying telecommunications services components of such offerings may be regulated in some instances.

The implementation of the Telecom Act, the emergence of new technologies and the financial distress of many in the telecommunications industry have involved numerous industry participants, including ATX, in disputes, lawsuits, proceedings and arbitrations before state and federal regulatory commissions, private arbitration organizations, and federal and state courts. These issues include the interpretation and enforcement of existing interconnection agreements, the terms of new interconnection agreements, inter-carrier compensation, access rates applicable to different categories of traffic, the jurisdiction of traffic for inter-carrier compensation purposes, the services and facilities available to ATX, the price that ATX will pay for those services and facilities and the regulatory treatment of new technologies and services. ATX anticipates that it will continue to be involved in various disputes, lawsuits, arbitrations and proceedings over these and other material issues, although no material litigation is currently pending. ATX anticipates that further legislative initiatives and regulatory rulemaking will occur. Rulings adverse to ATX, adverse legislation, new regulations or changes in governmental policy on issues material to ATX could have a material adverse effect on ATX's financial condition or results of its operations.

As a CLEC, the availability of services and facilities purchased from ILECs and the rates ILECs can charge have a significant impact on ATX's profitability. 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 ILECs 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. Some of these developments are discussed below.

The FCC Triennial Review Order

On August 21, 2003, the FCC released its Triennial Review Order ("TRO") addressing the remand on UNEs and its statutorily mandated comprehensive evaluation of UNEs, which was generally favorable to CLECs. In a portion of the TRO, the FCC held that CLECs such as ATX could order new combinations of UNEs and EELs, which in combination are the same elements that comprise higher priced special access facilities. The TRO also held that CLECs could commingle UNEs and UNE combinations with other wholesale services, including special access services, and resold services. On March 2, 2004, the Court of Appeals issued a decision reversing a substantial portion of the TRO. The Court vacated the FCC's decision to order unbundling of mass market switches, special access facilities and dark fiber dedicated transport. The Court found reasonable the specific EEL eligibility standards pursuant to which CLECs may obtain high capacity EELs. However, given the availability of special access, the Court expressed skepticism that carriers using special access circuits to provide competitive local exchange services were impaired without access to EELs, and remanded this and other matters to the FCC for further consideration.

The FCC Triennial Review Remand Order

On remand, in February 2005, the FCC issued its Triennial Review Remand Order ("TRRO") and adopted new rules, effective March 11, 2005. The FCC's TRRO and rules govern the obligations of ILECs to provide access to certain of their network elements, if at all, and the cost of such access. The TRRO for the most part required that ILECs continue to provide competitors access to the high capacity loops and UNEs that ATX uses. However, as discussed below the new rules placed new conditions and limitations on the ILECs' obligation to unbundle these elements. Moreover, the TRRO may have a material impact on ATX's future business plans and operations, which can not be fully assessed until the new rates are determined.

High Capacity Loops and Transport

The TRRO reduced the ILECs' obligation to provide high-capacity loops within, and dedicated transport facilities between, certain ILEC central offices that are deemed to be sufficiently competitive, based upon various factors such as the number of fiber-based collocators and/or the number of business access lines within such locations. In addition, certain caps are imposed regarding the number of UNE facilities that a company, like ATX, may have on a single route or into a single building. Where the central office conditions or the caps are exceeded, the TRRO eliminated the ILECs' obligation to provide these high-capacity circuits to competitors at the discounted rates historically received under the Telecom Act. The rates charged by ILECs for ATX's high-capacity circuits in place on March 11, 2005 that were affected by the FCC's new rules were increased 15% for one year until March 2006, although the scope of this increase is uncertain because the new FCC rules are subject to interpretation by state regulatory agencies. In addition, by March 10, 2006, ATX will be required to transition those existing circuits to alternative arrangements, such as other competitive facilities or the higher priced special access services offered by the ILECs, unless another rate has been negotiated. Since March 11, 2005, any new circuits ATX orders were subject to the ILECs' higher special access pricing in ILEC central offices that are deemed to be sufficiently competitive, or that exceed the caps, subject to any contractual protections under ATX's existing interconnection agreements. These rules will increase the cost of new circuits in central offices meeting these criteria from 31% to 147%, depending upon the size of the circuit ordered and its location.

Entrance Facilities

On June 20, 2005, Verizon, which is ATX's principal ILEC supplier, notified ATX and other CLECs of its intent, pursuant to the TRO and TRRO, to eliminate its offering of Entrance Facilities at incremental cost-based pricing, effective September 18, 2005. Entrance Facilities are used by ATX to obtain access to unbundled elements it purchases from Verizon. In its notice Verizon indicated that it would begin billing for Entrance Facilities at higher special access rates if ATX has not re-provisioned the UNE Entrance Facilities to alternative arrangements by September 18, 2005 (i.e., Verizon special access term plans or alternative carriers). On July 13, 2005, ATX sent a letter to Verizon indicating that it disagreed with Verizon's position and that the issue was before Public Utility Commissions as part of the TRRO mandated arbitrations to implement the FCC's new TRRO rules. ATX indicated that Entrance Facilities could not be eliminated under the TRRO until March 11, 2006, and took the position that Verizon was not permitted to eliminate the Entrance Facilities prior to the conclusion of the arbitrations. ATX also argued that under the TRRO, it was entitled to continue to use Entrance Facilities to purchase UNEs until March 11, 2006, at existing UNE rates plus 15%.

On August 25, 2005, Verizon responded to ATX's letter stating that it disagreed with ATX's position. In its letter, Verizon stated that it intended to carry out its threat to discontinue Entrance Facilities effective September 18, 2005 and begin billing ATX for Entrance Facilities at Special Access rates, although it provided a small exception for stand-alone dedicated transport in Delaware and Maryland. To date, Verizon has not billed ATX at special access rates but has indicated that it will back-bill ATX once its billing system is capable of billing the changes.

On September 29, 2005, the Pennsylvania Public Utility Commission ("PAPUC") rejected Verizon's attempts to implement a tariff eliminating Entrance Facilities. The PAPUC suspended operation of Verizon's tariff for six months or until at least March 11, 2006, unless it acts on the matter in the arbitrations prior to that time. This ruling is of particular importance to ATX because approximately 60% of ATX's Entrance Facilities are located in Pennsylvania. Verizon has appealed the PAPUC decision in federal court.

ATX and Verizon have been attempting to negotiate a resolution of this dispute, but it is uncertain whether such a negotiated resolution will be possible. ATX believes it has adequately accrued for any unbilled amounts and has taken appropriate steps to eliminate its dependency on Verizon's Entrance Facilities in the future.

Unbundled Local Switching

The TRRO determined that ILECs will no longer be required to provide access to unbundled circuit switching capabilities, which previously allowed CLECs to serve their customers by purchasing UNE-P at incremental cost-based rates. The TRRO permitted ATX to continue purchasing existing UNE-P arrangements for a period of one year after March 11, 2005, after which it has to either convert the customers to other arrangements or discontinue serving them.

ATX began negotiations during 2005 with Verizon to establish an alternative arrangement to provide service to its customers previously served via UNE-P subsequent to March 2006. On December 21, 2005, ATX entered into a wholesale contract with Verizon for its principal local service territory, which will permit it to continue to provide service to its existing UNE-P customer base, as well as provide service to new customers. The terms of the contract will permit ATX to serve its customers previously served utilizing UNE-P with an arrangement nearly identical to UNE-P; however, the contract required ATX to begin paying increased charges per line to Verizon for the service retroactively beginning September 1, 2005. At the end of the three-year term of the contract rates will automatically go to higher resale rates unless a new contract is established, and there is no assurance that ATX will be able to negotiate a new contract on acceptable terms.

Interconnection Agreements

ATX has agreements for the interconnection of its networks with the network of Verizon and other ILECs and the purchasing of UNEs covering each market in which ATX provides local services. As the existing interconnection agreements expire, ATX will be required to negotiate extension or replacement agreements. ATX's interconnection agreement with Verizon is currently on a month-to-month basis; agreements with other ILECs are also for short-term periods. There are ongoing proceedings in most states to implement the TRO and the TRRO that will likely result in amendments to ATX's interconnection agreements with Verizon and the other ILECs. There can be no assurance that ATX will successfully negotiate, arbitrate or otherwise replace or amend its interconnection agreements on terms and conditions acceptable to ATX.

Domestic Real Estate

At December 31, 2005, the Company's domestic real estate assets had a book value of $166,200,000. The real estate operations include a mixture of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. The Company owns a 15 story, 740,000 square foot office building located in downtown Tulsa, Oklahoma that was formerly WilTel's headquarters building, but which was not sold to Level 3. The building is currently 44% occupied by Level 3 and another tenant under short-term leases; however, Level 3 has the right to vacate one floor every six months commencing June 2006. The property has a book value of approximately $54,100,000 and is being marketed for sale.

Certain of the Company's other real estate investments and their respective carrying values as of December 31, 2005 include: a 90% interest in 8 acres of unimproved land in Washington, D.C. that was sold in 2006 ($61,100,000); approximately 87 acres of land located in Myrtle Beach, South Carolina, which is fully entitled for a large scale mixed-use development of various residential, retail and commercial space ($16,800,000); an operating shopping center on Long Island, New York that has 71,000 square feet of retail space ($9,300,000); approximately 76 acres of land located on the island of Islesboro, Maine, for which plans have been submitted for a residential subdivision ($9,200,000); and an approximate 540 acre parcel located in San Miguel County, Colorado which the Company is attempting to have re-zoned into a mixture of estate lots, cabins and a lodge site ($5,700,000).

The Company owns approximately 30% of the outstanding common stock of HomeFed. In addition, as a result of a 1998 distribution to all of the Company's shareholders, approximately 7.7% and 9.5% of HomeFed is owned by the Company's Chairman and President, respectively. HomeFed is currently engaged, directly and through subsidiaries, in the investment in and development of residential real estate projects in the State of California. Its current development projects consist of two master-planned communities located in San Diego County, California: San Elijo Hills, which it purchased from the Company in 2002, and a portion of the larger Otay Ranch planning area. The Company accounts for its investment in HomeFed under the equity method of accounting. At December 31, 2005, its investment had a carrying value of $44,100,000 which is included in investments in associated companies. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD).

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 at closing, the Company received net cash proceeds of approximately $73,000,000, and recorded a pre-tax gain of $56,600,000 (reflected in gain on disposal of discontinued operations). The Company's interest in the unimproved land in Washington, D.C. was sold in February 2006, and the Company received net cash proceeds of approximately $75,700,000 after satisfaction of mortgage indebtedness on the property and other closing payments; the Company expects to record a pre-tax gain of approximately $48,900,000.

The real estate development industry is subject to substantial environmental, building, construction, zoning and real estate regulations that are imposed by various federal, state and local authorities. In order to develop its properties, the Company must obtain the approval of numerous governmental agencies regarding such matters as permitted land uses, density, the installation of utility services (such as water, sewer, gas, electric, telephone and cable television) and the dedication of acreage for various community purposes. Furthermore, changes in prevailing local circumstances or applicable laws may require additional approvals or modifications of approvals previously obtained. Delays in obtaining required approvals and authorizations could adversely affect the profitability of the Company's projects.

Other Operations

Wineries

The Company owns two wineries, Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon. Pine Ridge, which was acquired in 1991, has been conducting operations since 1978, while the Company started Archery Summit in 1993. Since acquisition, the Company's investment in winery operations has grown, principally to fund the acquisition of land for vineyard development and to increase production capacity and storage facilities at both of the wineries. It can take up to five years for a new vineyard property to reach full production and, depending upon the varietal produced, up to three years after grape harvest before the wine can be sold. The Company controls 224 acres of vineyards in Napa Valley, California and 115 acres of vineyards in the Willamette Valley of Oregon, substantially all of which are owned and producing grapes. The Company believes that its vineyards are located in some of the most highly regarded appellations of the Napa and Willamette Valleys. At December 31, 2005, the Company's combined net investment in these wineries was $71,000,000. The wineries sold approximately 81,200 9-liter equivalent cases of wine generating wine revenues of $17,800,000 during 2005, and 63,600 9-liter equivalent cases of wine generating wine revenues of $13,200,000 during 2004.

These wineries primarily produce and sell wines in the luxury segment of the premium table wine market. The Company's wines are primarily sold to distributors, who then sell to retailers and restaurants. The distributors used by the Company also offer premium and luxury table wines of other producers that directly compete with the Company's products. As permitted under federal and local regulations, the wineries have also been placing increasing emphasis on sales direct to consumers, which they are able to do through the internet, wine clubs and at the wineries' tasting rooms. During 2005, direct sales to consumers represented 19% of case sales and 40% of wine revenues. Sales of the Company's wines in California (excluding direct sales to consumers) amounted to approximately 12% of 2005 wine revenues.

The luxury segment of the wine industry is intensely competitive. The Company's wines compete with small and large producers in the U.S., as well as with imported wines. Demand for wine in the luxury market segment can rise and fall with general economic conditions, and is also significantly affected by available supply. At present, there is a worldwide oversupply of luxury wine which may last for a few years. The demand for the Company's wines is also affected by the ratings given the Company's wines in industry and consumer publications. Wines are rated on a 1 to 100 numerical scale for each vintage and each type of wine. During the past year, ratings for some of the Company's wines have increased or stayed the same while ratings for other Company wines have declined relative to previous vintages. Future ratings are impossible to predict; however, the Company expects ratings for newly released wines will continue to reflect the specific wine quality of the Company's wineries and the overall perceived quality of the vintage in the Napa and Willamette valleys.

At the beginning of 2005, inventory levels of the Company's wines held by the Company and its distributors were too high, resulting in the need to hold prices for certain varietals and increase spending on promotional, sales and marketing programs to sell more wine. These efforts account for the increase in case sales in 2005 as compared to the prior year, and the wineries have significantly reduced the excess inventory levels. In particular, Pine Ridge had been producing too much Merlot for its historical sales volume, and it has reduced future production through re-budding and re-planting activities. The Company's wineries have also been focused on improving wine quality. Wine quality improvements are principally being made by reducing the amount of grape clusters grown on each grapevine (resulting in yield reduction) to further concentrate flavor, and investing in new winemaking equipment. Luxury wines available for sale in any given year are also dependent upon harvest yields of earlier periods, which can fluctuate from harvest to harvest depending on weather patterns, insects and other non-controllable circumstances.

The wineries' production, sales and distribution activities are subject to regulation by agencies of both federal and state governments. Many states have historically prohibited or restricted sales of wine direct to consumers by producers that are located in another state, even though the same states may permit in-state producers to ship direct to in-state consumers. In a case that was decided by the U.S. Supreme Court during 2005, such discriminatory state direct shipment laws were held to violate the Commerce Clause of the U.S. Constitution. As a result of the Court's decision, some states have revised their laws to allow both in-state and out-of-state wineries to ship directly to consumers. Other states have prohibited direct-to-consumer sales by in-state and out-of-state wineries. Although the Company is unable to predict the action that each state will take to comply with the Court's decision, the Company expects that this decision will increase its ability to market and sell wine direct to the consumer.

Antilles Crossing Group

The Company owns approximately 75% of entities comprising the Antilles Crossing Group ("ACG"), a startup venture that is constructing a sub-sea fiber optic cable system in the western Caribbean. The remaining interest is principally owned by Light & Power Holdings Ltd., in which the Company holds a 36% interest.

ACG has entered into a construction contract with a third-party to build a sub-sea fiber system from St. Croix to Barbados with a link to St. Lucia. In St. Croix, capacity agreements have been purchased to access sub-sea fiber systems to carry ACG customer traffic to and from the United States, Canada, the United Kingdom, and the rest of the world. The system will be only the second to be built to Barbados and St. Lucia and is expected to alleviate much of the currently restricted bandwidth supply to those islands. The only other system reaching those islands is controlled by the current sole provider. Competitive international telecommunications and data service was first licensed in each island in 2005. ACG has received licenses and permits to construct and operate the system; however, certain additional authorizations have not been received and are in the process of being obtained.

Once completed, the system will allow ACG to begin providing competitive carrier telecommunications and data services to the islands of Barbados and St. Lucia. In addition, the Company is building an on-island fiber and wireless communications network on Barbados with the intention of providing data and voice services to businesses operating in Barbados. The Company expects construction of the sub-sea and on-island systems to be completed during 2006 and operating activities will commence thereafter. The estimated cost of the project is approximately $37,000,000.

Banking and Lending

Historically, banking and lending operations made collateralized consumer loans consisting principally of personal automobile instalment loans to individuals who had difficulty obtaining credit. Over the past few years, the Company has been shrinking its banking and lending operations. Operating activities have been concentrated on maximizing returns on its investment portfolio, collecting and servicing its remaining loan portfolios and discharging deposit liabilities as they come due. 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. Net outstanding loans were $3,000,000 and $4,300,000 as of December 31, 2005 and 2004, respectively. Pre-tax income for the banking and lending operations was $1,400,000, $22,000,000 and $8,400,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Other Investments

CLC

In August 2005, the Company consummated the merger with its then 72.1% owned subsidiary, MK Resources Company ("MK"), 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. As a result of the merger, MK is now a wholly-owned subsidiary of the Company, and MK's securities are no longer publicly traded.

Immediately following the merger, the Company sold to Inmet, a Canadian-based global mining company traded on the Toronto stock exchange (Symbol: IMN), 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. The Inmet shares were recorded at their fair value of approximately $78,000,000, and the Company recorded a pre-tax gain on the sale of $10,500,000.

CLC 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 in the project financing agreement. 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). For the year ended December 31, 2005, the Company recorded $1,600,000 of pre-tax losses from this investment under the equity method of accounting.

A May 2005 technical report prepared by Pincock, Allen & Holt, an independent engineering company, indicated proven and probable reserves at the Las Cruces deposit of approximately 16 million metric tons of copper ore at an average grade of 6.6% copper. The capital costs to build the project have been estimated at (euro)290,000,000 ($345,000,000 at exchange rates in effect on February 13, 2006), including working capital, land purchases, and contingencies, but excluding reclamation bonding requirements, inflation, interest during construction, cost overruns and other financing costs. CLC expects to reach full mine production by the middle of 2008. Cash operating costs per pound of copper produced are expected to average (euro)0.33 per pound ($.39 per pound) of copper produced. The project's capital and operating costs will be paid for in euros, while copper revenues during the life of the mine are currently based on the U.S. dollar. In order to minimize its exposure to currency fluctuations, CLC has entered into an agreement to swap (euro)171,000,000 of euro denominated debt into $215,000,000 of U.S. dollar denominated debt once construction of the mine is complete.

Berkadia

The Company is a member of Berkadia, an entity jointly owned by the Company and Berkshire Hathaway Inc. ("Berkshire"). In 2001, Berkadia lent $5,600,000,000 on a senior secured basis to FINOVA Capital Corporation (the "Berkadia Loan"), the principal operating subsidiary of FINOVA, to facilitate a chapter 11 restructuring of the outstanding debt of FINOVA and its principal subsidiaries. Berkadia also received newly issued shares of common stock of FINOVA representing 50% of the stock of FINOVA outstanding on a fully diluted basis. In addition, the Company entered into a ten-year management agreement with FINOVA, for which it receives an $8,000,000 annual fee that it shares equally with Berkshire. FINOVA is a financial services holding company that, prior to its filing for bankruptcy, provided a broad range of financing and capital markets products, primarily to mid-size businesses. Since its chapter 11 restructuring, FINOVA's business activities have been limited to the orderly collection and liquidation of its assets and FINOVA has not engaged in any new lending activities.

Berkadia financed the Berkadia Loan with bank financing that was guaranteed, 90% by Berkshire and 10% by the Company (with the Company's guarantee being secondarily guaranteed by Berkshire). All income related to the Berkadia Loan, after payment of financing costs, was shared 90% to Berkshire and 10% to the Company. In February 2004, FINOVA fully repaid the Berkadia Loan, and Berkadia fully repaid its bank financing, thereby eliminating the Company's guaranty. Pursuant to the management agreement, the Company continues to manage FINOVA, for which it receives the fee described above. Although the term of the Company's management agreement with FINOVA extends until August 2011, the Company cannot provide assurances that the agreement (and the fee the Company receives) will remain in effect after November 2009, at which time FINOVA's bond debt matures.

Olympus

At December 31, 2005, the book value of the Company's 20% equity interest in Olympus had been written down to zero, and its net cash investment was $48,000,000. Olympus was formed in 2001 to take advantage of the lack of capacity and favorable pricing in the reinsurance market. It entered into a quota share reinsurance agreement with Folksamerica Reinsurance Company, an affiliate of WMIG, and has also entered into reinsurance transactions with other parties. During 2005, Olympus recorded significant losses as a result of estimated insurance claims from hurricanes Katrina, Rita and Wilma. In early 2006, Olympus raised a significant amount of new equity to replace some, but not all of the capital that was lost as a result of the 2005 hurricanes. Since the Company did not invest additional capital in Olympus, its equity interest will be diluted (to less than 4%) such that it will no longer apply the equity method of accounting for this investment subsequent to December 31, 2005. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $(120,100,000), $9,700,000 and $40,400,000, respectively, of pre-tax income (loss) from this investment under the equity method of accounting.

Other

In 2004, the Company invested $75,000,000 in INTL Consilium Emerging Market Absolute Return Fund, LLC ("INTL"), a limited liability company that is invested in a master fund which primarily invests in emerging markets debt and equity securities. INTL and the master fund are managed and controlled by an investment manager who has full discretion over investment and operating decisions. Under generally accepted accounting principles ("GAAP"), INTL is considered a variable interest entity and the Company is the primary beneficiary; as a result, the Company accounts for its investment in INTL as a consolidated subsidiary. INTL plans to sell additional membership interests in the future, which if accomplished could result in the Company no longer accounting for INTL as a consolidated subsidiary. The Company can generally withdraw its capital account interest upon 90 days notice, subject to the manager's ability to liquidate security positions in an orderly manner. At December 31, 2005, INTL had total assets of $105,100,000, which are reflected as investments in the Company's consolidated balance sheet, and its liabilities were not material. For the years ended December 31, 2005 and 2004, the Company recorded pre-tax income relating to INTL of $9,900,000 and $2,200,000, respectively. The Company has included INTL in its Corporate segment.

At December 31, 2005, the book value of the Company's equity investment in JPOF II, a registered broker-dealer, was $123,600,000. JPOF II is managed by Jefferies & Company, Inc., a full service investment bank to middle market companies. JPOF II invests in high yield securities, special situation investments and distressed securities and provides trading services to its customers and clients. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $23,600,000, $16,200,000 and $14,800,000, respectively, of pre-tax income from this investment under the equity method of accounting, all of which was distributed to the Company shortly after the end of each year.

In December 2001, the Company invested $50,000,000 in EagleRock, a limited partnership that invests and trades in securities and other investment vehicles. At December 31, 2005, the book value of the Company's equity investment in EagleRock was $75,500,000, which excludes $16,600,000 that was received in January 2006 and is classified as a receivable as of December 31, 2005. In August 2005, the Company notified EagleRock that it determined to withdraw its entire interest on January 1, 2006. Discussions are ongoing as to the timing and manner in which the Company's capital will be remitted by EagleRock to the Company. Pre-tax income (losses) of $(28,900,000), $29,400,000 and $49,900,000 for the years ended December 31, 2005, 2004 and 2003, respectively, were recorded from this investment under the equity method of accounting.

The Company owns approximately 36% of the common stock of Light & Power Holdings Ltd., the parent company of The Barbados Light and Power Company Limited, the primary generator and distributor of electricity in Barbados. At December 31, 2005, the Company's investment of $12,100,000 was accounted for on the cost method of accounting, due to currency exchange restrictions and stock transfer restrictions.

The Company beneficially owns equity interests representing more than 5% of the outstanding capital stock of each of the following domestic public companies at February 23, 2006 (determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934): Level 3 (14.1%), FINOVA (25%), HomeFed (29.9%), International Assets Holding Corporation (18.6%), Jordan Industries, Inc. ("JII") (10.1%), and ParkerVision, Inc. (5.9%). The Company also owns 20.3% of JII's Senior Subordinated Discount Debentures due 2009 ($19,300,000 aggregate principal amount, for which the Company paid $9,100,000) and 22.8% of JII Holdings Senior Secured Notes due 2007 ($39,500,000 aggregate principal amount, for which the Company paid $36,500,000).

From 1982 through the fourth quarter of 2002, a subsidiary of the Company had a partnership interest in The Jordan Company LLC and Jordan/Zalaznick Capital Company, entities that specialized in structuring leveraged buyouts in which the owners are given the opportunity to become equity participants. These equity investments include JII, JZ Equity Partners PLC (a British company traded on the London Stock Exchange in which the Company holds a 6.6% equity interest), and a total of 19 other companies. At December 31, 2005, these investments are carried in the Company's consolidated financial statements at $95,800,000, of which $63,800,000 relates to public companies carried at market value. The Jordan-related partnerships were terminated at the end of 2002.

For further information about the Company's business, including the Company's investments, reference is made to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report and Notes to Consolidated Financial Statements.

Item 1A. Risk Factors.

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this Report, before you decide whether to purchase our common stock. The risks set out below are not the only risks we face. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Future acquisitions and dispositions of our operations and investments are possible, and if unsuccessful could reduce the value of our common shares. We continuously evaluate the retention and disposition of our existing operations and investigate possible acquisitions of new businesses. Any future acquisitions or dispositions may result in significant changes in the composition of our assets and liabilities. Consequently, our financial condition, results of operations and the trading price of our common shares may be affected by factors different from those affecting our financial condition, results of operations and trading price at the present time.

Future acquisitions and investments may expose us to risks to which we are not currently subject. Future acquisitions and investments may expose us to risks such as:

- the possibility that future acquisitions and investments may not immediately, if ever, add value to our Company;
- diversion of management's attention from our existing businesses; and
- the possibility that the acquired businesses or investments will generate insufficient profits to offset the increased expenses associated with the acquisitions.

Our ability to make future acquisitions and investments successfully depends on a range of factors, including our ability to identify and compete with others for potential acquisition targets, the acquisition price, terms and conditions of any completed acquisitions, and the future profitability of any new acquisitions and investments.

We are dependent on certain key personnel. We are dependent on the services of Ian M. Cumming and Joseph S. Steinberg, our Chairman of the Board and President, respectively. Messrs. Cumming's and Steinberg's employment agreements with us expire June 30, 2015. These individuals are also significant shareholders of our Company. As of February 23, 2006, Messrs. Cumming and Steinberg and their respective families (excluding certain private charitable foundations) beneficially owned approximately 11.5% and 12.6% of our outstanding common shares, respectively. Accordingly, Messrs. Cumming and Steinberg could exert significant influence over all matters requiring approval by our shareholders, including the election or removal of directors and the approval of mergers or other business combination transactions.

We operate in a variety of industries and market sectors, certain of which may be more susceptible to economic downturns than others. The industries in which we operate may be subject to the effects of national or local economic cycles, increased competition and changes in demographic conditions, any of which may adversely affect our businesses and are beyond our control. Changes in economic conditions in the United States or internationally can cause fluctuation in prices and sales volumes which could adversely affect the Company's operating results. A worsening of general economic or market conditions may result in lower valuations for our businesses or investments or have a negative impact on the credit quality of our assets.

Changes in the U.S. housing market could reduce Idaho Timber's revenues and profitability. Idaho Timber's revenues benefit from continued strong new housing starts and the strong home improvement market in the U.S. Any decline in the U.S. housing market, which could result from local, regional, national or international economic changes, or from other factors, including increases in mortgage interest rate levels, would likely reduce demand for Idaho Timber's products and lower revenue.

Changes in telecommunications laws and regulations could adversely affect ATX. ATX operates in a highly competitive and regulated industry. ATX would not be able to provide many of its services to its customers without the ability to purchase services from its competitors, which is a right ATX and others currently have pursuant to government laws promoting competition in local telephone markets. Recent changes in government regulations have either limited the ability of ATX to purchase certain services, or increased the cost of those services to ATX. Future regulatory changes could have an adverse impact on ATX's ability to sell its products, to sell its products at a competitive price or to acquire the services it needs at a cost effective rate. In addition, ATX incurs substantial expenses complying with various local, state and federal regulations, and changes in these regulations could increase the cost of compliance.

We are subject to risks associated with the increased volatility in raw material prices and the availability of key raw materials. We purchase significant amounts of raw materials from third parties for use in our plastics manufacturing and Idaho Timber businesses. The price for polypropylene, the principal raw material used by the plastics manufacturing segment, tends to fluctuate with the price of oil and as a result has risen significantly over the past couple of years. To the extent this trend continues and we are unable to pass these price increases to our customers, our results of operations will be negatively impacted. A significant portion of Idaho Timber's raw material purchases are from foreign suppliers, and the availability of that supply can be adversely impacted by trade disputes. In addition, raw material prices at Idaho Timber will not always rise and fall in proportion to selling prices of Idaho Timber's products, which can have a negative impact on operating results.

Compliance with government laws and regulations require the expenditure of funds and adversely affect the profitability of our real estate development projects. Our real estate development business requires numerous governmental approvals, licenses and permits, which we must obtain before we can begin development and construction. This approval process can be delayed by withdrawals or modifications of preliminary approvals, by litigation and appeals challenging development rights and by changes in prevailing local circumstances or applicable laws that may require additional approvals. Adverse regulatory changes or failure to obtain approvals could delay real estate development projects or make them more costly to complete.

Changes in mortgage interest rate levels or changes in consumer lending practices could reduce consumer affordability and demand for some of our real estate development projects. Certain of our real estate development projects are dependent upon the availability and cost of mortgage financing for potential homebuyers. Any significant increase in the prevailing low mortgage interest rate environment or decrease in available credit could reduce consumer demand for housing, which in turn could lead to fewer home sales or lower selling prices.

A decrease in consumer spending or general increases in the cost of living could adversely impact sales at our wineries. Our wineries primarily produce and sell wines in the luxury segment of the premium table wine market, and are significantly dependent on the level of consumer spending. Consumer spending habits are influenced by a number of factors beyond our control, including the general state of the economy, increases in the cost of living, federal and state income tax rates, deductibility of business entertainment expenses under federal and state law and consumer confidence in future economic conditions.

Adverse regulatory developments and healthcare reform legislation impacting Medicare reimbursement levels could reduce Symphony's revenues and reduce our operating profits. Changes in the reimbursement policies of the Medicare or Medicaid programs as a result of budget cuts by federal and state governments or other legislative and regulatory actions could have an adverse effect on our healthcare business. Government payment programs are subject to statutory and regulatory changes, retroactive rate adjustments, administrative orders and funding restrictions, all of which could decrease program payments to us or to our customers. In recent years, there have been numerous discussions at federal and state levels for comprehensive reforms of the country's healthcare system. Regulatory action affecting the level of funding for Medicare and Medicaid programs, the reimbursement regulations of CMS, greater regulatory flexibility, additional operational requirements or failure to obtain relief from the recently imposed Medicare Part B caps could adversely affect us.

The healthcare industry is heavily regulated by the government, which requires our compliance with a variety of laws. The services Symphony provides are subject to periodic reviews, investigations and audits by governmental authorities to ensure that we are complying with standards established for continued licensure under state law, certification for participation under the Medicare and Medicaid programs and compliance with laws governing the transmission and privacy of patient healthcare information. We could be adversely affected if we fail to meet these standards or if the standards change and we experience delays or incur additional costs in meeting the new standards. Our failure to obtain, retain or renew any required regulatory approvals, licenses or certificates could prevent us from being reimbursed for certain of our services. Symphony incurs substantial administrative costs complying with government laws and regulations. Symphony is also subject to potential lawsuits under a federal whistleblower statute designed to combat fraud and abuse in the healthcare industry.

We could experience significant increases in operating costs due to continued intense competition for qualified staff in our healthcare business. Our inability to attract and retain highly skilled personnel would make it difficult to conduct our healthcare business. Due to shortages in qualified professionals in the healthcare industry, competition for these employees is intense and Symphony's competitors may offer more attractive wage and benefit packages than we do. In addition to the wage pressures inherent in this environment, the cost of training new employees amid high turnover rates has increased our costs. Continued industry-wide shortages of qualified healthcare professionals will affect our ability to attract and maintain adequate staffing levels, which could adversely affect our results of operations.

Our various businesses are dependent on the proper functioning of our information systems. Our operations are dependent on the proper functioning of our information systems. Additionally, we rely on our information systems in managing our accounting and financial reporting. Hardware and software is protected by various forms and levels of security, and certain of our information technology functions have backup processing capabilities. However, these systems are still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events. In the event that critical information systems are unavailable, these functions would have to be accomplished manually, which could temporarily impair our ability to identify business opportunities quickly, maintain billing and clinical records reliably, bill for services efficiently or maintain our accounting and financial reporting effectively.

We face intense competition in the operation of our businesses. The industries in which we operate are highly competitive. There are numerous competitors who operate in our markets, many of which have advantages over us, such as more favorable locations, greater financial and other resources and may be more established in their respective communities than we are. Competitors may offer newer or different products or services that our customers may find more attractive.

We may not be able to generate sufficient taxable income to fully realize our deferred tax asset. We and certain of our subsidiaries have significant NOLs and other tax attributes. At December 31, 2005, we have recognized a deferred tax asset of $1,135,100,000 in respect of these tax attributes. If we are unable to generate sufficient taxable income, we will not be able to fully realize the recorded amount of the deferred tax asset.

Weather related conditions and significant natural disasters, including hurricanes, tornadoes, windstorms, earthquakes and hailstorms could adversely affect our business. The occurrence of natural disasters may impact our wineries, real estate holdings and manufacturing operations, interfere with our ability to obtain raw materials, sell our products and provide service or realize income from our operations. Any shortage of reliable water and energy resources or a drop in consumer confidence in the dependability of such resources in areas where we operate or own land may adversely affect our business operations, the values of our properties and/or result in government restrictions that curtail operations.

We may not be able to insure certain risks economically. We may experience economic harm if any damage to our properties is not covered by insurance. We cannot be certain that we will be able to insure all risks that we desire to insure economically or that all of our insurers or reinsurers will be financially viable if we make a claim. We may suffer losses that are not covered under our insurance or reinsurance policies. If an uninsured loss or a loss in excess of insured limits should occur, results of operations would be adversely affected.

We may reduce or cease to pay dividends on our common shares. We paid cash dividends of $0.25 per common share in 2005 and 2004. However, we cannot assure you that we will pay dividends on our common shares in the future or, if we do, the amount of such dividends. The payment of dividends on our common shares in the future is subject to the discretion of our Board of Directors and will depend upon general business conditions, the availability of our NOLs, legal and contractual restrictions on the payment of dividends and other factors that our Board of Directors may deem to be relevant. In connection with the declaration of dividends or the making of distributions on, or the purchase, redemption or other acquisition of our common shares, we are required to comply with certain restrictions contained in certain of our debt instruments.

Our common shares are subject to transfer restrictions. We and certain of our subsidiaries have significant NOLs and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of the tax attributes, our certificate of incorporation contains provisions that generally restrict the ability of a person or entity from acquiring ownership (including through attribution under the tax law) of 5% or more of our common shares and the ability of persons or entities now owning 5% or more of our common shares from acquiring additional common shares. The restriction will remain until the earliest of (a) December 31, 2024, (b) the repeal of Section 382 of the Internal Revenue Code (or any comparable successor provision) and (c) the beginning of our taxable year to which these tax attributes may no longer be carried forward. The restriction may be waived by our Board of Directors. Shareholders are advised to carefully monitor their ownership of our common shares and consult their own legal advisors and/or us to determine whether their ownership of our common shares approaches the proscribed level.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Idaho Timber's plants and sawmills, which are the principal properties used in its business are described in Item 1 of this Report. ATX leases approximately 130,000 square feet of office space, and approximately 13,000 square feet used for network operations.

Through its various subsidiaries, the Company owns and utilizes office space in Salt Lake City, Utah for corporate and other activities (totaling approximately 31,800 square feet). Subsidiaries of the Company own facilities primarily used for plastics manufacturing located in Georgia, Virginia and Genk, Belgium (totaling approximately 457,300 square feet) and facilities and land in California and Oregon used for winery operations (totaling approximately 123,300 square feet and 396 acres, respectively).

The Company and its subsidiaries lease numerous manufacturing, warehousing, office and headquarters facilities. Symphony also leases facilities in a number of locations that are used for administrative functions and outpatient therapy services. The facilities vary in size and have leases expiring at various times, subject, in certain instances, to renewal options. See Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings.

The Company and its subsidiaries are parties to legal proceedings that are considered to be either ordinary, routine litigation incidental to their business or not material to the Company's consolidated financial position or liquidity.

On October 6, 2005, purported stockholders of MK filed a purported class action entitled Special Situations Fund III, L.P., et al, v. Leucadia National Corporation, et al, (Civil Action No. 1692-N) against the Company, MK and the former directors of MK. The complaint, which was filed in the Court of Chancery for the State of Delaware alleges breach of fiduciary duty in connection with the merger of MK into the Company, that unfair and inadequate consideration was paid to minority stockholders of MK, and that the process by which the merger was considered and approved was controlled by the Company and was unfair to the minority stockholders of MK. The complaint seeks rescission of the merger, damages in an unspecified amount, and attorneys' fees. On February 2, 2006, plaintiffs in this action filed a Stipulation and Proposed Order of Consolidation which proposes, among other things, to consolidate this action with another purported class action entitled Weinberg v Joklik, et al., (Civil Action No. 1455-N filed June 24, 2005) (which raises claims that are substantially similar to the claims raised in the Special Situations Fund complaint) and, for discovery purposes, with an appraisal action entitled Special Situations Fund III, L.P., et al, v. Leucadia National Corporation and MK Resources Company (Civil Action No. 1598-N, filed August 30, 2005) (from which the Company was dismissed as a respondent in December 2005), both of which were filed in the Court of Chancery for the State of Delaware in connection with the merger of MK into the Company. On March 1, 2006, the Court granted the plaintiffs' proposed order.

The Company believes that the material allegations of the complaints are without merit and intends to defend these actions vigorously and does not believe that any of the foregoing will have a material adverse effect on its consolidated financial position, consolidated results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 10. Executive Officers of the Registrant.

All executive officers of the Company are elected at the organizational meeting of the Board of Directors of the Company held annually and serve at the pleasure of the Board of Directors. As of February 23, 2006, the executive officers of the Company, their ages, the positions held by them and the periods during which they have served in such positions were as follows:

Name	Age	Position with Leucadia	Office Held Since
Ian M. Cumming	65	Chairman of the Board	June 1978
Joseph S. Steinberg	62	President	January 1979
Thomas E. Mara	60	Executive Vice President and Treasurer	May 1980; January 1993
Joseph A. Orlando	50	Vice President and Chief Financial Officer	January 1994; April 1996
Barbara L. Lowenthal	51	Vice President and Comptroller	April 1996
H.E. Scruggs	48	Vice President	August 2002

Mr. Cumming has served as a director and Chairman of the Board of the Company since June 1978 and as Chairman of the Board of FINOVA since August 2001. Mr. Cumming has also been a director of Skywest, Inc., a Utah-based regional air carrier, since June 1986 and a director of HomeFed since May 1999.

Mr. Steinberg has served as a director of the Company since December 1978 and as President of the Company since January 1979. In addition, he has served as a director of JII since June 1988, HomeFed since August 1998 (Chairman since December 1999) and FINOVA since August 2001.

Mr. Mara joined the Company in April 1977 and was elected Vice President of the Company in May 1977. He has served as Executive Vice President of the Company since May 1980 and as Treasurer of the Company since January 1993. In addition, he has served as a director and Chief Executive Officer of FINOVA since September 2002, and as a director of Inmet since August 2005.

Mr. Orlando, a certified public accountant, has served as Chief Financial Officer of the Company since April 1996 and as Vice President of the Company since January 1994.

Ms. Lowenthal, a certified public accountant, has served as Vice President and Comptroller of the Company since April 1996.

Mr. Scruggs joined the Company in 1995, served as Vice President from March 2000 through December 2001, and from August 2002 until the present.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The common shares of the Company are traded on the NYSE under the symbol LUK. The following table sets forth, for the calendar periods indicated, the high and low sales price per common share on the consolidated transaction reporting system, as reported by the Bloomberg Professional Service provided by Bloomberg L.P.

	Common Share	
	High	Low
2004		
First Quarter	$35.97	$30.69
Second Quarter	37.74	30.03
Third Quarter	37.78	32.23
Fourth Quarter	47.00	37.50
2005		
First Quarter	$46.65	$32.40
Second Quarter	41.21	32.91
Third Quarter	44.91	37.80
Fourth Quarter	49.28	40.09
2006		
First Quarter (through February 23, 2006)	$54.10	$46.52

As of February 23, 2006, there were approximately 2,860 record holders of the common shares.

The Company paid cash dividends of $0.25 per common share in 2005 and 2004. The payment of dividends in the future is subject to the discretion of the Board of Directors and will depend upon general business conditions, legal and contractual restrictions on the payment of dividends and other factors that the Board of Directors may deem to be relevant.

In connection with the declaration of dividends or the making of distributions on, or the purchase, redemption or other acquisition of common shares, the Company is required to comply with certain restrictions contained in certain of its debt instruments. For further information, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Report.

Certain subsidiaries of the Company have significant NOLs and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could result in limitations on the use of the Company's tax attributes, 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.

The Company's purchases of its common shares during the fourth quarter of 2005 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
November 1 to November 30	3,671	$45.49	--	$ --
Total	3,671		--	

(1) Consists of common shares received from employees to exercise stock options. Shares were valued at the market price at the time of the option exercise.

The Board of Directors from time to time has authorized acquisitions of the Company's common shares. In December 1999, the Company's Board of Directors increased to 6,000,000 the maximum number of shares that the Company is authorized to purchase. At December 31, 2005, the Company is authorized to repurchase 3,729,477 common shares.

Item 6. Selected Financial Data.

The following selected financial data have been summarized from the Company's consolidated financial statements and are qualified in their entirety by reference to, and should be read in conjunction with, such consolidated financial statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Report.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA: (a)					
Revenues and other income (b)	$ 1,041,147	$ 637,962	$ 313,679	$ 235,157	$ 369,553
Expenses	902,984	526,084	321,897	274,301	297,478
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies	138,163	111,878	(8,218)	(39,144)	72,075
Income from continuing operations before minority expense of trust preferred securities and equity in income (losses) of associated companies (c)	1,269,245	132,070	26,956	104,931	83,799
Minority expense of trust preferred securities, net of taxes	--	--	(2,761)	(5,521)	(5,521)
Equity in income (losses) of associated companies, net of taxes	(45,133)	76,479	76,947	54,712	(13,974)
Income from continuing operations	1,224,112	208,549	101,142	154,122	62,304
Income (loss) from discontinued operations, including gain (loss) on disposal, net of taxes	411,929	(63,049)	(4,088)	7,501	(70,223)
Cumulative effect of a change in accounting principle	--	--	--	--	411
Net income (loss)	1,636,041	145,500	97,054	161,623	(7,508)

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share amounts)				
Per share:					
Basic earnings (loss) per common share:					
Income from continuing operations	$ 11.36	$ 1.95	$ 1.10	$ 1.85	$ .75
Income (loss) from discontinued operations, including gain (loss) on disposal	3.82	(.59)	(.04)	.09	(.85)
Cumulative effect of a change in accounting principle	--	--	--	--	.01
Net income (loss)	$ 15.18	$ 1.36	$ 1.06	$ 1.94	$(.09)
Diluted earnings (loss) per common share:					
Income from continuing operations	$ 10.71	$ 1.90	$ 1.09	$ 1.83	$ .75
Income (loss) from discontinued operations, including gain (loss) on disposal	3.56	(.56)	(.04)	.09	(.85)
Cumulative effect of a change in accounting principle	--	--	--	--	.01
Net income (loss)	$ 14.27	$ 1.34	$ 1.05	$ 1.92	$(.09)

	At December 31,				
	2005	2004	2003	2002	2001
	(In thousands, except per share amounts)				
SELECTED BALANCE SHEET DATA: (a)					
Cash and investments	$ 2,687,846	$ 2,080,309	$ 1,403,619	$ 1,043,471	$1,080,271
Total assets	5,260,884	4,800,403	4,397,164	2,541,778	2,489,087
Debt, including current maturities	1,162,382	1,131,922	682,135	231,073	252,279
Customer banking deposits	--	24,591	145,532	392,904	476,495
Shareholders' equity	3,661,914	2,258,653	2,134,161	1,534,525	1,195,453
Book value per common share	$33.90	$20.99	$20.09	$17.16	$14.41
Cash dividends per common share	$ .25	$ .25	$ .17	$ .17	$ .17

(a) Subsidiaries are reflected above as consolidated entities from the date of acquisition as follows: Idaho Timber, May 2005; ATX, April 2005; and Symphony, September 2003. For additional information, see Note 3 of Notes to Consolidated Financial Statements.

(b) Includes net securities gains (losses) of $208,816,000, $136,564,000, $9,928,000, $(37,066,000) and $28,450,000 for the years ended December 31, 2005, 2004, 2003, 2002 and 2001, respectively.

(c) 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. As a result of the favorable resolution of various state and federal income tax contingencies, the income tax provision reflects a benefit of approximately $27,300,000 for 2004, $24,400,000 for 2003, $120,000,000 for 2002 and $36,200,000 for 2001.

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 of December 31, 2005, the Parent's readily available cash, cash equivalents and marketable securities, excluding amounts held by subsidiaries that are parties to agreements which restrict the payment of dividends, totaled $2,370,500,000. This amount 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%). This amount does not include common shares the Company owns in Inmet, which are subject to resale restrictions as discussed below. 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) 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.

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

In 2005, net cash was provided by operating activities as a result of the collection of a receivable related to a former partnership interest, distributions from associated companies and a decrease in the Company's investment in the trading portfolio. In 2004, net cash was provided by operating activities, principally as a result of distributions from associated companies, the pre-funding by SBC of certain of WilTel's capital expenditures, the refund of excess federal income tax payments and an increase in accounts payable due to the timing of payments. In 2003, net cash was used for operating activities, principally due to corporate overhead expenses, reduced investment income, an increase in the investment in the trading portfolio and a $10,000,000 contribution to the Company's defined benefit pension plan.

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.

Contractual Cash Obligations	Payments Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$ 1,162,382	$175,664	$ 17,639	$ 6,106	$ 962,973
Estimated interest expense on long-term debt	577,088	65,445	120,548	118,982	272,113
Estimated payments related to derivative financial instruments	23,670	5,540	10,288	7,158	684
Planned funding of pension and post-retirement obligations	33,014	29,494	853	845	1,822
Operating leases, net of sublease income	38,216	8,274	13,218	8,862	7,862
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	$ 1,245,454

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.

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.

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 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The following includes "forward-looking statements" that involve risk and uncertainties. Actual results could differ materially from those projected in the forward-looking statements.

The Company's market risk arises principally from interest rate risk related to its investment portfolio and its borrowing activities.

The Company's investment portfolio is primarily classified as available for sale, and consequently, is recorded on the balance sheet at fair value with unrealized gains and losses reflected in shareholders' equity. Included in the Company's available for sale investment portfolio are fixed income securities, which comprised approximately 69% of the Company's total investment portfolio at December 31, 2005. These fixed income securities are primarily rated "investment grade" or are U.S. governmental agency issued or U.S. Government-Sponsored Enterprises. The estimated weighted average remaining life of these fixed income securities was approximately 1.2 years at December 31, 2005. The Company's fixed income securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. At December 31, 2004, fixed income securities comprised approximately 68% of the Company's total investment portfolio and had an estimated weighted average remaining life of 1.1 years. At December 31, 2005 and 2004, the Company's portfolio of trading securities was not material.

The Company's investment portfolio also includes its investment in Level 3, carried at its aggregate market value of $330,100,000. This investment is approximately 14% of the Company's total investment portfolio, and its value is subject to change if the market value of the Level 3 stock rises or falls. The Company's investment portfolio also includes its investment in Inmet, which is carried at cost of $78,000,000 at December 31, 2005. Although the Company is restricted from selling the Inmet common shares, the investment is subject to price risk. The market value of this investment is $142,100,000 at December 31, 2005.

The Company is subject to interest rate risk on its long-term fixed interest rate debt. Generally, the fair market value of debt securities with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise.

The following table provides information about the Company's financial instruments used for purposes other than trading that are primarily sensitive to changes in interest rates. For investment securities and debt obligations, the table presents principal cash flows by expected maturity dates. For the variable rate borrowings, the weighted average interest rates are based on implied forward rates in the yield curve at the reporting date. For securities and liabilities with contractual maturities, the table presents contractual principal cash flows adjusted for the Company's historical experience and prepayments of mortgage-backed securities.

For additional information, see Notes 6, 12 and 21 of Notes to Consolidated Financial Statements.

	Expected Maturity Date							
	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
	(Dollars in thousands)							
Rate Sensitive Assets:								
Available for Sale Fixed Income Securities:								
U.S. Government and agencies	$ 830,235	$ 7,875	$ 5,483	$ 3,840	$ 2,706	$ 6,816	$ 856,955	$ 856,955
Weighted Average Interest Rate	3.04%	5.37%	5.36%	5.35%	5.34%	5.30%		
U.S. Government-Sponsored Enterprises	$ 229,696	$ 23,815	$ 18,640	$ 14,788	$ 11,769	$ 39,905	$ 338,613	$ 338,613
Weighted Average Interest Rate	3.97%	5.33%	5.33%	5.34%	5.35%	5.40%		
Other Fixed Maturities:								
Rated Investment Grade	$ 169,224	$ 2,509	$ 2,791	$ -	$ 406	$ 783	$ 175,713	$ 175,713
Weighted Average Interest Rate	4.31%	5.90%	3.96%	-	6.38%	3.27%		
Rated Less Than Investment Grade/Not Rated	$ 19,824	$ 81,364	$ 49,095	$ 29,136	$ 12,030	$ 18,078	$ 209,527	$ 209,527
Weighted Average Interest Rate	7.01%	10.69%	8.83%	10.21%	9.75%	9.04%		
Rate Sensitive Liabilities:								
Fixed Interest Rate Borrowings	$ 114,442	$ 963	$ 2,633	$ 886	$ 992	$930,095	$1,050,011	$1,101,933
Weighted Average Interest Rate	4.43%	10.76%	8.47%	11.92%	11.97%	6.06%		
Variable Interest Rate Borrowings	$ 61,222	$ 11,929	$ 2,114	$ 2,114	$ 2,114	$ 32,878	$ 112,371	$ 112,371
Weighted Average Interest Rate	7.51%	7.97%	8.81%	8.91%	9.00%	9.01%		
Rate Sensitive Derivative Financial Instruments:								
Euro currency swap	$ 2,085	$ 2,085	$ 2,085	$ 2,085	$ 522	$ -	$ 8,862	$ (2,546)
Average Pay Rate	5.89%	5.89%	5.89%	5.89%	5.89%	-		
Average Receive Rate	7.60%	7.60%	7.60%	7.60%	7.60%	-		
Pay Fixed/Receive Variable Interest Rate Swap	$ 2,114	$ 2,114	$ 2,114	$ 2,114	$ 2,114	$ 32,878	$ 43,448	$ (677)
Average Pay Rate	5.01%	5.01%	5.01%	5.01%	5.01%	5.01%		
Average Receive Rate	4.77%	4.73%	4.81%	4.91%	5.00%	5.01%		
Off-Balance Sheet Items:								
Unused Lines of Credit	$ -	$ 110,000	$ -	$ -	$ -	$ -	$ 110,000	$110,000
Weighted Average Interest Rate	6.27%	6.25%	-	-	-	-		

Item 8. Financial Statements and Supplementary Data.

Financial Statements and supplementary data required by this Item 8 are set forth at the pages indicated in Item 15(a) below.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures

(a) The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2005. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005.

Changes in internal control over financial reporting

(b) There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2005, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, the Company's management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As permitted by the SEC, the Company has excluded from this assessment of internal control over financial reporting the internal control over financial reporting of Idaho Timber, ATX and NSW, each of which was acquired by the Company during 2005. In the aggregate, these entities represent 5.2% of consolidated assets at December 31, 2005 and 35.3% of 2005 consolidated revenues.

Based on our assessment and those criteria, management concluded that, as of December 31, 2005, the Company's internal control over financial reporting was effective.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information to be included under the caption "Election of Directors" and "Information Concerning the Board and Board Committees" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A of the Exchange Act in connection with the 2006 annual meeting of shareholders of the Company (the "Proxy Statement") is incorporated herein by reference. In addition, reference is made to Item 10 in Part I of this Report.

Item 11. Executive Compensation.

The information to be included under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Equity Compensation Plan Information

The following table summarizes information regarding the Company's equity compensation plans as of December 31, 2005. All outstanding awards relate to the Company's common stock.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	977,630	$35.19	259,575
Equity compensation plans not approved by security holders	--	--	--
Total	977,630	$35.19	259,575

The information to be included under the caption "Present Beneficial Ownership of Common Shares" in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information to be included under the caption "Executive Compensation - Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information to be included under the caption "Principal Accounting Fees and Services" in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule.

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

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(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.

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).* 51

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.

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.

10.27 First Amendment to Square 711 Purchase and Sale Agreement, dated as of December 14, 2005.

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 the 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.

10.38 Services Agreement, dated as of January 1, 2004, between the Company and Joseph S. Steinberg.

21 Subsidiaries of the registrant.

23.1 Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement 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 (No. 333-118102). 53

23.2 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-3 (No. 333-118102).**

23.3 Consent of 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-3 (No. 333-118102). **

23.4 Consent of independent auditors from BDO Seidman, LLP with respect to the inclusion in this Annual Report on Form 10-K 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 (No. 333-118102). **

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 (No. 333-118102).

23.6 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 and with respect to the incorporation by reference 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 (No. 333-118102). **

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. **

(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. **

(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. **

(4) WilTel Communications Group, Inc. consolidated financial statements for the period from January 1, 2003 through November 5, 2003.

(5) Jefferies Partners Opportunity Fund II, LLC financial statements as of December 31, 2005 and for the year ended December 31, 2005. **

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* Incorporated by reference.

** To be filed by amendment pursuant to Item 3-09(b) of Regulation S-X.

*** 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

March 8, 2006

By: /s/ Barbara L. Lowenthal
Barbara L. Lowenthal
Vice President and Comptroller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the date set forth above.

Signature	Title
/s/ Ian M. Cumming Ian M. Cumming	Chairman of the Board (Principal Executive Officer)
/s/ Joseph S. Steinberg Joseph S. Steinberg	President and Director (Principal Executive Officer)
/s/ Joseph A. Orlando Joseph A. Orlando	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Barbara L. Lowenthal Barbara L. Lowenthal	Vice President and Comptroller (Principal Accounting Officer)
/s/ Paul M. Dougan Paul M. Dougan	Director
/s/ Lawrence D. Glaubinger Lawrence D. Glaubinger	Director
/s/ Alan J. Hirschfield Alan J. Hirschfield	Director
/s/ James E. Jordan James E. Jordan	Director
/s/ Jeffrey C. Keil Jeffrey C. Keil	Director
/s/ Jesse Clyde Nichols, III Jesse Clyde Nichols, III	Director

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Shareholders of Leucadia National Corporation:

We have completed integrated audits of Leucadia National Corporation's December 31, 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits and the report of other auditors, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements listed in the index appearing under Item 15(a) (1) (2) present fairly, in all material respects, the financial position of Leucadia National Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a) (1) (2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We did not audit the financial statements of WilTel for the period from January 1, 2003 through November 5, 2003. For this period, WilTel was accounted for on the equity method and from January 1, 2003 through November 5, 2003 had a net loss of approximately $109,000,000, of which the Company's 47.4% share was approximately $52,000,000. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for WilTel, is based on the report of other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Report on Internal Control Over Financial Reporting" appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in "Management's Report on Internal Control Over Financial Reporting", management has excluded Idaho Timber, ATX and NSW from its assessment of internal control over financial reporting as of December 31, 2005, because those entities were acquired by the Company during 2005. We have also excluded Idaho Timber, ATX and NSW from our audit of internal control over financial reporting. Idaho Timber, ATX and NSW are consolidated subsidiaries whose total assets and total revenues represent 5.2% and 35.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2005.

PricewaterhouseCoopers LLP
New York, New York
March , 2006

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in thousands, except par value)

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 386,957	$ 277,238
Investments	1,323,562	1,084,745
Trade, notes and other receivables, net	377,216	160,234
Prepaids and other current assets	140,880	27,850
Current assets of discontinued operations	--	509,882
Total current assets	2,228,615	2,059,949
Non-current investments	977,327	718,326
Notes and other receivables, net	22,747	16,906
Intangible assets, net and goodwill	85,083	1,472
Deferred tax asset, net	1,094,017	--
Other assets	240,601	272,867
Property, equipment and leasehold improvements, net	237,021	283,330
Investments in associated companies	375,473	460,794
Non-current assets of discontinued operations	--	986,759
Total	$ 5,260,884	$ 4,800,403
LIABILITIES		
Current liabilities:		
Trade payables and expense accruals	$ 259,778	$ 167,864
Other current liabilities	23,783	27,044
Customer banking deposits due within one year	--	18,472
Debt due within one year	175,664	64,799
Income taxes payable	15,171	17,690
Current liabilities of discontinued operations	--	363,468
Total current liabilities	474,396	659,337
Other non-current liabilities	121,893	121,675
Long-term debt	986,718	1,067,123
Non-current customer banking deposits	--	6,119
Non-current liabilities of discontinued operations	--	669,221
Total liabilities	1,583,007	2,523,475
Commitments and contingencies		
Minority interest	15,963	18,275
SHAREHOLDERS' EQUITY		
Common shares, par value $1 per share, authorized 300,000,000 and 150,000,000 shares; 108,029,008 and 107,600,403 shares issued and outstanding, after deducting 42,377,843 and 42,399,597 shares held in treasury	108,029	107,600
Additional paid-in capital	609,943	598,504
Accumulated other comprehensive income (loss)	(81,502)	136,138
Retained earnings	3,025,444	1,416,411
Total shareholders' equity	3,661,914	2,258,653
Total	$ 5,260,884	$ 4,800,403

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2005, 2004 and 2003
(In thousands, except per share amounts)

	2005	2004	2003
REVENUES AND OTHER INCOME:			
Manufacturing	$ 332,253	$ 64,055	$ 53,327
Healthcare	239,046	257,262	71,039
Telecommunications	111,192	--	--
Investment and other income	149,840	180,081	179,385
Net securities gains	208,816	136,564	9,928
	1,041,147	637,962	313,679
EXPENSES:			
Cost of sales:			
Manufacturing	281,451	45,055	38,998
Healthcare	203,149	216,333	61,280
Telecommunications	67,266	--	--
Interest	68,376	62,710	37,902
Salaries	102,236	48,334	39,094
Depreciation and amortization	26,767	19,625	18,132
Selling, general and other expenses	153,739	134,027	126,491
	902,984	526,084	321,897
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies	138,163	111,878	(8,218)
Income tax (benefit) provision:			
Current	4,018	(27,434)	(11,424)
Deferred	(1,135,100)	7,242	(23,750)
	(1,131,082)	(20,192)	(35,174)
Income from continuing operations before minority expense of trust preferred securities and equity in income (losses) of associated companies	1,269,245	132,070	26,956
Minority expense of trust preferred securities, net of taxes	--	--	(2,761)
Equity in income (losses) of associated companies, net of taxes	(45,133)	76,479	76,947
Income from continuing operations	1,224,112	208,549	101,142
Income (loss) from discontinued operations, net of taxes	111,557	(64,862)	(11,586)
Gain on disposal of discontinued operations, net of taxes	300,372	1,813	7,498
Net income	$ 1,636,041	$ 145,500	$ 97,054
Basic earnings (loss) per common share:			
Income from continuing operations	$11.36	$ 1.95	$ 1.10
Income (loss) from discontinued operations	1.03	(.61)	(.12)
Gain on disposal of discontinued operations	2.79	.02	.08
Net income	$15.18	$ 1.36	$ 1.06
Diluted earnings (loss) per common share:			
Income from continuing operations	$10.71	$ 1.90	$ 1.09
Income (loss) from discontinued operations	.96	(.58)	(.12)
Gain on disposal of discontinued operations	2.60	.02	.08
Net income	$14.27	$ 1.34	$ 1.05

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005, 2004 and 2003
(In thousands)

	2005	2004	2003 (Revised)
Net cash flows from operating activities:			
Net income	$ 1,636,041	$ 145,500	$ 97,054
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Deferred income tax provision (benefit)	(1,135,100)	7,242	28,960
Depreciation and amortization of property, equipment and leasehold improvements	186,428	232,600	65,723
Other amortization	3,068	3,316	(4,624)
Provision for doubtful accounts	6,181	(5,366)	20,098
Net securities gains	(212,299)	(142,936)	(9,953)
Equity in (income) losses of associated companies	44,403	(91,546)	(146,989)
Distributions from associated companies	90,280	23,878	25,359
Net gains related to real estate, property and equipment, loan receivables and other assets	(29,386)	(60,866)	(23,429)
Gain on disposal of discontinued operations	(300,372)	(1,813)	(7,498)
Investments classified as trading, net	18,022	(68,612)	(8,133)
Net change in:			
Trade, notes and other receivables	20,850	19,578	(18,086)
Prepaids and other assets	(29,978)	11,491	(6,559)
Trade payables and expense accruals	54,344	19,654	(23,489)
Other liabilities	(36,427)	(52,250)	(22,165)
Deferred revenue	10,553	9,945	9,854
Income taxes payable	(2,537)	16,890	2,959
Other	(2,961)	1,732	(2,344)
Net cash provided by (used for) operating activities	321,110	68,437	(23,262)
Net cash flows from investing activities:			
Acquisition of property, equipment and leasehold improvements	(136,260)	(97,412)	(85,717)
Acquisition of and capital expenditures for real estate investments	(26,053)	(23,022)	(67,925)
Proceeds from disposals of real estate, property and equipment, and other assets	33,722	123,302	111,134
Acquisitions, net of cash acquired	(170,516)	--	114,524
Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold	459,094	22,311	(4,466)
Advances on loan receivables	--	--	(2,981)
Principal collections on loan receivables	1,591	41,862	138,259
Proceeds from sale of loan receivables	--	157,134	--
Advances on notes receivables	(100)	(400)	(2,279)
Collections on notes receivables	1,721	27,789	14,176
Investments in associated companies	(34,466)	(69,398)	(22,350)
Capital distributions from associated companies	2,644	5,632	7,174
Purchases of investments (other than short-term)	(3,350,651)	(2,534,404)	(1,655,480)
Proceeds from maturities of investments	1,262,577	869,707	555,148
Proceeds from sales of investments	1,979,288	1,460,181	683,752
Net cash provided by (used for) investing activities	22,591	(16,718)	(217,031)

(continued)

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, continued
For the years ended December 31, 2005, 2004 and 2003
(In thousands)

	2005	2004	2003 (Revised)
Net cash flows from financing activities:			
Net change in customer banking deposits	$ (24,565)	$ (120,516)	$ (245,845)
Issuance of long-term debt, net of issuance costs	82,753	438,393	304,509
Reduction of long-term debt	(477,360)	(92,454)	(7,002)
Issuance of common shares	3,689	22,006	1,293
Purchase of common shares for treasury	(167)	--	(61)
Dividends paid	(27,008)	(26,901)	(17,706)
Net cash provided by (used for) financing activities	(442,658)	220,528	35,188
Effect of foreign exchange rate changes on cash	(1,034)	311	895
Net increase (decrease) in cash and cash equivalents	(99,991)	272,558	(204,210)
Cash and cash equivalents at January 1,	486,948	214,390	418,600
Cash and cash equivalents at December 31,	$ 386,957	$ 486,948	$ 214,390
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 96,958	$ 89,707	$ 40,856
Income tax payments (refunds), net	$ 3,486	$(26,024)	$ (5,098)
Non-cash investing activities:			
Common stock issued for acquisition of MK Resources Company in 2005 and WilTel Communications Group, Inc. in 2003	$ 8,346	$ --	$422,830

The accompanying notes are an integral part of these consolidated financial statements.

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005, 2004 and 2003
(In thousands, except par value and per share amounts)

	Series A Non-Voting Convertible Preferred Stock	Common Shares $1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2003	$ 47,507	$ 87,403	$ 125,126	$ 56,025	$ 1,218,464	$1,534,525
Comprehensive Income:						
Net change in unrealized gain (loss) on investments, net of taxes of $55,738				103,776		103,776
Net change in unrealized foreign exchange gain (loss), net of taxes of $701				7,739		7,739
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $888				(1,650)		(1,650)
Net change in minimum pension liability, net of taxes of $7,345				(13,639)		(13,639)
Net income					97,054	97,054
Comprehensive income						193,280
Issuance of common shares on acquisition of WilTel Communications Group, Inc.		16,735	406,095			422,830
Conversion of convertible preferred shares into common shares	(47,507)	2,022	45,485			--
Exercise of options to purchase common shares		79	1,214			1,293
Purchase of common shares for treasury		(4)	(57)			(61)
Dividends ($.17 per common share)					(17,706)	(17,706)
Balance, December 31, 2003	--	106,235	577,863	152,251	1,297,812	2,134,161
Comprehensive income:						
Net change in unrealized gain (loss) on investments, net of taxes of $0				(8,592)		(8,592)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0				6,807		6,807
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0				(355)		(355)
Net change in minimum pension liability, net of taxes of $0				(13,973)		(13,973)
Net income					145,500	145,500
Comprehensive income						129,387
Exercise of warrants to purchase common shares		1,200	17,960			19,160
Exercise of options to purchase common shares		165	2,681			2,846
Dividends ($.25 per common share)					(26,901)	(26,901)
Balance, December 31, 2004	--	107,600	598,504	136,138	1,416,411	2,258,653
Comprehensive income:						
Net change in unrealized gain (loss) on investments, net of taxes of $0				(175,577)		(175,577)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0				(17,199)		(17,199)
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0				2,747		2,747
Net change in minimum pension liability, net of taxes of $0				(27,611)		(27,611)
Net income					1,636,041	1,636,041
Comprehensive income						1,418,401
Issuance of common shares on acquisition of minority interest in MK Resources Company		216	8,130			8,346
Exercise of options to purchase common shares		216	3,473			3,689
Purchase of common shares for treasury		(3)	(164)			(167)
Dividends ($.25 per common share)					(27,008)	(27,008)
Balance, December 31, 2005	$ --	$ 108,029	$ 609,943	$(81,502)	$ 3,025,444	$3,661,914

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations:

The Company is a diversified holding company engaged in a variety of businesses, including manufacturing, healthcare services, telecommunications, real estate activities, winery operations and residual banking and lending activities that are in run-off, principally in markets in the United States. The Company also owns equity interests in investment partnerships and in operating businesses which are accounted for under the equity method of accounting. These equity investments include development of a copper mine in Spain, real estate activities and property and casualty reinsurance operations. The Company continuously evaluates the retention and disposition of its existing operations and investments and frequently investigates the acquisition of new businesses. Changes in the mix of the Company's owned businesses and investments should be expected.

The manufacturing operations are conducted through Idaho Timber Corporation ("Idaho Timber") and the Company's plastics manufacturing segment. Idaho Timber primarily remanufactures dimension lumber, remanufactures and packages home center boards to customer specifications, produces 5/4 inch radius-edge, pine decking and manufactures or distributes a number of specialized wood products. Idaho Timber operates ten facilities located throughout the United States, and its remanufacturing business is principally derived from the purchase of bundles of low-grade lumber on the spot market, and the conversion of that lumber into higher-grade lumber through sorting and minor rework.

The plastics manufacturing operations manufacture and market lightweight plastic netting used for a variety of purposes including, among other things, building and construction, erosion control, agriculture, packaging, carpet padding, filtration and consumer products. The plastics manufacturing segment has three domestic manufacturing facilities, and it owns and operates a manufacturing and sales facility in Belgium.

The healthcare services operations primarily provide contract therapy, long-term care consulting and temporary staffing to skilled nursing facilities, hospitals, sub-acute care centers, assisted living facilities, schools, and other healthcare providers. Healthcare services are provided by subsidiaries of Symphony Health Services, LLC ("Symphony").

The telecommunications operations are principally conducted through ATX Communications, Inc. ("ATX"). ATX is an integrated communications provider that offers local and long distance telephone services, data and Internet services, and web development, collocation and managed services, principally to small to medium sized businesses in the Mid-Atlantic region of the United States.

The domestic real estate operations include a mixture of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale.

The winery operations consist of two wineries, Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon, which primarily produce and sell wines in the luxury segment of the premium table wine market.

During 2005, the banking and lending operations sold its remaining customer deposits and surrendered its national bank charter. The remaining operating activities are concentrated on collecting and servicing its remaining loan portfolio.

1. Nature of Operations, continued:

On December 23, 2005, the Company completed the sale of its largest telecommunications subsidiary, WilTel Communications Group, LLC ("WilTel"), and has reclassified WilTel as a discontinued operation in the Company's consolidated financial statements, including the reclassification of prior years' balance sheets. The Company has reclassified its prior years' balance sheets because WilTel's balance sheets for the prior periods comprised a significant portion of the Company's consolidated balance sheets. For more information concerning the sale and the Company's other discontinued operations, see Note 5.

Certain amounts for prior periods have been reclassified to be consistent with the 2005 presentation.

The 2003 consolidated statement of cash flows was revised to combine the cash flows from discontinued operations with cash flows from continuing operations. The Company had previously reported the cash flows from discontinued operations as a single line item.

2. Significant Accounting Policies:

(a) Critical Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") 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.

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.

2. Significant Accounting Policies, continued:

As more fully discussed in Note 5, during 2005 an impairment loss of $42,400,000 was recorded to reduce the carrying amount of WilTel's former headquarters facility to its estimated fair value.

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.

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.

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.

(b) Consolidation Policy: The consolidated financial statements include the accounts of the Company, all variable interest entities of which the Company or a subsidiary is the primary beneficiary, and all majority-controlled entities that are not variable interest entities. All intercompany transactions and balances are eliminated in consolidation.

2. Significant Accounting Policies, continued:

Associated companies are investments in equity interests that are accounted for on the equity method of accounting. These include investments in corporations that the Company does not control but has the ability to exercise significant influence and investments in limited partnerships in which the Company's interest is more than minor.

(c) Cash Equivalents: The Company considers short-term investments, which have maturities of less than three months at the time of acquisition, to be cash equivalents. Cash and cash equivalents include short-term investments of $295,600,000 and $93,300,000 at December 31, 2005 and 2004, respectively.

(d) Investments: At acquisition, marketable debt and equity securities are designated as either i) held to maturity, which are carried at amortized cost, ii) trading, which are carried at estimated fair value with unrealized gains and losses reflected in results of operations, or iii) available for sale, which are carried at estimated fair value with unrealized gains and losses reflected as a separate component of shareholders' equity, net of taxes. Equity securities that do not have readily determinable fair values are carried at cost. The cost of securities sold is based on average cost.

Held to maturity investments are made with the intention of holding such securities to maturity, which the Company has the ability to do. Estimated fair values are principally based on quoted market prices.

(e) Property, Equipment and Leasehold Improvements: Property, equipment and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided principally on the straight-line method over the estimated useful lives of the assets or, if less, the term of the underlying lease.

(f) Revenue Recognition: Revenues are recognized when the following conditions are met: (1) collectibility is reasonably assured; (2) title to the product has passed or the service has been rendered and earned; (3) persuasive evidence of an arrangement exists; and (4) there is a fixed or determinable price. Manufacturing revenues are recognized when title passes, which for Idaho Timber is generally upon the customer's receipt of the goods and for the plastics segment upon shipment of goods. Revenue from the sale of real estate is generally recognized when title passes; however, if the Company is obligated to make improvements to the real estate subsequent to closing, revenues are deferred and recognized under the percentage of completion method of accounting.

(g) Cost of Sale: Manufacturing cost of sales principally includes product and manufacturing costs, inbound and outbound shipping costs and handling costs. Telecommunications cost of sales includes access costs paid to other telecommunications providers, repairs and maintenance, rent, utilities and property taxes of the telephone, Internet and data network, and salaries and related expenses of network personnel. Telecommunications cost of sales are recognized during the period in which revenue is recognized. Healthcare cost of sales principally consists of employment costs and independent contractor costs of the therapists providing the service. Any product installation costs of the Company's operating subsidiaries are expensed when incurred.

(h) Income Taxes: The Company provides for income taxes using the liability method. The future benefit of certain tax loss carryforwards and future deductions is recorded as an asset. A valuation allowance is provided if deferred tax assets are not considered to be more likely than not to be realized.

(i) Derivative Financial Instruments: The Company reflects its derivative financial instruments in its balance sheet at fair value. The Company has utilized derivative financial instruments to manage the impact of changes in interest rates on its customer banking deposits and certain debt obligations, hedge net investments in foreign subsidiaries and manage foreign currency risk on certain available for sale securities. Although the Company believes that these derivative financial instruments are practical economic hedges of the Company's risks, except for the hedge of the net investment in foreign subsidiaries, they do not meet the effectiveness criteria under GAAP, and therefore are not accounted for as hedges.

2. Significant Accounting Policies, continued:

Amounts recorded as income to investment and other income as a result of accounting for its derivative financial instruments were $1,700,000 and $3,500,000 for the years ended December 31, 2005 and 2003, respectively, and not material for 2004. Net unrealized losses on derivative instruments were $1,000,000 and $3,800,000 at December 31, 2005 and 2004, respectively.

(j) Translation of Foreign Currency: Foreign currency denominated investments and financial statements are translated into U.S. dollars at current exchange rates, except that revenues and expenses are translated at average exchange rates during each reporting period; resulting translation adjustments are reported as a component of shareholders' equity. Net foreign exchange transaction losses were $2,700,000 for 2005 and not material for 2004 and 2003. Net unrealized foreign exchange translation gains (losses) were $(2,900,000), $14,300,000 and $7,500,000 at December 31, 2005, 2004 and 2003, respectively.

(k) Stock-Based Compensation: Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), establishes a fair value method for accounting for stock-based compensation plans, either through recognition in the statements of operations or disclosure. As permitted, the Company applies APB Opinion No. 25 and related Interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized in the statements of operations for its stock-based compensation plans.

Had compensation cost for the Company's stock option plans been recorded in the statements of operations consistent with the provisions of SFAS 123, the Company would have recognized compensation cost of $1,600,000, $1,000,000 and $800,000 in 2005, 2004 and 2003, respectively.

(l) Recently Issued Accounting Standards: In April 2005, the Securities and Exchange Commission 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.

3. Acquisitions:

NSW, LLC U.S. ("NSW")

In February 2005, the plastics manufacturing segment acquired the assets of NSW for a purchase price of approximately $26,600,000; based upon its allocation of the purchase price the Company recorded an aggregate of $10,200,000 of intangible assets and $8,200,000 of goodwill. NSW has a manufacturing and distribution facility in Roanoke, Virginia, which manufactures a variety of products including produce and packaging nets, header label bags, case liners and heavy weight nets for drainage and erosion control purposes. The NSW customer relationship intangible assets will be amortized on an accelerated basis, and other intangible assets on a straight-line basis, over the following average useful lives: customer relationships - 12 years, trademarks and tradename - 15 years, patents - 15 years and other intangible assets - 5 years.

ATX

In December 2003, the Company purchased all of ATX's debt obligations under its senior secured credit facility for $25,000,000, and ATX commenced a voluntary Chapter 11 case to reorganize its financial affairs shortly thereafter. The bankruptcy plan (the "Plan") of ATX was confirmed by the Bankruptcy Court for the Southern District of New York and became effective on April 22, 2005, and the Company has consolidated ATX since that date. As contemplated by the Plan, in exchange for its investment in the credit facility the Company received approximately 90% of the new common stock of the reorganized ATX and a new $25,000,000 senior secured note which bears interest at 10%. In addition, the Company provided ATX with $5,000,000 of debtor-in-possession financing and $25,000,000 of exit financing to fund bankruptcy related payments and working capital requirements. On behalf of ATX, the Company also obtained cash collateralized letters of credit totaling $14,700,000 issued for the benefit of one of ATX's vendors. The requirement to provide the letters of credit will decline over a period of years, commencing in 2006. The aggregate purchase price for ATX was $56,300,000, which includes all the financing provided to ATX by the Company and acquisition expenses.

Based upon its allocation of the purchase price, the Company has recorded ATX intangible assets of $19,400,000 and goodwill of $5,800,000. The customer relationship intangible assets will be amortized on an accelerated basis, and other intangible assets on a straight-line basis, over the following average useful lives: trademarks - 10 years, customer relationships - 7 years, software - 5 years, and other intangibles - 2 years.

Idaho Timber

In May 2005, the Company acquired Idaho Timber for total cash consideration of $133,600,000, including working capital adjustments and expenses, and has consolidated Idaho Timber from the date of acquisition. Based upon its allocation of the purchase price, the Company recorded Idaho Timber intangible assets of $45,100,000. The intangible assets will be amortized on a straight-line basis over the following average useful lives: customer relationships - 10 years, and other intangibles - 1 year.

Symphony

In September 2003, the Company acquired Symphony for approximately $36,700,000, including expenses, of which approximately $29,200,000 was provided by financing that is non-recourse to the Company but is fully collateralized by Symphony's assets. In addition, at acquisition, the lender provided an additional $5,000,000 of working capital financing to Symphony. The Company has consolidated Symphony's financial condition and results of operations since acquisition.

Unaudited pro forma operating results for the Company, assuming the acquisitions of ATX and Idaho Timber had occurred as of the beginning of each year presented below are as follows (in thousands, except per share amounts):

3. Acquisitions, continued:

	2005	2004
Revenues	$ 1,213,800	$ 1,210,000
Income before extraordinary items and cumulative effect of a change in accounting principles	$ 1,643,200	$ 175,700
Net income	$ 1,643,200	$ 175,700
Per Share:		
Basic	$15.25	$1.65
Diluted	$14.33	$1.61

Pro forma adjustments principally reflect the preliminary allocation of the purchase price to the difference between the fair value and book value of property and equipment, resulting in increases or decreases to historical depreciation expense, and the allocation to identifiable intangible assets discussed above, resulting in increased amortization expense. For ATX, the pro forma adjustments also include the elimination of net reorganization items, which principally resulted from a gain recognized upon the discharge of ATX indebtedness in bankruptcy, fresh start accounting adjustments and bankruptcy related professional fees, and the reversal of historical interest expense related to indebtedness that was discharged in bankruptcy. The increase or (decrease) to historical income from the pro forma adjustments is as follows (in thousands):

	2005	2004
Depreciation and amortization expenses	$ (6,000)	$ (13,400)
Reorganization items	$ (300)	$ 24,300

The unaudited pro forma data is not indicative of future results of operations or what would have resulted if the acquisitions of ATX and Idaho Timber had actually occurred as of the beginning of the periods presented. Unaudited pro forma income statement data for NSW and Symphony is not included as the amounts were not material. Unaudited acquisition balance sheets are not included as amounts were not material.

In July 2004, the Company invested $50,000,000 in INTL Consilium Emerging Market Absolute Return Fund, LLC ("INTL"), a limited liability company that is invested in a master fund which primarily invests in emerging markets debt and equity securities. INTL and the master fund are managed and controlled by an investment manager who has full discretion over investment and operating decisions. In accordance with FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", INTL is a variable interest entity and the Company is currently the primary beneficiary; as a result, the Company accounts for its investment in INTL as a consolidated subsidiary. In October 2004, the Company invested an additional $25,000,000 in INTL. INTL plans to sell additional membership interests in the future, which if accomplished could result in the Company no longer accounting for INTL as a consolidated subsidiary. At December 31, 2005, INTL had total assets of $105,100,000 which are reflected as investments in the Company's consolidated balance sheet, and its liabilities were not material. The creditors of INTL have recourse only to the assets of INTL and do not have recourse to any other assets of the Company. The Company can generally withdraw its capital account interest upon 90 days notice, subject to the manager's ability to liquidate security positions in an orderly manner. The Company recorded $9,900,000 and $2,200,000 of pre-tax income relating to INTL for the years ended December 31, 2005 and 2004, respectively.

4. Investments in Associated Companies:

The Company has investments in several Associated Companies. The amounts reflected as equity in income (losses) of associated companies in the consolidated statements of operations are net of income tax provisions of $700,000, $15,000,000 and $70,100,000 for the years ended December 31, 2005, 2004 and 2003, respectively. Included in consolidated retained earnings at December 31, 2005 is approximately $42,800,000 of undistributed earnings of the associated companies.

Cobre Las Cruces, S.A. ("CLC")

In August 2005, the Company consummated the merger with its then 72.1% owned subsidiary, MK Resources Company ("MK"), 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. As a result of the merger, MK is now a wholly-owned subsidiary of the Company, and MK's securities are no longer publicly traded.

Immediately following the merger, the Company sold to Inmet Mining Corporation ("Inmet"), a Canadian-based global mining company traded on the Toronto stock exchange (Symbol: IMN), 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. The Inmet shares were recorded at their fair value of approximately $78,000,000, and the Company recorded a pre-tax gain on the sale of $10,500,000, which is reflected in the caption investment and other income. For more information on the Inmet shares, see Note 6.

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 in the project financing agreement. 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). For the year ended December 31, 2005, the Company recorded a pre-tax loss of $1,600,000 from this investment under the equity method of accounting.

Union Square

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.

JPOF II

During 2000, the Company invested $100,000,000 in the equity of a limited liability company, Jefferies Partners Opportunity Fund II, LLC ("JPOF II"), that is a registered broker-dealer. JPOF II is managed by Jefferies & Company, Inc., a full service investment bank to middle market companies. JPOF II invests in high yield securities, special situation investments and distressed securities and provides trading services to its customers and clients. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $23,600,000, $16,200,000 and $14,800,000, respectively, of pre-tax income from this investment under the equity method of accounting. These earnings were distributed by JPOF II as dividends shortly after the end of each year.

4. Investments in Associated Companies, continued:

Olympus

In December 2001, the Company invested $127,500,000 for a 25% common stock interest in Olympus Re Holdings, Ltd. ("Olympus"), a newly formed Bermuda reinsurance company primarily engaged in the property excess, marine and aviation reinsurance business. In June 2003, the Company sold 567,574 common shares of Olympus back to Olympus for total proceeds of $79,500,000. The Company recognized a $1,500,000 gain on the sale which is reflected in other income for the year ended December 31, 2003. The shares were sold to Olympus as part of an issuer tender offer available to all of its shareholders. After completion of the tender, the Company's interest in Olympus declined from 25% to 16.1%. Although the Company's equity interest declined below 20%, the Company continued to account for its investment under the equity method of accounting because of its ability to exercise significant influence. As a result of redemptions of other investors' equity interests during 2004 and 2005, the Company's percentage interest in Olympus increased to 20.1% as of December 31, 2005.

During 2005, Olympus recorded significant losses as a result of estimated insurance claims from hurricanes Katrina, Rita and Wilma. In early 2006, Olympus raised a significant amount of new equity to replace some, but not all of the capital that was lost as a result of the 2005 hurricanes. Since the Company did not invest additional capital in Olympus, its equity interest will be diluted (to less than 4%) such that it will no longer apply the equity method of accounting for this investment subsequent to December 31, 2005. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $(120,100,000), $9,700,000 and $40,400,000, respectively, of pre-tax income (loss) from this investment under the equity method of accounting. In addition, the Company recorded an impairment loss of $3,700,000 to reduce the book value of its investment to zero.

EagleRock

In December 2001, the Company invested $50,000,000 in EagleRock Capital Partners (QP), LP ("EagleRock"), a limited partnership that invests and trades in securities and other investment vehicles. At December 31, 2005, the book value of the Company's equity investment in EagleRock was $75,500,000, which excludes $16,600,000 that was received in January 2006 and is classified as a receivable as of December 31, 2005. In August 2005, the Company notified EagleRock that it determined to withdraw its entire interest on January 1, 2006. Discussions are ongoing as to the timing and manner in which the Company's capital will be remitted by EagleRock to the Company. Pre-tax income (losses) of $(28,900,000), $29,400,000 and $49,900,000 for the years ended December 31, 2005, 2004 and 2003, respectively, were recorded from this investment under the equity method of accounting. The results reported by the partnership since its inception include both realized and changes in unrealized gains and losses in its portfolio. In 2004, $3,700,000 was distributed by EagleRock to the Company.

HomeFed

In October 2002, the Company sold one of its real estate subsidiaries, CDS Holding Corporation ("CDS"), to HomeFed Corporation ("HomeFed") for a purchase price of $25,000,000, consisting of $1,000,000 in cash and 2,474,226 shares of HomeFed's common stock, which represented approximately 30% of HomeFed's outstanding common stock. At December 31, 2005 and 2004, the deferred gain on this sale was $4,200,000 and $6,800,000, respectively, which is being recognized into income as CDS's principal asset, the real estate project known as San Elijo Hills, is developed and sold. For the years ended December 31, 2005, 2004 and 2003, the Company recorded $5,800,000, $10,000,000 and $16,200,000, respectively, of pre-tax income from this investment under the equity method of accounting. HomeFed is engaged, directly and through subsidiaries, in the investment in and development of residential real estate projects in the State of California. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD).

As a result of a 1998 distribution to all of the Company's shareholders, approximately 7.7% and 9.5% of HomeFed is owned by the Company's Chairman and President, respectively. Both are also directors of HomeFed and the Company's President serves as HomeFed's Chairman.

4. Investments in Associated Companies, continued:

Pershing

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 as of December 31, 2004, and the total amount due from Pershing of $71,300,000 (which was paid during the first quarter of 2005) is included in trade, notes and other receivables, net at December 31, 2004 in the Company's consolidated balance sheet.

The following table provides summarized data with respect to the Associated Companies accounted for on the equity method of accounting included in results of operations for the three years ended December 31, 2005, except for Berkadia LLC ("Berkadia") which is separately summarized below, and except for WilTel which was sold as discussed in Note 5. (Amounts are in thousands.)

	2005	2004
Assets	$ 2,750,800	$ 2,247,000
Liabilities	1,873,300	969,200
Net assets	$ 877,500	$ 1,277,800
The Company's portion of the reported net assets	$ 379,100	$ 440,200

	2005	2004	2003
Total revenues	$ 984,400	$ 914,500	$ 890,900
Income (loss) from continuing operations before extraordinary items	$ (484,200)	$ 221,000	$ 374,700
Net income (loss)	$ (484,200)	$ 221,000	$ 374,700
The Company's equity in net income (loss)	$ (44,400)	$ 98,700	$ 119,900

Except for its investment in CLC, the Company has not provided any guarantees, nor is it contingently liable for any of the liabilities reflected in the above table. All such liabilities are non-recourse to the Company. The Company's exposure to adverse events at the investee companies is limited to the book value of its investment.

Berkadia

In August 2001, Berkadia, an entity jointly owned by the Company and Berkshire Hathaway Inc., loaned $5,600,000,000 on a senior secured basis to FINOVA Capital Corporation (the "Berkadia Loan"), the principal operating subsidiary of The FINOVA Group Inc. ("FINOVA"), to facilitate a chapter 11 restructuring of the outstanding debt of FINOVA and its principal subsidiaries. Berkadia also received 61,020,581 newly issued shares of common stock of FINOVA (the "FNV Shares"), representing 50% of the stock of FINOVA outstanding on a fully diluted basis. Berkadia financed the Berkadia Loan with bank financing that was guaranteed, 90% by Berkshire Hathaway and 10% by the Company (with the Company's guarantee being secondarily guaranteed by Berkshire Hathaway). In February 2004, FINOVA fully repaid the Berkadia Loan, and Berkadia fully repaid its bank financing, thereby eliminating the Company's guaranty.

During 2001, Berkadia was paid a $60,000,000 commitment fee by FINOVA Capital upon execution of the commitment and a $60,000,000 funding fee upon funding of the Berkadia Loan. The Company's share of these fees, $60,000,000 in the aggregate, was distributed to the Company shortly after the fees were received. In addition, FINOVA entered into a ten-year management agreement with the Company, for which the Company receives an annual fee of $8,000,000, which is shared equally with Berkshire. The management agreement remains in effect even though the Berkadia Loan has been repaid.

Under the agreement governing Berkadia, the Company and Berkshire Hathaway agreed to equally share the commitment fee, funding fee and all management fees. All income related to the Berkadia Loan, after payment of financing costs, was shared 90% to Berkshire Hathaway and 10% to the Company.

4. Investments in Associated Companies, continued:

In August 2001, Berkadia transferred $5,540,000,000 in cash to FINOVA Capital, representing the $5,600,000,000 loan reduced by the funding fee of $60,000,000, in exchange for a $5,600,000,000 note from FINOVA Capital and the FNV Shares. Under GAAP, Berkadia was required to allocate the $5,540,000,000 cash transferred, reduced by the previously received $60,000,000 commitment fee, between its investment in the Berkadia Loan and the FNV Shares, based upon the relative fair values of the securities received. Further, the fair value of the FNV Shares was presumed to be equal to the trading price of the stock on the day Berkadia received the FNV Shares, with only relatively minor adjustments allowed for transfer restrictions and the inability of the traded market price to account for a large block transfer. The requirement to use the trading price as the basis for the fair value estimate resulted in an initial book value for the FNV Shares of $188,800,000, which was far in excess of the $17,600,000 aggregate book net worth of FINOVA on the effective date of the Plan, and was inconsistent with the Company's view that the FINOVA common stock has a very limited value. Based on this determination of fair value, Berkadia recorded an initial investment in the FNV Shares of $188,800,000 and in the Berkadia Loan of $5,291,200,000. The allocation of $188,800,000 to the investment in the common stock of FINOVA, plus the $120,000,000 of cash fees received, were reflected as a discount from the face amount of the Berkadia Loan. The discount was amortized to income over the life of the Berkadia Loan under the effective interest method.

During 2002, Berkadia gave its consent to FINOVA to use up to $300,000,000 of cash to repurchase certain subordinated notes rather than make mandatory prepayments of the Berkadia Loan. In consideration for its consent, FINOVA and Berkadia agreed that they would share equally in the net interest savings resulting from any repurchase. The Company's share of the net interest savings is reflected in the table below.

Subsequent to acquisition, Berkadia accounted for its investment in the FINOVA common stock under the equity method of accounting. During 2001, Berkadia recorded its share of FINOVA's losses in an amount that reduced Berkadia's investment in FINOVA's common stock to zero. Berkadia's recognition of any future FINOVA losses was suspended at that time. Although the Company had no cash investment in Berkadia, since it guaranteed 10% of the third party financing provided to Berkadia, the Company recorded its share of any losses recorded by Berkadia, up to the amount of the Company's guarantee. Berkadia distributed all of its cash to its members during 2004 and has had no financial statement activity since that distribution. For the years ended December 31, 2004 and 2003, the Company's equity in the income of Berkadia consists of the following (in thousands):

	2004	2003
Net interest spread on the Berkadia Loan - 10% of total	$ --	$ 2,400
Net interest savings	300	2,000
Amortization of Berkadia Loan discount related to cash fees - 50% of total	200	29,100
Amortization of Berkadia Loan discount related to FINOVA stock - 50% of total	300	45,700
Equity in income of associated companies - Berkadia	$ 800	$ 79,200

The following table provides certain summarized data with respect to Berkadia for the years ended December 31, 2004 and 2003. (Amounts are in thousands.)

4. Investments in Associated Companies, continued:

	2004	2003
Total revenues	$ 2,400	$198,800
Income from continuing operations before extraordinary items and cumulative effect of a change in accounting principle	$ 2,200	$180,400
Net income	$ 2,200	$180,400

5. Discontinued Operations:

WilTel

In December 2005, the Company sold WilTel to Level 3 Communications, Inc. ("Level 3") for aggregate cash consideration of $460,300,000 (net of estimated working capital adjustments of approximately $25,500,000), 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 (including the adjacent parking garage) 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 Communications Inc. ("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 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 net operating tax loss carryforwards ("NOLs"), as well as any tax losses generated by the sale, remained with the Company. For more information on the Company's NOLs, see Note 16.

The Company recorded a pre-tax gain on disposal of WilTel of $243,800,000. The calculation of the gain on sale included: (1) the cash proceeds received from Level 3, net of estimated working capital adjustments; (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 described below; and (5) the net book value of the net assets sold and estimated expenses and other costs related to the transaction.

The Company concluded that the change in the use of WilTel's former headquarters facility 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 reflected in other assets 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.

5. Discontinued Operations, continued:

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.

During 2002, the Company acquired 47.4% of the outstanding common stock of WilTel for aggregate cash consideration of $353,900,000, including expenses. In November 2003, the Company consummated an exchange offer and merger agreement pursuant to which WilTel became a wholly-owned subsidiary of the Company and former WilTel public stockholders received an aggregate of 16,734,690 common shares of the Company. The 2003 acquisition was wholly unrelated to the initial acquisition in 2002; the Company's decision to acquire the remaining WilTel shares was based upon developments subsequent to the initial 2002 purchase. Prior to the merger, during 2003 the Company recorded its share of WilTel's losses under the equity method of accounting in the amount of $52,100,000; such amount is reflected in the 2003 statement of operations in the caption equity in income (losses) of associated companies.

The aggregate purchase price for the 2003 acquisition was approximately $425,300,000, consisting of $422,800,000 of Leucadia common shares and cash expenses of $2,500,000. The execution of the merger agreement on August 21, 2003 created a measurement date for accounting purposes that was used to determine the per share value of the Leucadia common shares issued. The Company averaged the closing prices of its common shares for the five business day period commencing two business days before and ending two business days after the merger agreement was executed. That average, $25.27 per share, was used to calculate the aggregate value of the Leucadia common shares issued.

Waikiki Beach Hotel

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, and recorded a pre-tax gain of $56,600,000 (reflected in discontinued operations). Historical operating results for the hotel are not material.

WebLink Wireless, Inc. ("WebLink")

In December 2002, the Company entered into an agreement to purchase certain debt and equity securities of 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.

5. Discontinued Operations, continued:

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 Company's investment in the shares of USA Mobility at December 31, 2004 is classified as a non-current investment.

Other

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 a pre-tax loss of $4,400,000.

In October 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 approximately $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, resulting principally from mortgage prepayment penalties incurred upon satisfaction of the property's mortgage. Operating results for this property were not material in prior years.

In the fourth quarter of 2004, the Company sold its geothermal power business and classified it as a discontinued operation. The Company received proceeds of $14,800,000, net of closing costs, and recognized a pre-tax gain of $200,000.

During 2003, the Company settled certain tax payment responsibilities with the purchaser of Colonial Penn Insurance Company. Income from discontinued operations for the year ended December 31, 2003 includes a payment of $1,800,000 from the purchaser to reimburse the Company for tax payments previously made.

A summary of the results of discontinued operations is as follows for the three year period ended December 31, 2005 (in thousands):

	2005	2004	2003
Revenues and other income:			
Telecommunications revenues	$ 1,743,938	$ 1,582,948	$ 231,930
Wireless messaging revenues	--	--	57,900
Investment and other income	114,980	41,270	11,007
Net securities gains	3,483	6,372	25
	1,862,401	1,630,590	300,862
Expenses:			
Telecommunications cost of sales	1,223,143	1,129,248	167,653
Wireless messaging network operating expenses	--	--	31,354
Interest	27,536	34,459	5,648
Salaries	150,000	139,546	29,247
Depreciation and amortization	162,694	207,829	41,642
Selling, general and other expenses	187,460	184,370	45,914
	1,750,833	1,695,452	321,458
Income (loss) before income taxes	111,568	(64,862)	(20,596)
Income tax provision (benefit)	11	--	(9,010)
Income (loss) from discontinued operations, net of taxes	$ 111,557	$ (64,862)	$ (11,586)

6. Investments:

A summary of investments classified as current assets at December 31, 2005 and 2004 is as follows (in thousands):

	2005		2004	
	Amortized Cost	Carrying Value and Estimated Fair Value	Amortized Cost	Carrying Value and Estimated Fair Value
Investments available for sale	$ 1,206,973	$ 1,206,195	$ 917,840	$ 918,064
Trading securities	103,978	105,541	148,602	159,616
Other investments, including accrued interest income	11,826	11,826	7,065	7,065
Total current investments	$ 1,322,777	$ 1,323,562	$ 1,073,507	$ 1,084,745

The amortized cost, gross unrealized gains and losses and estimated fair value of available for sale investments classified as current assets at December 31, 2005 and 2004 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2005				
Bonds and notes:				
United States Government and agencies	$ 818,967	$ 107	$ 597	$ 818,477
U.S. Government-Sponsored Enterprises	199,030	17	377	198,670
Foreign governments	1,503	17	--	1,520
All other corporates	187,473	476	421	187,528
Total	$ 1,206,973	$ 617	$ 1,395	$ 1,206,195
2004				
Bonds and notes:				
United States Government and agencies	$ 736,529	$ 10	$ 935	$ 735,604
U.S. Government-Sponsored Enterprises	113,384	--	191	113,193
All other corporates	67,927	1,666	326	69,267
Total	$ 917,840	$ 1,676	$ 1,452	$ 918,064

Certain information with respect to trading securities at December 31, 2005 and 2004 is as follows (in thousands):

	2005		2004	
	Amortized Cost	Carrying Value and Estimated Fair Value	Amortized Cost	Carrying Value and Estimated Fair Value
Fixed maturities - corporate bonds and notes	$ --	$ --	$ 67,629	$ 77,288
Equity securities	--	--	1,413	1,585
Other investments	103,978	105,541	79,560	80,743
Total trading securities	$ 103,978	$105,541	$ 148,602	$ 159,616

Other investments classified as trading securities principally include INTL's investment in a master fund.

A summary of non-current investments at December 31, 2005 and 2004 is as follows (in thousands):

6. Investments, continued:

	2005		2004	
	Amortized Cost	Carrying Value and Estimated Fair Value	Amortized Cost	Carrying Value and Estimated Fair Value
Investments available for sale	$ 762,178	$ 825,716	$ 423,687	$ 667,595
Other investments	151,611	151,611	50,731	50,731
Total non-current investments	$ 913,789	$ 977,327	$ 474,418	$ 718,326

Other non-current investments include 5,600,000 common shares of Inmet, which have a cost and carrying value of $78,000,000 at 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 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.

The amortized cost, gross unrealized gains and losses and estimated fair value of non-current investments classified as available for sale at December 31, 2005 and 2004 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2005				
Bonds and notes:				
United States Government and agencies	$ 39,037	$ 25	$ 584	$ 38,478
U.S. Government-Sponsored Enterprises	141,265	106	1,428	139,943
All other corporates	160,190	37,677	1,675	196,192
Total fixed maturities	340,492	37,808	3,687	374,613
Equity securities:				
Preferred stocks	5,569	--	118	5,451
Common stocks:				
Banks, trusts and insurance companies	12,340	10,010	--	22,350
Industrial, miscellaneous and all other	403,777	28,817	9,292	423,302
Total equity securities	421,686	38,827	9,410	451,103
	$ 762,178	$ 76,635	$ 13,097	$ 825,716
2004				
Bonds and notes:				
United States Government and agencies	$ 26,995	$ 19	$ 155	$ 26,859
U.S. Government-Sponsored Enterprises	115,178	28	925	114,281
States, municipalities and political subdivisions	7,610	--	--	7,610
Foreign governments	1,507	79	--	1,586
All other corporates	125,020	41,568	416	166,172
Total fixed maturities	276,310	41,694	1,496	316,508
Equity securities:				
Preferred stocks	993	--	--	993
Common stocks:				
Banks, trusts and insurance companies	91,154	194,620	--	285,774
Industrial, miscellaneous and all other	55,230	10,868	1,778	64,320
Total equity securities	147,377	205,488	1,778	351,087
	$ 423,687	$ 247,182	$ 3,274	$ 667,595

6. Investments, continued:

The amortized cost and estimated fair value of non-current investments classified as available for sale at December 31, 2005, by contractual maturity, are shown below. Expected maturities are likely to differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due after one year through five years	$ 140,861	$ 177,331
Due after five years through ten years	18,585	18,112
Due after ten years	744	749
	160,190	196,192
Mortgage-backed securities	180,302	178,421
	$ 340,492	$ 374,613

Non-current available for sale equity securities include 115,000,000 shares of Level 3 common stock received in connection with the sale of WilTel (see Note 5), with a cost of $339,300,000 and an estimated fair value of $330,100,000 at December 31, 2005. Pursuant to a registration rights agreement entered into with Level 3, Level 3 has filed a registration statement covering the 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) on any given day until May 22, 2006; thereafter there is no restriction.

During 2005, the Company sold all 375,000 common shares of White Mountains Insurance Group, Ltd. ("WMIG") that it owned, and recorded a security gain of $146,000,000. The Company purchased the shares in 2001 for $75,000,000; at December 31, 2004 the investment in WMIG, which was classified as a non-current available for sale security, had a market value of $242,300,000.

Net unrealized gains (losses) on investments were $(22,400,000), $153,200,000 and $161,800,000 at December 31, 2005, 2004 and 2003, respectively. Reclassification adjustments included in comprehensive income for the three year period ended December 31, 2005 are as follows (in thousands):

	2005	2004	2003
Unrealized holding gains (losses) arising during the period, net of tax provision of $0, $0 and $56,896	$ 12,707	$ (26,623)	$ 105,861
Less: reclassification adjustment for (gains) losses included in net income, net of tax provision of $0, $0 and $1,158	(188,284)	18,031	(2,085)
Net change in unrealized gain on investments, net of tax provision of $0, $0 and $55,738	$ (175,577)	$ (8,592)	$ 103,776

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category, all of which have been in a continuous unrealized loss position for less than 12 months, at December 31, 2005 (in thousands):

6. Investments, continued:

Description of Securities	Fair Value	Unrealized Losses
United States Government and agencies	$ 518,329	$ 597
U.S. Government-Sponsored Enterprises	135,021	359
Mortgage-backed securities	113,840	1,567
Corporate bonds	170,093	1,985
Marketable equity securities	334,490	9,410
Total temporarily impaired securities	$ 1,271,773	$ 13,918

The unrealized losses on the securities issued by the United States Government and agencies, the U.S. Government-Sponsored Enterprises and the mortgage-backed securities were caused by interest rate increases and were considered to be minor (approximately .1%, .3% and 1.4%, respectively). The unrealized losses on the securities issued by the United States Government and agencies relate to 14 securities which were purchased in 2005 and all of which mature in 2006. The unrealized losses on the U.S. Government-Sponsored Enterprises relate to 20 securities which were primarily purchased in 2005 and all of which mature in 2006. The unrealized losses on the mortgage-backed securities (all of which are issued by U.S. Government agencies and U.S. Government-Sponsored Enterprises) relate to 27 securities substantially all of which were purchased in 2005. The unrealized losses related to the corporate bonds are not considered to be an other than temporary impairment. This determination is based on a number of factors including, but not limited to, the length of time and 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 the fair value, changes in fair value subsequent to the balance sheet date, and other factors specific to the individual investment. The unrealized losses on marketable equity securities primarily relates to the Company's investment in Level 3 common stock which was acquired in December 2005.

At December 31, 2005, the Company's investments which have been in a continuous unrealized loss position for 12 months or longer are comprised of 16 securities which had aggregate gross unrealized losses of approximately $600,000 and an aggregate fair value of approximately $60,200,000. These securities are primarily mortgage-backed securities (all of which are issued by U.S. Government agencies and U.S. Government-Sponsored Enterprises).

At December 31, 2005, the aggregate carrying amount of the Company's investment in equity securities that are accounted for under the cost method totaled $151,600,000. Of this amount, $78,000,000 relates to the Company's investment in the Inmet common shares, which had a market value in excess of the carrying amount. The fair value of the remaining cost method securities was not estimated as there were no identified events or changes in circumstances that may have a significant adverse effect on the fair value and it was not practicable to estimate the fair value of these investments.

At December 31, 2004, securities with book values aggregating $7,100,000 were on deposit with various regulatory authorities. Securities with book values of $12,300,000 and $12,100,000 at December 31, 2005 and 2004, respectively, collateralized certain swap agreements, and securities with a book value of $11,100,000 and $11,000,000 at December 31, 2005 and 2004, respectively, collateralized certain debt obligations and a related letter of credit.

7. Trade, Notes and Other Receivables, Net:

A summary of current trade, notes and other receivables, net at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Current trade, notes and other receivables, net:		
Trade receivables (a)	$ 115,538	$ 73,639
Receivable from SBC (b)	198,500	--
Federal income tax receivable	--	3,858
Receivable from Pershing	--	71,294
Receivable from EagleRock	16,636	--
Instalment loan receivables	1,257	2,035
Receivables related to securities	39,387	5,999
Receivables relating to real estate activities	5,602	2,988
Other	15,393	8,211
	392,313	168,024
Allowance for doubtful accounts	(15,097)	(7,790)
Total current trade, notes and other receivables, net	$ 377,216	$ 160,234

(a) Includes $10,700,000 and $10,500,000 as of December 31, 2005 and 2004, respectively, from Symphony's largest customer.

(b) Represents amounts due from SBC of which $11,000,000 was paid on January 4, 2006 and the balance is payable in ten equal monthly installments in January 2006 through October 2006. See Note 5 for more information.

8. Intangible Assets, Net and Goodwill:

A summary of these assets at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Intangibles:		
Customer relationships, net of accumulated amortization of $6,686 and $491	$ 58,911	$ 1,472
Trademarks and tradename, net of accumulated amortization of $268	4,140	--
Software, net of accumulated amortization of $701	4,399	--
Patents, net of accumulated amortization of $142	2,188	--
Other, net of accumulated amortization of $1,488	1,446	--
Goodwill	13,999	--
	$ 85,083	$ 1,472

During 2005, in connection with the acquisitions of NSW, Idaho Timber and ATX, the Company recorded customer relationship intangible assets and other intangible assets which are being amortized over their estimated useful lives, and goodwill which is not being amortized. See Note 3 for more information. In addition, during October 2005 the plastics manufacturing segment acquired the manufacturing assets of a competitor for approximately $4,300,000, and allocated $2,900,000 of the purchase price to customer relationships and $300,000 to trademarks. Such amounts are being amortized on a straight-line basis over 10 years. During 2004, the Company recorded $1,900,000 of customer relationship intangible assets in connection with an acquisition made by the plastics manufacturing segment, which are being amortized on a straight-line basis over an average useful life of approximately three years.

8. Intangible Assets, Net and Goodwill, continued:

Amortization expense on intangible assets was $8,800,000 for the year ended December 31, 2005. The estimated aggregate future amortization expense for the intangible assets for each of the next five years is as follows: 2006 - $11,100,000; 2007 - $9,500,000; 2008 - $8,600,000; 2009 - $8,200,000; and 2010 - $7,000,000.

9. Other Assets:

A summary of non-current other assets at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Real Estate	$ 166,188	$ 234,123
Unamortized debt expense	17,993	19,863
Restricted cash, (principally to secure outstanding letters of credits of $23,000,000 and $2,000,000)	27,018	6,436
Deposits	488	5,565
Other	28,914	6,880
	$ 240,601	$ 272,867

In the fourth quarter of 2005, 711 Developer, LLC ("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.

10. Property, Equipment and Leasehold Improvements, Net:

A summary of property, equipment and leasehold improvements, net at December 31, 2005 and 2004 is as follows (in thousands):

	Depreciable Lives (in years)	2005	2004
Buildings and leasehold improvements	4-45	$ 136,460	$ 127,363
Machinery and equipment	2-25	93,740	77,686
Network equipment	5-7	14,524	--
Corporate aircraft	8-10	87,981	85,871
Mining properties and mineral rights	N/A	--	92,384
Computer equipment and software	2-7	9,520	4,795
General office furniture and fixtures	2-13	8,933	6,840
Construction in progress	N/A	4,978	1,591
Other	3-10	7,645	7,960
		363,781	404,490
Accumulated depreciation and amortization		(126,760)	(121,160)
		$ 237,021	$ 283,330

In January 2004, the Company exercised an option to sell two of its corporate aircraft for total proceeds of approximately $38,800,000. The option was received in connection with the purchase of two new corporate aircraft. The Company completed the sales in July 2004, and reported a pre-tax gain of $11,300,000.

11. Trade Payables, Expense Accruals and Other Non-Current Liabilities:

A summary of trade payables and expense accruals and other non-current liabilities at December 31, 2005 and 2004 is as follows (in thousands):

	2005	2004
Trade payables and expense accruals:		
Trade payables	$ 26,080	$ 14,939
Payables related to securities	24,268	50,569
Accrued compensation, severance and other employee benefits	109,657	51,403
Taxes other than income	7,228	4,668
Accrued interest payable	21,997	20,572
Due to Level 3	25,490	--
Other	45,058	25,713
	$ 259,778	$ 167,864
Other non-current liabilities:		
Postretirement and postemployment benefits	$ 8,165	$ 8,633
Pension liability	73,729	61,982
Liabilities related to real estate activities	4,334	6,841
Other	35,665	44,219
	$ 121,893	$ 121,675

12. Indebtedness:

The principal amount, stated interest rate and maturity date of outstanding debt at December 31, 2005 and 2004 are as follows (dollars in thousands):

	2005	2004
Parent Company Debt:		
Senior Notes:		
Bank credit facility	$ --	$ --
7 3/4% Senior Notes due 2013, less debt discount of $395 and $431	99,605	99,569
7% Senior Notes due 2013, net of debt premium of $1,009 and $1,105	376,009	376,105
Subordinated Notes:		
8 1/4% Senior Subordinated Notes due 2005	--	19,101
7 7/8% Senior Subordinated Notes due 2006, less debt discount of $9 and $20	21,667	21,656
3 3/4% Convertible Senior Subordinated Notes due 2014	350,000	350,000
8.65% Junior Subordinated Deferrable Interest Debentures due 2027	98,200	98,200
Subsidiary Debt:		
Repurchase agreements	92,094	21,012
Aircraft financing	43,448	45,562
Industrial Revenue Bonds (with variable interest)	9,815	9,815
Capital leases due 2006 through 2015 with a weighted average interest rate of 12.1%	10,101	7,280
Symphony credit agreement	27,108	37,690
Other due 2006 through 2011 with a weighted average interest rate of 6.5%	34,335	45,932
Total debt	1,162,382	1,131,922
Less: current maturities	(175,664)	(64,799)
Long-term debt	$ 986,718	$ 1,067,123

12. Indebtedness, continued:

Parent Company Debt:

At December 31, 2005, the Company had an unsecured bank credit facility of $110,000,000, which bears interest based on the Eurocurrency Rate or the prime rate and matures in 2007. At December 31, 2005, no amounts were outstanding under this bank credit facility.

In April 2004, the Company sold $350,000,000 principal amount of its 3 3/4% Convertible Senior Subordinated Notes due 2014 in a private placement transaction. The notes are convertible into the Company's common shares at $45.93 per share at any time before their maturity, subject to certain restrictions contained in the notes, at a conversion rate of 21.7707 shares per each $1,000 principal amount of notes subject to adjustment (an aggregate of 7,619,745 shares). The Company has a currently effective shelf registration statement in respect of the notes and the common shares issuable upon conversion of the notes.

In January 1997, the Company issued 8.65% trust issued preferred securities ("Trups") of its wholly-owned subsidiary, Leucadia Capital Trust I (the "Trust"). As a result of the implementation of SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company began classifying the Trups as liabilities on July 1, 2003, and classifies dividends accrued for these securities as interest expense. SFAS 150 did not permit restatement of prior period amounts to reflect the new classification. In 2004, the Company liquidated the Trust and distributed to the Trups holders the 8.65% Junior Subordinated Deferrable Interest Debentures held by the Trust in exchange for their Trups securities. The distribution had no effect on the total debt of the Company.

Subsidiary Debt:

Debt due within one year includes $92,100,000 and $21,000,000 as of December 31, 2005 and 2004, respectively, relating to repurchase agreements. 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. This debt bears interest based on a floating rate, requires monthly payments of principal and interest and matures in ten years. The interest rate at December 31, 2005 was 8.4%. The subsidiary has entered into an interest rate swap agreement for this financing, which fixed the interest rate at approximately 5.7%. The subsidiary would have paid $700,000 and $2,300,000 at December 31, 2005 and 2004, respectively, if the swap were terminated. Changes in interest rates in the future will change the amounts to be received under the agreement, as well as interest to be paid under the related variable debt obligation. The Parent company has guaranteed this financing.

Capital leases primarily consist of a sale-leaseback transaction related to certain corporate aircraft originally entered into in May 2003, which was amended in 2005 to among other matters extend the lease term through 2015.

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 but otherwise is non-recourse to the Company, matures in 2006 and bears interest based on LIBOR plus 3.00%. At December 31, 2005, the interest rate on this facility was 7.39%.

Other subsidiary debt includes a mortgage financing related to Square 711 that was repaid in connection with the sale of that property in February 2006. The mortgage balance was $32,000,000 and $20,000,000 as of December 31, 2005 and 2004, respectively.

12. Indebtedness, continued:

The Company's debt instruments require maintenance of minimum Tangible Net Worth, limit distributions to shareholders and limit Indebtedness and Funded Debt, all as defined in the agreements. In addition, the debt instruments contain limitations on investments, liens, contingent obligations and certain other matters. As of December 31, 2005, cash dividends of approximately $556,600,000 would be eligible to be paid under the most restrictive covenants.

All of Symphony's assets (with an aggregate book value of $55,500,000) are pledged as collateral under Symphony's revolving credit facility. Property, equipment and leasehold improvements of the plastics manufacturing division (with a net book value of $4,600,000) are pledged as collateral for Industrial Revenue Bonds; and $229,600,000 of other assets (primarily property and investments) are pledged for other indebtedness aggregating $178,100,000. In addition, the Industrial Revenue Bond obligation is collateralized by a letter of credit which is fully collateralized by securities with a book value of $11,100,000.

Interest rate swap agreements were used to manage the potential impact of changes in interest rates on customer banking deposits. Under interest rate swap agreements, the Company had agreed with other parties to pay fixed rate interest amounts and receive variable rate interest amounts calculated by reference to a notional amount. The variable interest rate portion of the swaps was a specified LIBOR interest rate. These interest rate swaps expired in 2003.

Counterparties to interest rate and currency swap agreements are major financial institutions, that management believes are able to fulfill their obligations. Management believes any losses due to default by the counterparties are likely to be immaterial.

The aggregate annual mandatory redemptions of debt during the five year period ending December 31, 2010 are as follows (in thousands): 2006 - $175,700; 2007 - $12,900; 2008 - $4,700; 2009 - $3,000; and 2010 - $3,100.

The weighted average interest rate on short-term borrowings (consisting of customer banking deposits (at December 31, 2004), repurchase agreements and subsidiary revolving credit agreements) was 4.7% and 4.6% at December 31, 2005 and 2004, respectively.

13. Common Shares, Stock Options and Preferred Shares:

Pursuant to shareholder approval, during the second quarter of 2005 the Company's authorized common shares were increased to 300,000,000.

The Board of Directors from time to time has authorized acquisitions of the Company's common shares. In December 1999, the Company's Board of Directors increased to 6,000,000 the maximum number of shares that the Company is authorized to purchase. During the three year period ended December 31, 2005, the Company acquired 6,071 common shares at an average price of $37.55 per common share, all in connection with employees exercising stock options. At December 31, 2005, the Company is authorized to repurchase 3,729,477 common shares.

13. Common Shares, Stock Options and Preferred Shares, continued:

In December 2002, the Company completed a private placement of approximately $150,000,000 of equity securities, based on a common share price of $23.50, to mutual fund clients of Franklin Mutual Advisers, LLC, including the funds comprising the Franklin Mutual Series Funds. The Company issued 4,361,399 of the Company's common shares and newly authorized Series A Non-Voting Convertible Preferred Stock, that were converted into 2,021,580 common shares in March 2003.

The Company has a fixed stock option plan which provides for grants of options or rights to non-employee directors and certain employees up to a maximum grant of 450,000 shares to any individual in a given taxable year. The maximum number of common shares which may be acquired through the exercise of options or rights under this plan cannot exceed 1,800,000. The plan provides for the issuance of stock options and stock appreciation rights at not less than the fair market value of the underlying stock at the date of grant. Options generally become exercisable in five equal annual instalments starting one year from date of grant. No stock appreciation rights have been granted.

During the second quarter of 2000, pursuant to shareholder approval, warrants to purchase 600,000 common shares were issued to each of the Company's Chairman and President. The warrants were exercisable through May 15, 2005 at an exercise price of $15.97 per common share (105% of the closing price of a common share on the date of grant). In June 2004, Joseph S. Steinberg, President of the Company, sold all of his warrants to Jefferies & Company, Inc. ("Jefferies") based on the value of $33.33 per Leucadia share. In September 2004, Ian M. Cumming, Chairman of the Board of the Company, and others (principally family members) sold warrants to purchase 361,500 of the Company's common shares to Jefferies based on a value of $36.67 per Leucadia share. Jefferies exercised all of the warrants during 2004. Additionally, in September 2004, Mr. Cumming and others (principally family members) exercised warrants to purchase 238,500 shares at an exercise price of $15.97 per share. During 2004, the Company filed two registration statements covering the shares owned by Jefferies and each were effective for a thirty day period.

A summary of activity with respect to the Company's stock options for the three years ended December 31, 2005 is as follows:

	Common Shares Subject to Option	Weighted Average Exercise Price	Options Exercisable at Year-End	Available For Future Option Grants
Balance at December 31, 2002	829,605	$18.14	122,318	867,075
Granted	6,000	$25.69		
Exercised	(78,525)	$16.46		
Cancelled	(27,900)	$19.10		
Balance at December 31, 2003	729,180	$18.35	228,912	888,975
Granted	727,500	$43.35		
Exercised	(165,150)	$17.25		
Cancelled	(14,100)	$19.92		
Balance at December 31, 2004	1,277,430	$32.72	254,430	175,575
Granted	6,000	$36.05		
Exercised	(215,800)	$17.09		
Cancelled	(90,000)	$43.51		
Balance at December 31, 2005	977,630	$35.19	181,580	259,575

The weighted-average fair value of the options granted was $8.58 per share for 2005, $8.29 per share for 2004 and $6.29 per share for 2003 as estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (1) expected volatility of 23.6% for 2005, 19.1% for 2004 and 29.9% for 2003; (2) risk-free interest rates of 3.8% for 2005, 3.3% for 2004 and 2.3% for 2003; (3) expected lives of 4.3 years for 2005, 3.7 years for 2004 and 4.0 years for 2003; and (4) dividend yields of .7% for 2005, .4% for 2004 and .6% for 2003.

13. Common Shares, Stock Options and Preferred Shares, continued:

The following table summarizes information about fixed stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Common Shares Subject to Option	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Common Shares Subject to Option	Weighted Average Exercise Price
$15.08	59,630	0.4 years	$15.08	59,630	$15.08
$20.49	262,500	2.5 years	$20.49	112,200	$20.49
$22.09	3,375	0.4 years	$22.09	3,375	$22.09
$23.49	4,125	1.4 years	$23.49	2,625	$23.49
$25.69	4,875	2.4 years	$25.69	1,875	$25.69
$31.12	8,625	3.4 years	$31.12	1,875	$31.12
$36.05	6,000	4.4 years	$36.05	--	$36.05
$43.51	628,500	5.0 years	$43.51	--	$43.51

At December 31, 2005 and 2004, 1,237,205 and 1,453,005, respectively, of the Company's common shares were reserved for stock options and 7,619,745 of the Company's common shares were reserved for the 3 3/4% Convertible Senior Subordinated Notes. At December 31, 2003, 1,200,000 of the Company's common shares were reserved for warrants.

At December 31, 2005 and 2004, 6,000,000 of preferred shares (redeemable and non-redeemable), par value $1 per share, were authorized and not issued.

14. Net Securities Gains:

The following summarizes net securities gains for each of the three years in the period ended December 31, 2005 (in thousands):

	2005	2004	2003
Net realized gains on securities	$ 222,258	$ 140,581	$ 15,737
Write-down of investments (a)	(12,230)	(4,589)	(6,485)
Net unrealized gains (losses) on trading securities	(1,212)	572	676
	$ 208,816	$ 136,564	$ 9,928

(a) Includes a provision to write down investments in certain available for sale securities in 2005, 2004 and 2003 and an investment in a non-public security in 2003.

Proceeds from sales of investments classified as available for sale were $1,979,300,000, $1,435,900,000 and $681,900,000 during 2005, 2004 and 2003, respectively. Gross gains of $204,600,000, $135,900,000 and $17,700,000 and gross losses of $2,400,000, $1,600,000 and $2,100,000 were realized on these sales during 2005, 2004 and 2003, respectively.

15. Other Results of Operations Information:

Investment and other income for each of the three years in the period ended December 31, 2005 consists of the following (in thousands):

	2005	2004	2003
Interest on short-term investments	$ 7,537	$ 1,693	$ 2,835
Dividend income	6,817	9,279	2,859
Interest on fixed maturities	46,440	25,606	13,633
Interest on notes receivable	1,880	945	4,657
Other investment income	1,164	1,749	3,605
Gains on sale or foreclosure of real estate or other assets, net of costs	26,136	46,279	24,347
Banking and lending, including gains on sale of loan portfolios of $16,304 in 2004	293	26,341	55,091
Rental income	11,870	23,176	20,123
MK product and service income	112	993	1,441
Refund of foreign taxes, not based on income, including accrued interest	--	--	5,295
Winery revenues	18,868	13,840	13,839
Other	28,723	30,180	31,660
	$ 149,840	$ 180,081	$ 179,385

Taxes, other than income or payroll, amounted to $3,600,000, $2,900,000 and $3,300,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Advertising costs amounted to $2,600,000, $2,100,000 and $1,100,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

16. Income Taxes:

The principal components of deferred taxes at December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Deferred Tax Asset:		
Securities valuation reserves	$ 46,473	$ 18,614
Property and equipment	31,547	7,271
Other assets	35,224	20,450
NOL carryover	1,870,100	1,456,870
Other liabilities	60,622	44,469
Discontinued operations	--	789,395
	2,043,966	2,337,069
Valuation allowance	(804,829)	(2,185,275)
	1,239,137	151,794
Deferred Tax Liability:		
Unrealized gains on investments	(21,947)	(82,662)
Depreciation	(30,241)	(24,293)
Other	(51,849)	(44,839)
	(104,037)	(151,794)
Net deferred tax asset	$ 1,135,100	$ --

16. Income Taxes, continued:

As of December 31, 2005, the Company had consolidated federal NOLs of $600,000,000, none of which expire prior to 2023, that may be used to offset the taxable income of any member of the Company's consolidated tax group. In addition, the Company has $4,500,000,000 of federal NOLs, none of which expire prior to 2015, that are only available to offset the taxable income of certain subsidiaries. Capital loss carryforwards of $45,000,000, which expire in 2006 and 2007, and foreign NOLs of $6,000,000 are not reflected in the table since the Company does not expect it will be able to use the carryforwards before they expire. The Company also has various state NOLs that expire at different times. Uncertainties that may affect the utilization of the Company's tax attributes include future operating results, tax law changes, rulings by taxing authorities regarding whether certain transactions are taxable or deductible and expiration of carryforward periods.

As of December 31, 2004, the Company carried a valuation allowance that fully reserved for its net deferred tax asset, because the Company could not demonstrate it would have the future taxable income necessary to realize that asset. 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. In future years the Company will record income tax provisions equal to its effective income tax rate, unless there is a further adjustment to the valuation allowance.

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 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.

The Company's total comprehensive income in 2004 and 2003 enabled it to realize certain acquired deferred tax assets which had been fully reserved for at acquisition. The resulting reduction in the valuation allowance for deferred tax assets ($22,300,000 in 2004 and $22,500,000 in 2003) was applied to reduce the recorded amount of identifiable intangible assets to zero.

Under certain circumstances, the ability to use the NOLs and future deductions could be substantially reduced if certain changes in ownership were to occur. In order to reduce this possibility, the Company's certificate of incorporation includes a charter restriction that prohibits transfers of the Company's common stock under certain circumstances.

The provision (benefit) for income taxes for each of the three years in the period ended December 31, 2005 was as follows, excluding amounts allocated to equity in associated companies, trust preferred securities and discontinued operations (in thousands):

16. Income Taxes, continued:

	2005	2004	2003
State income taxes	$ 3,804	$ 3,418	$ (909)
Federal income taxes:			
Current	--	(31,143)	(10,688)
Deferred	--	7,242	(23,750)
Reversal of valuation allowance	(1,135,100)	--	--
Currently payable foreign income taxes	214	291	173
	$ (1,131,082)	$ (20,192)	$ (35,174)

The table below reconciles the expected statutory federal income tax to the actual income tax benefit (in thousands):

	2005	2004	2003
Expected federal income tax	$ 48,357	$ 39,157	$ (2,876)
State income taxes, net of federal income tax benefit	2,473	2,222	545
Reversal of valuation allowance	(1,135,100)	--	--
Resolution of tax contingencies	--	(27,300)	(24,407)
Recognition of additional tax benefits	--	--	(6,998)
Permanent differences	--	(5,700)	--
Federal income tax carryback refund	--	(3,858)	--
Recognition of acquired WilTel federal tax benefits	(46,951)	(6,481)	--
Discontinued operations tax loss benefit	--	(19,807)	--
Other	139	1,575	(1,438)
Actual income tax benefit	$ (1,131,082)	$ (20,192)	$ (35,174)

Reflected above as recognition of additional tax benefits and resolution of tax contingencies are reductions to the Company's income tax provision for the favorable resolution of certain federal and state income tax contingencies. The Internal Revenue Service has completed its audit of the Company's consolidated federal income tax returns for the years 1996 through 1999, without any material payment required from the Company.

The statute of limitations with respect to the Company's federal income returns have expired for all years through 2001. Prior to May 2001, WilTel was included in the consolidated federal income tax return of its former parent, The Williams Companies Inc. ("Williams"). Pursuant to a tax settlement agreement between WilTel and Williams, the Company has no liability for any audit adjustments made to Williams' consolidated tax returns; however, adjustments to Williams' prior years tax returns could affect certain of the Company's tax attributes that impact the calculation of alternative minimum taxable income.

17. Pension Plans and Postretirement Benefits:

The information presented below for defined benefit pension plans is presented separately for the Company's plans and the plans formerly administered by WilTel. Pursuant to the WilTel sale agreement the responsibility for WilTel's defined benefit pension plans was retained by the Company. The Company presents the information separately since the WilTel plan's investment strategies, assumptions and results are significantly different than those of the Company.

The Company:

Prior to 1999, the Company maintained defined benefit pension plans covering employees of certain units who also met age and service requirements. Effective December 31, 1998, the Company froze its defined benefit pension plans. A summary of activity with respect to the Company's defined benefit pension plan for 2005 and 2004 is as follows (in thousands):

17. Pension Plans and Postretirement Benefits, continued:

	2005	2004
Projected Benefit Obligation:		
Projected benefit obligation at January 1,	$ 58,286	$ 55,079
Interest cost (a)	2,951	3,173
Actuarial loss	2,314	5,263
Benefits paid	(5,428)	(5,229)
Projected benefit obligation at December 31,	$ 58,123	$ 58,286
Change in Plan Assets:		
Fair value of plan assets at January 1,	$ 47,643	$ 52,444
Actual return on plan assets	1,375	555
Employer contributions	--	--
Benefits paid	(5,428)	(5,229)
Administrative expenses	(114)	(127)
Fair value of plan assets at December 31,	$ 43,476	$ 47,643
Funded Status	$ (14,647)	$ (10,643)
Unrecognized prior service cost	48	50
Unrecognized net loss from experience differences and assumption changes	21,828	20,651
Net amount recognized	$ 7,229	$ 10,058

(a) Includes charges to expense of $900,000 and $800,000 for 2005 and 2004, respectively, relating to discontinued operations obligations.

As of December 31, 2005 and 2004, $21,800,000 and $20,700,000, respectively, of the net amount recognized in the consolidated balance sheet was reflected as a charge to accumulated other comprehensive income and $14,600,000 and $10,600,000, respectively, was reflected as accrued pension cost. Since the Company froze its defined benefit pension plan, the accumulated benefit obligation is the same as the projected benefit obligation. No employer contributions are expected to be made in 2006 related to the Company's defined benefit pension plan.

Pension expense related to the defined benefit pension plan charged to operations included the following components (in thousands):

	2005	2004	2003
Interest cost	$ 2,045	$ 2,191	$ 2,247
Expected return on plan assets	(905)	(1,019)	(1,947)
Actuarial loss	848	652	258
Amortization of prior service cost	3	3	3
Net pension expense	$ 1,991	$ 1,827	$ 561

At December 31, 2005, the plan's assets consist of U.S. government and agencies bonds (43%), investment grade bonds (24%), cash equivalents (32%) and other (1%). At December 31, 2004, the plan's assets consisted of U.S. government and agencies bonds (37%), U.S. Government-Sponsored Enterprises (6%), investment grade bonds (28%) and cash equivalents (29%).

17. Pension Plans and Postretirement Benefits, continued:

The defined benefit pension plan assets are invested in short-term investment grade fixed income investments in order to maximize the value of its invested assets by minimizing exposure to changes in market interest rates. This investment strategy provides the Company with more flexibility in managing the plan should interest rates rise and result in a decrease in the discounted value of benefit obligations. The current investment strategy substantially requires investments in investment grade securities, and a final average maturity target for the portfolio of one and one-half years and a one year maximum duration.

To develop the assumption for the expected long-term rate of return on plan assets, the Company considered the following underlying assumptions: 2% current expected inflation, 1% real rate of return for risk-free investments (primarily U.S. government and agency bonds) for the target duration and .25% default risk premium for the portion of the portfolio invested in non-U.S. government and agency bonds. The combination of these underlying assumptions resulted in the selection of the 3.25% expected long-term rate of return assumption for 2005. Because pension expense includes the cost of expected plan administrative expenses, the 3.25% assumption is not reduced for such expenses.

Several subsidiaries provide certain health care and other benefits to certain retired employees under plans which are currently unfunded. The Company pays the cost of postretirement benefits as they are incurred. Amounts charged to expense were not material in each of the three years ended December 31, 2005.

A summary of activity with respect to the Company's postretirement plans for 2005 and 2004 is as follows (in thousands):

	2005	2004
Accumulated postretirement benefit obligation at January 1,	$ 4,715	$ 4,422
Interest cost	247	277
Contributions by plan participants	167	155
Actuarial loss	224	732
Benefits paid	(580)	(871)
Accumulated postretirement benefit obligation at December 31,	4,773	4,715
Unrecognized prior service cost	387	476
Unrecognized net actuarial gain	640	922
Accrued postretirement benefit obligation	$ 5,800	$ 6,113

The Company expects to spend $400,000 on postretirement benefits during 2006. At December 31, 2005, the assumed health care cost trend rate for 2006 used in measuring the accumulated postretirement benefit obligation is 9% and, at December 31, 2004, such rate for 2005 was 10%. At December 31, 2005 and 2004, the assumed health care cost trend rates were assumed to decline to an ultimate rate of 5% by 2013. If the health care cost trend rates were increased or decreased by 1%, the accumulated postretirement obligation as of December 31, 2005 would have increased or decreased by $200,000. The effect of these changes on interest cost for 2005 would be immaterial.

17. Pension Plans and Postretirement Benefits, continued:

The Company uses a December 31 measurement date for its plans. The assumptions used relating to the defined benefit plan and postretirement plans are as follows:

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Discount rate used to determine benefit obligation at December 31,	4.87%	5.25%	5.25%	5.25%
Weighted-average assumptions used to determine net cost for years ended December 31:				
Discount rate	5.25%	5.75%	5.25%	6.00%
Expected long-term return on plan assets	3.25%	3.25%	N/A	N/A

The 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.

The following benefit payments are expected to be paid (in thousands):

	Pension Benefits	Other Benefits
2006	$ 4,593	$ 427
2007	4,377	426
2008	4,567	427
2009	4,704	430
2010	4,054	415
2011 - 2015	21,547	1,822

WilTel:

Effective on the date of sale, the Company froze WilTel's defined benefit pension plans. A summary of activity with respect to the plans for 2005 and 2004 is as follows (in thousands):

	2005	2004
Projected Benefit Obligation:		
Projected benefit obligation at beginning of period	$ 147,888	$ 129,912
Interest cost	9,410	7,829
Service cost	4,612	3,980
Actuarial loss	29,758	9,112
Curtailment gain	(2,334)	--
Benefits paid	(3,280)	(2,945)
Projected benefit obligation at December 31,	$ 186,054	$ 147,888
Change in Plan Assets:		
Fair value of plan assets at beginning of period	$ 74,601	$ 67,761
Actual return on plan assets	4,815	6,002
Employer contributions	21,769	3,783
Benefits paid	(3,280)	(2,945)
Fair value of plan assets at December 31,	$ 97,905	$ 74,601
Funded Status	$ (88,149)	$ (73,287)
Unrecognized net actuarial loss	40,739	14,572
Net amount recognized	$ (47,410)	$ (58,715)

17. Pension Plans and Postretirement Benefits, continued:

Since the Company froze the WilTel plans, the accumulated benefit obligation is the same as the projected benefit obligation as of December 31, 2005. As of December 31, 2004, the accumulated benefit obligation for the plan was $147,600,000. As of December 31, 2005 and 2004, $40,700,000 and $14,300,000, respectively, of the net amount recognized in the consolidated balance sheet was reflected as a charge to accumulated other comprehensive income and $88,100,000 and $73,300,000, respectively, was reflected as accrued pension cost.

Employer contributions expected to be paid to the plan in 2006 are $29,100,000.

Pension expense for the WilTel plans charged to results of discontinued operations included the following components (in thousands):

	2005	2004	November 6, 2003 (date of acquisition) to December 31, 2003
Interest cost	$ 9,410	$ 7,829	$ 1,075
Service cost	4,612	3,980	575
Expected return on plan assets	(6,509)	(5,391)	(640)
Actuarial loss	2,953	46	--
Net pension expense	$ 10,466	$ 6,464	$ 1,010

The plans' assets consist of equity securities (70%), debt securities (28%) and cash equivalents (2%) at December 31, 2005. At December 31, 2004, the plans' assets consisted of equity securities (71%), debt securities (19%) and cash equivalents (10%).

The investment objectives of the plans emphasize long-term capital appreciation as a primary source of return and current income as a supplementary source.

In connection with freezing the plan, the Company is reviewing the target allocation, which currently is as follows:

	Target
Equity securities:	
Large cap stocks	40%
Small cap stocks	10%
International stocks	20%
Total equity securities	70%
Fixed income/bonds	30%
Total	100%

Investment performance objectives are based upon a benchmark index or mix of indices over a market cycle. The investment strategy designates certain investment restrictions for domestic equities, international equities and fixed income securities. These restrictions include the following:

- For domestic equities, there will generally be no more than 5% of any manager's portfolio at market in any one company and no more than 150% of any one sector of the appropriate index for any manager's portfolio. Restrictions are also designated on outstanding market value of any one company at 5% for large to medium equities and 8% for small to medium equities.

17. Pension Plans and Postretirement Benefits, continued:

- For international equities, there will be no more than 8% in any one company in a manager's portfolio, no fewer than three countries in a manager's portfolio, no more than 10% of the portfolio in countries not represented in the EAFE index, no more than 150% of any one sector of the appropriate index and no currency hedging is permitted.

- Fixed income securities will all be rated BBB- or better at the time of purchase, there will be no more than 8% at market in any one security (U.S. government and agency positions excluded), no more than a 30-year maturity in any one security and investments in standard collateralized mortgage obligations are limited to securities that are currently paying interest, receiving principal, do not contain leverage and are limited to 10% of the market value of the portfolio.

The assumption for the expected long-term rate of return on plan assets considered historical returns and future expectations, including a more conservative expectation of future returns and asset allocation targets as the participant population grows closer to retirement age. Based on this information, a 7.0% expected long-term rate of return on plan assets was selected for 2005 and 2004.

The measurement date for WilTel's plans is December 31. The assumptions used for 2005 and 2004 are as follows:

	Pension Benefits	
	2005	2004
Weighted-average assumptions used to determine benefit obligation at December 31:		
Discount rate	5.40%	5.75%
Rate of compensation increase	3.50%	3.50%
Weighted-average assumptions used to determine net cost for the period ended December 31:		
Discount rate	5.75%	6.00%
Expected long-term return on plan assets	7.00%	7.00%
Rate of compensation increase	3.50%	3.50%

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.

The following pension benefit payments are expected to be paid (in thousands):

2006	$ 3,309
2007	2,926
2008	3,381
2009	2,911
2010	3,396
2011 - 2015	22,976

The Company and its consolidated subsidiaries have defined contribution pension plans covering certain employees. Contributions and costs are a percent of each covered employee's salary. Amounts charged to expense related to such plans were $1,700,000, $1,400,000 and $1,300,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

18. Commitments:

The Company and its subsidiaries rent office space and office equipment under noncancellable operating leases with terms varying principally from one to twenty years. Rental expense (net of sublease rental income and unfavorable contract amortization) was $8,100,000 in 2005, $7,600,000 in 2004 and $5,900,000 in 2003. Future minimum annual rentals (exclusive of month-to-month leases, real estate taxes, maintenance and certain other charges) under these leases at December 31, 2005 are as follows (in thousands):

2006	$ 10,415
2007	9,340
2008	7,127
2009	5,642
2010	3,615
Thereafter	7,862
	44,001
Less: sublease income	(5,785)
	$ 38,216

In connection with the sale of certain subsidiaries and certain non-recourse financings, the Company has made or guaranteed the accuracy of certain representations. No material loss is expected in connection with such matters.

Pursuant to an agreement that was entered into before the Company sold 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, $29,500,000 was outstanding under these bonds, $800,000 of which expires in 2006 and the remainder thereafter.

Symphony is limited by debt agreements in the amount of dividends and other transfers of funds that are available to the Company. Principally as a result of such restrictions, the net assets of subsidiaries which are subject to limitations on transfer of funds to the Company were approximately $8,800,000 at December 31, 2005.

19. Litigation:

The Company and its subsidiaries are parties to legal proceedings that are considered to be either ordinary, routine litigation incidental to their business or not material to the Company's consolidated financial position. The Company does not believe that any of the foregoing actions will have a material adverse effect on its consolidated financial position or liquidity.

20. Earnings (Loss) Per Common Share:

For the year ended December 31, 2005, the numerators for basic and diluted per share computations for income from continuing operations were $1,224,100,000 and $1,238,300,000, respectively. For the year ended December 31, 2004, the numerators for basic and diluted per share computations for income from continuing operations were $208,500,000 and $214,800,000, respectively. The calculations for diluted earnings (loss) per share assumes the 3 3/4% Convertible Notes had been converted into common shares for the periods they were outstanding and earnings increased for the interest on such notes.

20. Earnings (Loss) Per Common Share, continued:

For the year ended December 31, 2003, there were no differences in the numerators for the basic and diluted per share computations for income from continuing operations; the numerator was $101,100,000. The denominators for basic per share computations were 107,765,000, 106,692,000 and 91,896,000 for 2005, 2004 and 2003, respectively. The denominators for diluted per share computations reflect the dilutive effect of 252,000, 779,000 and 656,000 options and warrants for 2005, 2004 and 2003, respectively (the treasury stock method was used for these calculations), and 7,620,000 and 5,275,000 shares related to the 3 3/4% Convertible Notes for 2005 and 2004, respectively.

21. Fair Value of Financial Instruments:

The following table presents fair value information about certain financial instruments, whether or not recognized on the balance sheet. Fair values are determined as described below. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The fair value amounts presented do not purport to represent and should not be considered representative of the underlying "market" or franchise value of the Company. The methods and assumptions used to estimate the fair values of each class of the financial instruments described below are as follows:

(a) Investments: The fair values of marketable equity securities, fixed maturity securities and investments held for trading purposes (which include securities sold not owned) are substantially based on quoted market prices, as disclosed in Note 6. The fair value of the Company's investment in the Inmet common shares, all of which are restricted as discussed in Note 6, is based on quoted market prices. The fair values of the Company's other equity securities that are accounted for under the cost method (aggregating $73,600,000) were not practicable to estimate; the fair values were assumed to be the carrying amount.

(b) Cash and cash equivalents: For cash equivalents, the carrying amount approximates fair value.

(c) Notes receivables: The fair values of variable rate notes receivable are estimated to be the carrying amount.

(d) Loan receivables of banking and lending subsidiaries: The carrying amount approximates fair value.

(e) Customer banking deposits: At December 31, 2004, the fair value of customer banking deposits is estimated using rates currently offered for deposits of similar remaining maturities.

(f) Long-term and other indebtedness: The fair values of non-variable rate debt are estimated using quoted market prices and estimated rates which would be available to the Company for debt with similar terms. The fair value of variable rate debt is estimated to be the carrying amount.

(g) Derivative instruments: The fair values of the interest rate swap and currency rate swap agreements are based on rates currently available for similar agreements.

21. Fair Value of Financial Instruments, continued:

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2005 and 2004 are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Investments:				
Current	$ 1,323,562	$ 1,323,562	$ 1,084,745	$ 1,084,745
Non-current	977,327	1,041,446	718,326	718,326
Cash and cash equivalents	386,957	386,957	277,238	277,238
Notes receivable:				
Current	6,413	6,413	1,697	1,697
Non-current	3,787	3,787	--	--
Loan receivables of banking and lending subsidiary, net of allowance:				
Current	1,056	1,056	1,733	1,733
Non-current	1,376	1,376	1,625	1,625
Financial Liabilities:				
Customer banking deposits:				
Current	--	--	18,472	18,658
Non-current	--	--	6,119	6,251
Debt:				
Current	175,664	176,052	64,799	65,201
Non-current	986,718	1,038,252	1,067,123	1,180,371
Securities sold not owned	24,268	24,268	50,569	50,569
Derivative Instruments:				
Interest rate swaps	(677)	(677)	(2,342)	(2,342)
Foreign currency swaps	(2,546)	(2,546)	(5,878)	(5,878)

22. Segment Information:

The Company's reportable segments consist of its operating units, which offer different products and services and are managed separately. The Company's manufacturing operations are conducted through Idaho Timber and its plastics manufacturing segment. Idaho Timber primarily remanufactures, manufactures and/or distributes wood products. The Company's plastics manufacturing operations manufacture and market lightweight plastic netting used for a variety of purposes. The Company's healthcare services operations provide physical, occupational and speech therapy services, healthcare staffing services and Medicare consulting services. The Company's telecommunications operations are principally conducted through ATX, an integrated communications provider that offers a wide range of telecommunication services in the Mid-Atlantic region of the United States. The Company's domestic real estate operations consist of a variety of commercial properties, residential land development projects and other unimproved land, all in various stages of development and all available for sale. Other operations primarily consist of the Company's wineries and residual banking and lending activities that are in run-off.

22. Segment Information, continued:

Associated companies include equity interests in entities that the Company accounts for on the equity method of accounting. Investments in associated companies include CLC, Olympus, Berkadia, HomeFed, JPOF II and EagleRock. Both JPOF II and EagleRock are entities engaged in investing and/or securities transactions activities.

Corporate assets primarily consist of investments and cash and cash equivalents and corporate revenues primarily consist of investment income and securities gains and losses. Corporate assets, revenues, overhead expenses and interest expense are not allocated to the operating units. The Company has a manufacturing facility located in Belgium, which is the only foreign operation with non-U.S. revenue or assets that the Company consolidates, and it is not material. In addition to its investment in Bermuda-based Olympus, the Company owns 36% of the principal electric utility in Barbados, and an interest, through its 30% ownership of CLC, in a copper deposit in Spain. From time to time the Company invests in the securities of non-U.S. entities or in investment partnerships that invest in non-U.S. securities.

Certain information concerning the Company's segments for 2005, 2004 and 2003 is presented in the following table. Consolidated subsidiaries are reflected as of the date of acquisition, which was September 2003 for Symphony, April 2005 for ATX and May 2005 for Idaho Timber. Associated Companies are only reflected in the table below under identifiable assets employed.

22. Segment Information, continued:

	2005	2004	2003
		(In millions)	
Revenues and other income (a):			
Manufacturing:			
Idaho Timber	$ 239.0	$ --	$ --
Plastics	93.6	64.4	54.1
Healthcare Services	239.9	258.4	71.1
Telecommunications	111.4	--	--
Domestic Real Estate	29.8	63.5	50.4
Other Operations	59.1	70.8	95.6
Corporate (b)	268.3	180.9	42.5
Total consolidated revenues and other income	$ 1,041.1	$ 638.0	$ 313.7
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies:			
Manufacturing:			
Idaho Timber	$ 8.2	$ --	$ --
Plastics	14.2	7.9	4.4
Healthcare Services	3.3	5.1	(2.3)
Telecommunications	(1.9)	--	--
Domestic Real Estate	4.1	20.7	18.1
Other Operations	6.1	18.6	9.1
Corporate (b)	101.9	59.6	(37.5)
Elimination (c)	2.3	--	--
Total consolidated income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies	$ 138.2	$ 111.9	$ (8.2)
Identifiable assets employed:			
Manufacturing:			
Idaho Timber	$ 162.7	$ --	$ --
Plastics	81.9	50.4	50.8
Healthcare Services	55.5	65.6	54.6
Telecommunications	88.6	--	--
Domestic Real Estate	182.7	253.2	275.8
Other Operations	252.0	403.7	505.8
Investments in Associated Companies	375.5	460.8	430.9
Corporate	4,062.0	2,070.1	1,456.9
Assets of discontinued operations	--	1,496.6	1,622.4
Total consolidated assets	$ 5,260.9	$ 4,800.4	$ 4,397.2

22. Segment Information, continued:

(a) 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) on the Company's consolidated statements of operations.

(b) Net securities gains for Corporate aggregated $199,500,000 and $123,100,000 during 2005 and 2004, respectively, which primarily resulted from the sale of publicly traded debt and equity securities that had been classified as available for sale securities. Security gains in 2005 include a gain from the sale of WMIG of $146,000,000. For 2005 and 2004, security gains include provisions of $12,200,000 and $4,600,000, respectively, to write down investments in certain available for sale securities. For 2003, security gains include a provision of $6,500,000 to write down investments in certain available for sale securities and an investment in a non-public security. The write downs of the available for sale securities resulted from declines in market value determined to be other than temporary.

(c) Eliminates services purchased by ATX from WilTel and recorded as a cost of sales by ATX.

(d) For the years ended December 31, 2005, 2004 and 2003, income (loss) from continuing operations has been reduced by depreciation and amortization expenses of $41,300,000, $29,400,000 and $29,100,000, respectively; such amounts are primarily comprised of Corporate ($10,700,000, $11,400,000 and $11,700,000, respectively), manufacturing ($14,200,000, $5,200,000 and $4,700,000, respectively), other operations ($5,500,000, $6,900,000 and $7,800,000, respectively) and telecommunications ($7,500,000 in 2005). Depreciation and amortization expenses for other segments are not material.

(e) For the years ended December 31, 2005, 2004 and 2003, income (loss) from continuing operations has been reduced by interest expense of $68,400,000, $62,700,000 and $37,900,000, respectively; such amounts are primarily comprised of Corporate ($63,200,000, $55,300,000 and $26,000,000, respectively), healthcare services ($2,800,000, $2,200,000 and $600,000, respectively) and banking and lending, which is included in other operations ($1,100,000, $2,700,000 and $8,800,000, respectively). Interest expense for other segments is not material.

23. Selected Quarterly Financial Data (Unaudited):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share amounts)			
2005:				
Revenues and other income	$ 121,295	$ 258,665	$ 343,265	$ 317,922
Income (loss) from continuing operations	$ (6,695)	$ 1,205,266	$ 47,229	$ (21,688)
Income from discontinued operations, net of taxes	$ 9,308	$ 11,267	$ 56,755	$ 34,227
Gain on disposal of discontinued operations, net of taxes	$ --	$ 54,578	$ 130	$ 245,664
Net income	$ 2,613	$ 1,271,111	$ 104,114	$ 258,203
Basic earnings (loss) per common share:				
Income (loss) from continuing operations	$(.06)	$11.20	$.44	$(.20)
Income from discontinued operations	.08	.10	.53	.32
Gain on disposal of discontinued operations	--	.51	--	2.27
Net income	$ .02	$11.81	$.97	$2.39
Number of shares used in calculation	107,609	107,652	107,797	107,983
Diluted earnings (loss) per common share:				
Income (loss) from continuing operations	$(.06)	$10.46	$ .44	$ (.20)
Income from discontinued operations	.08	.10	.49	.32
Gain on disposal of discontinued operations	--	.47	--	2.27
Net income	$ .02	$11.03	$ .93	$ 2.39
Number of shares used in calculation	107,609	115,513	115,664	107,983
2004:				
Revenues and other income	$ 124,083	$ 173,009	$ 202,653	$ 138,217
Income from continuing operations	$ 23,438	$ 60,895	$ 78,601	$ 45,615
Income (loss) from discontinued operations, net of taxes	$ (35,390)	$ (29,157)	$ (4,037)	$ 3,722
Gain (loss) on disposal of discontinued operations, net of taxes	$ --	$ 2,237	$ --	$ (424)
Net income (loss)	$ (11,952)	$ 33,975	$ 74,564	$ 48,913
Basic earnings (loss) per common share:				
Income from continuing operations	$ .22	$ .57	$ .74	$ .43
Income (loss) from discontinued operations	(.33)	(.27)	(.04)	.03
Gain (loss) on disposal of discontinued operations	--	.02	--	--
Net income (loss)	$(.11)	$ .32	$ .70	$ .46
Number of shares used in calculation	106,272	106,320	106,717	107,404
Diluted earnings (loss) per common share:				
Income from continuing operations	$ .22	$ .55	$ .70	$ .41
Income (loss) from discontinued operations	(.33)	(.25)	(.03)	.03
Gain (loss) on disposal of discontinued operations	--	.02	--	--
Net income (loss)	$ .11	$ .32	$ .67	$ .44
Number of shares used in calculation	106,272	112,948	115,072	115,560

Income from continuing operations includes credits to income tax expense of $1,100,000,000 and $25,100,000 for the second and third quarters of 2005, respectively, resulting from reversals of the deferred income tax valuation allowance.

23. Selected Quarterly Financial Data (Unaudited), continued:

The Internal Revenue Service has completed the audit of the Company's consolidated federal income tax returns for the years 1996 through 1999, without any material tax payment required from the Company. Income taxes reflect a benefit for the favorable resolution of certain income tax contingencies for which the Company had previously established reserves of $27,300,000 in the third quarter of 2004. In addition, the fourth quarter of 2004 reflects a benefit to record a federal income tax carryback refund of $3,900,000.

In 2005 and 2004, the totals of quarterly per share amounts do not equal annual per share amounts because of changes in outstanding shares during the year.

Schedule II - Valuation and Qualifying Accounts
LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
For the years ended December 31, 2005, 2004 and 2003
(In thousands)

		Additions			Deductions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Recoveries	Other	Write Offs	Sale of Receivables	Other	Balance at End of Period
2005								
Loan receivables of banking and lending subsidiaries	$ 946	$ (323)	$ 90	$ --	$ 177	$ --	$ --	$ 536
Trade, notes and other receivables	7,488	7,995	144	5,215	5,701	245	--	14,896
Total allowance for doubtful accounts	$ 8,434	$ 7,672	$ 234	$ 5,215	$ 5,878	$ 245	$ --	$ 15,432
Deferred tax asset valuation allowance	$2,185,275	$ --	$ --	$ --	$ --	$ --	$1,380,446 (a)	$ 804,829
2004								
Loan receivables of banking and lending subsidiaries	$ 24,236	$ (8,301)	$11,215	$ --	$11,331	$14,873	$ --	$ 946
Trade, notes and other receivables	2,268	4,967	4,860	--	4,607	--	--	7,488
Total allowance for doubtful accounts	$ 26,504	$ (3,334)	$16,075	$ --	$15,938	$14,873	$ --	$ 8,434
Deferred tax asset valuation allowance	$2,237,753	$ --	$ --	$ --	$ --	$ --	$ 52,478 (b)	$2,185,275
2003								
Loan receivables of banking and lending subsidiaries	$ 31,848	$ 16,411	$12,175	$ --	$36,198	$ --	$ --	$ 24,236
Trade, notes and other receivables	883	3,319	123	--	2,057	--	--	2,268
Total allowance for doubtful accounts	$ 32,731	$ 19,730	$12,298	$ --	$38,255	$ --	$ --	$ 26,504
Deferred tax asset valuation allowance	$ 49,551	$ --	$ --	$2,229,709 (c)	$ --	$ --	$ 41,507 (d)	$2,237,753

(a) 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.

(b) Principally results from the recognition of acquired tax benefits, of which $22,300,000 was applied to reduce the carrying amount of acquired non-current intangible assets to zero, $3,900,000 resulted from a carryback refund claim and $6,500,000 resulted from the use of acquired tax attributes to offset the federal income tax provision that would have otherwise been recorded during 2004.

(c) Additions represent acquired tax benefits, for which the Company established a full valuation allowance at acquisition since the Company was not able to demonstrate that it was more likely than not that it will be able to realize such tax benefits.

(d) Principally results from the recognition of acquired tax benefits of $22,500,000, which was applied to reduce the carrying amount of acquired non-current intangible assets and a reclassification to other liabilities.

Report of Independent Registered Public Accounting Firm

The Stockholder
WilTel Communications Group, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity (deficit), and cash flows of WilTel Communications Group, Inc., for the period from January 1, 2003 to November 5, 2003. These financial statements are the responsibility of the Company'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 of the Public Company Accounting Oversight Board (United States). 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 consolidated results of operations and cash flows of WilTel Communications Group, Inc. for the period from January 1, 2003 to November 5, 2003, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Tulsa, Oklahoma
February 20, 2004

WILTEL COMMUNICATIONS GROUP, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Period from January 1, 2003 through November 5, 2003
	(In thousands, except per share amounts)
Revenues	$ 1,111,415
Operating expenses:	
Cost of sales	901,293
Selling, general and administrative	145,580
Provision for doubtful accounts	4,199
Depreciation and amortization	208,480
Other income, net	(1,298)
Total operating expenses	1,258,254
Loss from operations	(146,839)
Interest accrued	(34,708)
Interest and other investment income	4,010
Minority interest in loss of consolidated subsidiary	2,378
Gain on sale of consolidated subsidiary	21,089
Other income, net	45,347
Loss before income taxes	(108,723)
Provision for income taxes	(23)
Net loss	(108,746)
Basic and diluted loss per share	$ (2.17)
Weighted average shares outstanding	50,000

See accompanying notes.

WILTEL COMMUNICATIONS GROUP, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)		
Balance, January 1, 2003	500	749,500	(61,049)	780	689,731
Net loss	--	--	(108,746)	--	(108,746)
Other comprehensive loss:					
Foreign currency translation adjustments	--	--	--	(781)	(781)
Minimum pension liability adjustment	--	--	--	(658)	(658)
Comprehensive loss	--	--	--	--	(110,185)
Balance, November 5, 2003	$ 500	$ 749,500	$ (169,795)	$ (659)	$ 579,546

See accompanying notes.

WILTEL COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Operating activities	
Net loss	$ (108,746)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization	208,480
Provision for doubtful accounts	4,199
Gain on sales of property and other assets	(1,502)
Minority interest in loss of consolidated subsidiary	(2,378)
Gain on sale of consolidated subsidiary	(21,089)
Cash provided by (used in) changes in:	
Receivables	(39,003)
Prepaid and other current assets	(37,686)
Accounts payable	16,766
Current deferred revenue	(7,339)
Accrued liabilities	(26,288)
Long-term deferred revenue	(25,453)
Other	(1,967)
Net cash used in operating activities	(42,006)
Financing activities	
Payments on and purchase of long-term debt	(20,098)
Net cash used in financing activities	(20,098)

WILTEL COMMUNICATIONS GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS - (Continued)

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Investing activities	
Property, plant and equipment:	
Capital expenditures	(47,530)
Proceeds from net tax refunds, settlements and sales	32,671
Changes in accrued liabilities	(12,533)
Proceeds from sale of consolidated subsidiary	19,575
Restricted investments	(13,081)
Net cash used in investing activities	(20,898)
Decrease in cash and cash equivalents	(83,002)
Cash and cash equivalents at beginning of period	291,288
Cash and cash equivalents at end of period	$ 208,286

See accompanying notes.

WILTEL COMMUNICATIONS GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Leucadia Exchange Offer -- Basis of Presentation -- Summary of Significant Accounting Policies

Leucadia Exchange Offer

Effective November 6, 2003, WilTel Communications Group, Inc. ("WilTel") and Leucadia National Corporation ("Leucadia") consummated an exchange offer and a merger agreement pursuant to which all WilTel stockholders received 0.4242 of a Leucadia common share for each share of WilTel common stock. Leucadia issued 11,156,460 of its common shares in exchange for all of the WilTel common shares that it did not previously own. Upon completion of the back-end merger, WilTel ceased to be a public company and began to be consolidated by Leucadia effective November 6, 2003.

The merger agreement also provided that WilTel stockholders receive contingent sale rights, which entitle WilTel stockholders to additional Leucadia common shares if Leucadia sells substantially all of WilTel's assets or outstanding shares of capital stock prior to October 15, 2004, or consummates such a sale at a later date if the sale agreement was entered into prior to August 21, 2004, and in either case, the net proceeds exceed the valuation ascribed to WilTel's equity in the merger transaction.

Basis of Presentation

WilTel emerged from bankruptcy on October 15, 2002. Pursuant to the provisions of Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code," WilTel adopted the provisions of fresh start accounting on October 31, 2002. Under fresh start accounting the net reorganization value of the Company was allocated among the Company's individual assets and liabilities based on their relative fair value.

2003 Presentation

The financial statements presented for 2003 are for the period from January 1, 2003 through November 5, 2003, which represents the results of operations and cash flows prior to the acquisition by Leucadia.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. In addition, the Company also consolidated a subsidiary that it controlled but owned less than 50% of the voting common stock, until it was sold in 2003 (see Note 3).

Revenue Recognition

Network

Capacity, transmission, video services and other telecommunications services revenues are recognized monthly as the services are provided or revenues are earned. If at the time services are rendered collection is not reasonably assured either due to credit risk, the potential for billing disputes, or other reasons, revenue is not recognized until such contingencies

are resolved. Amounts billed in advance of the service month are recorded as deferred revenue. Payments received for the installation of conduit under joint build construction contracts are generally recorded as a recovery of the applicable construction costs. Revenues under multiple element contracts are recognized based on the respective fair values of each individual element within the multiple element contract. Revenues from conduit and duct sales are recognized at time of delivery and acceptance and when all significant contractual obligations have been satisfied and collection is reasonably assured.

Grants of indefeasible rights of use, or IRUs, of constructed but unlit fiber, or dark fiber, in exchange for cash, are accounted for as operating leases, since the Company's IRUs generally do not transfer title to the fibers under lease to the lessee. If title is transferred to the lessee, the transaction would be accounted for as a sales-type lease.

Cost of sales includes operating and maintenance costs, leased capacity, right-of-way costs, access charges, other third party circuit costs, satellite transponder lease costs, and package delivery costs and blank tape media costs related to ads distribution services. Operating and maintenance costs include the costs of network management functions and personnel that provide network fault indication, performance information, data and diagnosis functions, field operations, network planning and engineering as well as the cost of contract maintenance. WilTel does not defer installation costs.

The Company has entered into transactions such as buying, selling, swapping and/or exchanging capacity, conduit and fiber to complete and compliment its network. Depending upon the terms of the agreement, certain transactions are accounted for as pure asset swaps with no revenue and no cost recognition while certain transactions are accounted for as both revenue and cost over the corresponding length of time for each agreement. If the exchange is not essentially the culmination of an earning process, accounting for an exchange of a nonmonetary asset is based on the recorded amount of the nonmonetary asset relinquished, and therefore no revenue and cost is recorded in accordance with Accounting Principles Board ("APB") Opinion No. 29. Examples of transactions cited by APB Opinion No. 29 that are not the culmination of the earnings process include exchange of productive assets for similar productive assets or for an equivalent interest in similar productive assets.

Revenues that have been deferred for long-term service contracts are amortized using the straight-line method over the life of the related contract. The Company classifies as current the amount of deferred revenue that will be recognized into revenue over the next twelve months.

Revenues that have been deferred for long-term service contracts that are subsequently terminated or included as part of an overall settlement agreement have been recognized in other income.

Vyvx

Transmission and video services revenues are recognized monthly as the services are provided. Amounts billed in advance of the service month are recorded as deferred revenue.

Provision for Doubtful Accounts

A provision for doubtful accounts is recorded when the collectibility of a specific customer's receivable balance becomes at risk due to a deterioration in the customer's financial condition or evidence that recovery of the past due receivable balance is unlikely. In addition, the Company maintains a general reserve based on past collection history. An accounts receivable balance is written-off against the allowance for doubtful accounts when reasonable collection efforts have been exhausted and the balance is deemed worthless.

Depreciation Expense

Depreciation is computed primarily on the straight-line method over estimated useful lives with the exception of assets acquired through capital leases, which are depreciated over the lesser of the estimated useful lives or the term of the lease.

Income Taxes

Prior to the spin-off of WCG from TWC in April 2001, WCG's operations were included in TWC's consolidated federal income tax return. A tax sharing agreement existed between WCG and TWC to allocate and settle among themselves the consolidated federal income tax liability. Deferred income taxes were allocated from TWC using the liability method and were provided on all temporary differences between the financial basis and allocated tax basis of WCG's assets and liabilities. Valuation allowances were established to reduce deferred tax assets to an amount that was more likely than not be realized.

Effective with the spin-off of WCG from TWC in April 2001, the existing tax sharing agreement with TWC was amended to address pre spin-off tax attributes. Under the amendment, TWC retained all rights and obligations with respect to tax attributes of WCG for all periods prior to WCG's initial public offering. In the event of any final determination with respect to a WCG tax attribute that arose from the time of WCG's initial public offering to the date of the spin-off of WCG from TWC, WCG would pay TWC for any determination resulting in a detriment as compared to previous amounts filed and TWC would pay WCG for any determination resulting in favorable tax consequences as compared to amounts filed. Tax attributes of WCG arising subsequent to the spin-off date are rights and obligations of WCG. The tax sharing agreement was further amended in July 2002 by the Tax Cooperation Agreement, which provides that upon emergence from bankruptcy WCG has no responsibility for indemnification of TWC for pre-spinoff tax items.

Income taxes are provided based on the liability method of accounting. Deferred income taxes are provided for the expected future tax consequences of temporary differences between the basis of assets and liabilities reported for financial and tax purposes.

Loss Per Share

The Company's basic loss per share is based on the sum of the average number of common shares outstanding and deferred shares, if any. Diluted loss per share includes any dilutive effect of stock options and convertible preferred stock. For WilTel, the basic and diluted loss per share is the same as it does not have any dilutive securities outstanding.

Foreign Currency Translation

The functional currency of the Company is the U.S. dollar. Generally, the functional currency of the Company's foreign operations is the applicable local currency for each foreign subsidiary. Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date, and the combined statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting cumulative translation adjustment is recorded as a separate component of other comprehensive income.

Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in the statement of operations.

Recently Issued Accounting Standards

In December 2003, the Financial Accounting Standards Board issued SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132R"), which is effective for financial statements with fiscal years ending after December 15, 2003. The Company has adopted SFAS 132R, which requires additional disclosures to those required in the original Statement 132.

2. Segment Disclosures

The Company's reportable segments are Network and Vyvx.

Network owns or leases and operates a nationwide inter-city fiber-optic network. Network has also built a fiber-optic network within certain cities in the U.S. and has the ability to connect to networks outside the U.S., including Asia, Australia, Canada, Europe, Guam, Mexico and New Zealand. Network provides Internet, data, voice and video services to companies that use high-capacity and high-speed telecommunications in their businesses. Network sells its products to the wholesale carrier and enterprise market segments, and many of its most significant customers provide retail telecommunications services to consumers and business enterprises. Network also offers rights of use in dark fiber, which is fiber that it installs but for which it does not provide communications transmission services. Network also provides space and power to collocation customers at network centers and a variety of professional and managed services to customers including network design and construction, network management and network monitoring or surveillance.

Vyvx transmits audio and video programming for its customers over Network's fiber-optic network and via satellite. Vyvx transmits live traditional broadcast and cable television events from the site of the event to the network control centers of the broadcasters of the event. In addition, Vyvx provides an integrated satellite and fiber-optic network based service to transmit live content from remote locations to its customers. Vyvx also distributes advertising spots and syndicated programming to radio and television stations throughout the U.S., both electronically and in physical form. Customers for these services can utilize a network-based method for aggregating, managing, storing and distributing content owners and right holders.

The Company evaluates performance based upon segment profit (loss) from operations, which represents earnings before interest, income taxes, depreciation and amortization and other unusual or non-cash items, such as asset impairments and restructuring charges, equity earnings or losses and minority interest. A reconciliation of segment loss from operations to loss from operations is provided below. Intercompany sales are generally accounted for as if the sales were to unaffiliated third parties. The following tables present certain financial information concerning the Company's reportable segments.

	Network	Vyvx	Eliminations	Total
		(In thousands)		
Period from January 1, 2003 through November 5, 2003				
Revenues:				
Capacity and other	$ 1,005,175	$ 106,240	$ --	$ 1,111,415
Intercompany	21,885		(21,885)	--
Total segment revenues	$ 1,027,060	$ 106,240	$ (21,885)	$ 1,111,415
Costs of sales:				
Capacity and other	856,110	45,183	--	901,293
Intercompany	--	21,885	(21,885)	--
Total cost of sales	$ 856,110	$ 67,068	$ (21,885)	$ 901,293
Segment profit:				
Income (loss) from operations	$ (150,710)	$ 3,871	$ --	$ (146,839)
Adjustments to reconcile income (loss) from operations to segment profit:				
Depreciation and amortization	196,230	12,250	--	208,480
Segment profit	$ 45,520	$ 16,121	$ --	$ 61,641
Additions to long-lived assets	$ 45,772	$ 1,758	$ --	$ 47,530

The following geographic area data includes revenues from external customers based on origin of services rendered January 1, 2003 through November 5, 2003.

Revenues from external customers:	
United States	$ 1,062,387
Other	49,028
Total	$ 1,111,415

For the period from January 1, 2003 through November 5, 2003, one of Network's customers exceeded 10% of the Company's revenue with sales of approximately $552 million.

3. Gain on Sale of Consolidated Subsidiary

The net assets of PowerTel, a consolidated subsidiary, were assumed to have minimal value based on assessments by management and its financial advisor assisting with the potential sale of the Company's ownership interest in PowerTel. Important elements of that assessment included PowerTel's struggles to maintain compliance with its bank covenants, and the assessment that improvements in market conditions or improved operations during the periods following fresh start, neither which could be predicted with certainty, would be required in order to ascribe a higher value.

In August 2003, market conditions improved such that WilTel successfully entered into agreements to sell its ownership interest in PowerTel. WilTel sold its common and preferred stock interest to TVG Consolidation Holdings SPRL for 20 million Australian dollars (or $13.1 million). In addition, WilTel also settled its intercompany receivable from PowerTel for 10 million Australian dollars (or $6.5 million). The proceeds from the sale of the PowerTel stock were placed in a restricted bank account pursuant to the terms of agreements related to the Company's One Technology Notes outstanding. Accordingly, the Company has classified the restricted investments ($13.1 million as of November 5, 2003) as other noncurrent assets. The sale resulted in a non-recurring gain of $21.1 million. Net loss attributable to PowerTel was $1.6 million for the period ended November 5, 2003.

4. Other Income, Net

Other income, net of $45.3 million for the period from January 1, 2003 through November 5, 2003 includes non-recurring, non-operating settlement gains of $28.5 million related to the termination of various agreements. As a result of the termination of the agreements, the Company will no longer be required to perform the contractual obligations that were the basis for the recording of the deferred revenue performance obligations. In addition, other income, net includes $16.8 million of non-recurring, non-operating gains primarily related to the termination of arrangements previously accrued as unfavorable commitments and recoveries of various receivables previously written off.

5. Provision for Income Taxes

The provision for income taxes includes:

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Current:	
Federal	$ --
State	(23)
	(23)
Deferred:	
Federal	--
State	--
	--
Total provision for income taxes	$ (23)

The U.S. and foreign components of loss before income taxes are as follows:

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
United States	$(127,993)
Foreign	19,270
Total loss before income taxes	$(108,723)

The Company's undistributed earnings from non U.S. subsidiaries in 2003 have been accounted for as if fully repatriated.

Reconciliation of the benefit from income taxes at the federal statutory rate to the provision for income taxes are as follows:

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Benefit at statutory rate	$ 38,053
Increases (reductions) resulting from:	
State income taxes	(15)
Foreign operations	6,745
Non-deductible reorganization expenses	(1,750)
Valuation allowance adjustments	(42,913)
Other-- net	(143)
Provision for income taxes	$ (23)

As of November 5, 2003, the Company had $3.3 billion of federal net operating losses, of which $859.9 million, $1.2 billion, $535.2 million and $647.0 million expire in 2019, 2020, 2021 and 2022, respectively, and $402.3 million of estimated capital loss carryforwards, of which $209.3 million, $88.5 million, $0.9 million, $34.0 million and $69.7 million will expire in 2003, 2004, 2005, 2006 and 2007, respectively, and $222.9 million of foreign net operating losses as well as various state net operating losses that expire at various dates. Valuation allowances have been established that fully reserve the net deferred tax assets. Uncertainties that may affect the utilization of the loss carryforwards include future operating results, tax law changes, rulings by taxing authorities regarding whether certain transactions are taxable or deductible and expiration of carryforward periods. The valuation allowance change for the period from January 1, 2003 through November 5, 2003 was an increase of $50.1 million.

If the Company had filed a separate federal income tax return for all periods presented, the tax provision would have been unchanged.

6. Employee Benefit Plans

Pension and Other Postretirement Benefit Plans

WilTel provides both funded and unfunded noncontributory defined benefit pension plans to substantially all of its employees who were employed prior to April 24, 2001. The funded pension plan provides defined benefits based on amounts credited to employees on a cash balance formula. The formula takes into account age, compensation, social-security-wage base and benefit service with the company. An additional unfunded, unqualified pension plan is offered to pension plan participants with earnings in excess of $200,000.

WilTel also has an unfunded other postretirement benefit plan covering employees who were employed prior to January 1, 1992. This health care plan is contributory with participants' contributions adjusted annually. Benefits are paid to eligible employees with 10 years of service and aged 55 years or older when leaving the company.

Components of Net Periodic Benefit Cost

The following tables present net pension expense and other postretirement benefit expense for the WilTel Plans.

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Components of net period pension expense:	
Service cost	$ 5,090
Interest cost	6,556
Expected return on plan assets	(3,688)
Net periodic pension expense	7,958
Total pension cost	$ 7,958
Additional information:	
Increase in minimum liability included in other comprehensive income (before taxes)	$ 658

	Period from January 1, 2003 through November 5, 2003
	(In thousands)
Components of net periodic postretirement benefit expense:	
Service cost	$ 111
Interest cost	92
Recognized net actuarial (gain) loss	(18)
Total postretirement cost	$ 185

Assumptions

The following are the weighted-average assumptions utilized to determine net periodic pension benefit cost for the period ended November 5, 2003:

	Net Periodic Pension Benefit Cost
Discount rate	6.75%
Expected return on plan assets	7.00%
Rate of compensation increase	3.50%

The general approach for determining the expected long-term rate-of-return-on-assets assumption is to review the asset allocation targets and their corresponding historic weighted-average returns and adjust those rates as necessary to properly reflect capital market expectations. With the aid of a computer model, average returns, average volatility, correlations of asset classes to each other, and minimum and maximum allocation constraints were analyzed over several historic periods (the period 1926-2001, post-war period 1952-2001 and the ten years to December 2001). These historic returns were then adjusted in order to reflect a more conservative expectation of future returns and asset allocation targets reflective of the closed participant population growing closer to retirement age.

The following are the weighted-average assumptions utilized to determine net periodic other postretirement benefit cost for the period ended November 5, 2003:

	Other Post Retirement Benefits
Discount rate	6.75%

The various nonpension postretirement benefit plans which WilTel sponsors provide for retiree contributions and contain other cost-sharing features such as deductibles and coinsurance. The accounting for these plans anticipates future cost-sharing changes to the written plans that are consistent with WilTel's expressed intent to increase the retiree contribution rate generally in line with health care cost increases.

The health care cost trend rate assumption has a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point	
	Increase	Decrease
	(In thousands)	
Effect on total of service and interest cost components	$ 5	$ (4)

Pension Plan Contributions

WilTel expects to contribute $5 million to its pension plan in 2004.

Defined Contribution Plan

Beginning January 1, 2001, the Company established and continues to maintain a defined contribution plan for its employees. Prior to January 1, 2001, the Company's employees were included in various defined contribution plans maintained by TWC ("The Williams Companies"). The Company's costs related to these plans were $5.3 million for the period from January 1, 2003 through November 5, 2003.

7. Interest

Cash payments for interest, net of amounts capitalized, were $25.8 million, for the period from January 1, 2003 through November 5, 2003. These payments include commitment fees relating to the Company's credit facility of $1.1 million, for the period from January 1, 2003 through November 5, 2003.

8. Accumulated Other Comprehensive Income

The table below presents changes in the components of accumulated other comprehensive income (loss).

	Unrealized Appreciation (Depreciation) of Securities	Foreign Currency Translation Adjustments	Minimum Pension Liability	Total
		(In thousands)		
Balance as of January 1, 2003	--	780	--	780
Change for the period from January 1, 2003 through November 5, 2003:				
Pre-income tax amount	--	(82)	(658)	(740)
Reclassification adjustment for net gains realized in net loss	--	(699)	--	(699)
Balance as of November 5, 2003	$ --	$ (1)	$ (658)	$ (659)

9. Leases

Future minimum annual rentals under noncancellable operating leases as of November 5, 2003 are payable as follows (in thousands):

	Total
2004	$ 53,444
2005	49,999
2006	44,850
2007	42,516
2008	38,025
Thereafter	259,233
Total minimum annual rentals	$ 488,067

For the period from January 1, 2003 through November 5, 2003, total capacity expense incurred from leasing from a third party's network (off-network capacity expense) was $35.4 million and all other rent expense was $29.2 million.

10. Related Party Transactions

Transactions with Former Executive Officers

As part of the spin-off from TWC, WCG inherited a long-established loan program from TWC under which TWC extended loans to its executives to purchase TWC stock (the "Executive Loans"). At the time of the spin-off, six WCG executives had outstanding loans with TWC, and as part of the spin-off, the Executive Loans were transferred to WCG. As of December 31, 2001, the outstanding balance of these loans were $19.9 million, all which were considered long-term receivables.

Effective December 31, 2001, the Compensation Committee of the Board of Directors of WCG established a program to award annual retention bonuses over a period of five years in the aggregate amount of $13 million to certain executives to be applied, after deduction of applicable withholding taxes, solely against their respective outstanding principal loan balances. The agreements executed under this program were subsequently amended in conjunction with the Plan.

Under the amended retention bonus agreements, the Company reimbursed interest payments owed by the WCG executives as of January 1, 2002. In addition, the Company became responsible for paying all taxes, limited to an aggregate total of $20 million, associated with interest and principal payments under the retention bonus agreements, as well as any taxes incurred as a result of the payment of taxes by the Company. Under a separate amendment, all retention bonus payments vested upon consummation of the transactions included in the Plan, but still are to be paid out over the first through fourth anniversaries of the Effective Date, unless accelerated as a result of death or disability of the payee. Any officers who were parties to retention bonus agreements were not eligible to participate in the Company's otherwise applicable change in control severance plan. For the period from January 1, 2003 through November 5, 2003, tax gross-up estimates were reduced by $1 million offsetting selling, general and administrative expense.

11. Commitments and Contingencies

Commitments

The Company has historically entered into various telecommunications equipment agreements in connection with its fiber-optic network. As of November 5, 2003, the Company's remaining purchase obligations under its remaining purchase agreements are not significant.

Litigation

The Company is subject to various types of litigation in connection with its business and operations.

Department of Labor Investigation

In April 2003, the Company received written notice from the United States Department of Labor that it is exercising its authority under Section 504 of the Employee Retirement Income Security Act of 1974 ("ERISA") to conduct periodic investigations of employee benefit plans to determine whether such plans conform with the provisions of ERISA and other applicable regulations. The stated scope of the review covers the Williams Communications Investment Plan (a defined contribution plan) for a time period extending from 1998 through the present date. In January 2004, the Company received a subpoena from the United States Department of Labor requiring the production of related documents. The Company is cooperating fully with the Department of Labor. At this time, neither the length of the review nor likely outcome of the investigation can be determined. The Company believes that all of its actions with respect to employee benefit plans have been in full compliance with ERISA and other applicable regulations.

Right of Way Class Action Litigation

A number of suits attempting to achieve class action status seek damages and other relief from the Company based on allegations that the Company installed portions of its fiber-optic cable without all necessary landowner consents. These allegations relate to the use of rights of way licensed by railroads, state departments of transportation and others controlling pre-existing right-of-way corridors. The putative members of the class in each suit are those owning the land underlying or adjoining the right-of-way corridors. Similar actions have been filed against all major carriers with fiber-optic networks. It is likely that additional actions will be filed. The Company believes it obtained sufficient rights to install its cable. It also believes that the class action suits are subject to challenge on procedural grounds.

The Company and other major carriers are seeking to settle the class action claims referenced above relating to the railroad rights of way through an agreed class action. These companies initially sought approval of a settlement in a case titled Zografos et al. vs. Qwest Communications Corp., et al., filed in the U.S. District Court for the District of Oregon on January 31, 2002. On July 12, 2002, the Oregon Court dismissed the action. Thereafter, on September 4, 2002, an existing case titled Smith, et al., vs. Sprint, et al., pending in the U.S. District Court for the Northern District of Illinois, was amended to join the Company and two other telecommunications companies as defendants. On July 25, 2003, the judge in this case issued an order preliminarily approving a proposed settlement agreement and issued an injunction, which stayed other putative class action railroad rights of way cases against the Company. Two of the intervening plaintiffs filed appeals, which were consolidated. If this settlement withstands potential challenges by plaintiffs' counsel, it will settle the majority of the putative nationwide and statewide class actions related to the railroad right-of-way claims. Based on the Company's estimate of a likely settlement range, the Company has accrued $16.6 million as of November 5, 2003.

Other right of way claims may be asserted against the Company. The Company cannot quantify the impact of all such claims at this time. Thus, WilTel cannot be certain that an unfavorable outcome of other potential right-of-way claims will not have a material adverse effect.

Platinum Equity Dispute

In March 2001, the Company sold its Solutions segment to Platinum Equity LLC ("Platinum Equity") for a sales price that was subject to adjustment based upon a computation of the net working capital of the business as of March 31, 2001. A dispute arose between the companies with respect to the net working capital amount as defined in the agreement. Pursuant to the provisions of the sale agreement, the parties submitted the dispute to binding arbitration before an independent public accounting firm.

In September 2002, Platinum Equity filed suit in the District Court of Oklahoma County, State of Oklahoma, against the Company alleging various breaches of representations and warranties related to the sale of the Solutions segment and requested a ruling that no payment was due under a promissory note issued by Platinum Equity at the time of purchase until all disputes were resolved. Many of the claims alleged by Platinum Equity in this suit are the same claims asserted by Platinum Equity in the net working capital dispute. Discovery in this suit is ongoing, with the trial expected to begin sometime in Spring 2004.

In May 2003, the arbitrator rendered a determination of the adjustment amount under the net working capital dispute, and an order entry of judgment was entered against Platinum Equity in the amount of approximately $38 million, which represented the amount that Platinum Equity owed under the promissory note, offset by the net working capital adjustment determined by the arbitrator. The Company adjusted the carrying amount of the note receivable to $38 million by offsetting amounts previously accrued for the net working capital dispute. In July 2003, the Company collected approximately $39 million, including interest, from Platinum Equity related to the judgment. The receipt of the $39 million does not resolve all of the issues between Platinum Equity and the Company as neither company has waived any of the claims currently pending in the litigation discussed above. The Company continues to believe that it is adequately reserved or accrued with respect to its receivable and payable positions with Platinum Equity.

Thoroughbred Technology and Telecommunications, Inc. vs. WCL

Thoroughbred Technology and Telecommunications, Inc. ("TTTI") filed suit on July 24, 2001, against WCL in a case titled Thoroughbred Technology and Telecommunications, Inc. vs. Williams Communications, LLC f/k/a Williams Communications, Inc., Civil Action No. 1:01-CV-1949-RLV, pending in the U.S. District Court for the Northern District of Georgia, Atlanta Division. TTTI alleged claims that included breach of contract with respect to a fiber-optic installation project that TTTI was constructing for itself and other parties, including WCL, with respect to certain conduit segments including a three-conduit segment between Cleveland, Ohio and Boyce, Virginia. TTTI sought specific performance to require that WCL take title to the Cleveland-Boyce segment and pay TTTI in excess of $36 million plus pre-judgment interest for such purchase. WCL alleged various defenses, including significant warranty and breach of contract claims against TTTI.

On May 9, 2002, the trial court determined that WCL did not have the right to terminate the contract with respect to the Cleveland-Boyce segment, but deferred ruling on TTTI's remedy until a later time. In a series of rulings on January 27, 2003, the court ordered, among other things, (1) that WCL's claims against TTTI for breach of contract and construction deficiencies for certain of the telecommunications routes constructed by TTTI be heard by an arbitration panel; and (2) that WCL close the purchase of the Cleveland-Boyce segment and pay TTTI the sum of $36.3 million plus pre-judgment interest for such purchase. The court denied WCL's motion for a stay of the proceedings while the construction claims against TTTI are adjudicated through arbitration and further denied the Company's request to stay closing on the Cleveland-Boyce segment pending an appeal of the trial court's decision. WCL sought and obtained a stay of the trial court's order compelling a closing of the Cleveland-Boyce segment from the United States Court of Appeals for the 11th Circuit thereby staying WCL's obligation to close the transaction until the appeal is decided. The stay granted by the Court of Appeals was conditioned on the posting of an appropriate supersedeas bond by the Company, which was posted by the Company in March 2003 in the approximate amount of $44.1 million. The Company posted the bond, which was docketed by the trial court on March 13, 2003. WCL prosecuted its appeal of the trial court's decision while pursuing its arbitration claims of construction defects against TTTI. Oral arguments in the appeal were scheduled for November 2003.

Subsequent to November 5, 2003, the parties reached a settlement of their disputes, which resulted in a payment of $37.5 million to TTTI and the transfer of title to WCL of conduits on the Cleveland-Boyce segment. All settlement documents were executed in November 2003, and this matter has been concluded.

StarGuide

On October 12, 2001, StarGuide Digital Networks ("StarGuide") sued WCG in the United States District Court for Nevada for infringement of three patents relating to streaming transmission of audio and video content. Subsequently, StarGuide added WCL as a party to the action. StarGuide seeks compensation for past infringement, an injunction against infringing use, and treble damages due to willful infringement. On July 1, 2002, StarGuide initiated a second patent suit against WCL with respect to a patent that is a continuation of the patents at issue in the prior litigation. The two actions have been consolidated. In July 2003, the parties reached a settlement, and this case was dismissed by joint agreement. The settlement did not have a material impact on the Company's results of operations, financial position or cash flows.

WilTel Shareholder Derivative Lawsuits

On May 15, 2003, the first of several shareholder derivative class actions was filed against WilTel, the nine members of WilTel's Board of Directors and Leucadia National Corporation ("Leucadia"). Currently, the Company has been served with notice of eight (8) shareholder derivative class actions: four (4) in Clark County, Nevada, one (1) in Washoe County, Nevada, two (2) in New York County, New York and one (1) in Tulsa County, Oklahoma. Each of the lawsuits sets forth substantially the same allegations of breach of fiduciary duty in connection with Leucadia's proposed exchange offer announced on May 15, 2003. Amended complaints were filed in each of the lawsuits based upon Leucadia's withdrawal of its initial offer and Leucadia's subsequent offers. On October 15, 2003, subject to approval from directors and officers insurance carriers, the parties in these cases reached an agreement in principle to settle all cases. On February 4, 2004, the proposed settlement in one of the New York County cases was approved by the trial court. The amount of the settlement is $300,000 representing Plaintiffs' attorney fees and expenses and is not material to the financial statements of WilTel. The settlement proceeds will be paid upon the expiration of the time period within which the matter may be appealed.

Summary

The Company is a party to various other claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of management, upon the advice of legal counsel, the ultimate resolution of all claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, or other indemnification arrangements, is not expected to have a materially adverse effect upon the Company's future financial position or results of operations, although unfavorable outcomes in the items discussed above could significantly impact the Company's liquidity.

Other

SBC

SBC is the Company's largest customer, comprising 54 percent of Network's revenues for the period from January 1, 2003 through November 5, 2003. The Company has entered into preferred provider agreements with SBC that extends until 2019, although the agreements may be terminated prior to then by either party under certain circumstances. The agreements provide that:

- the Company is SBC's preferred provider for domestic voice and data long distance services and select international wholesale services, requiring that SBC seek to obtain these services from the Company before it obtains them from any other provider; and

- SBC is the Company's preferred provider for select local exchange and various other services, including platform services supporting its switched voice services network, requiring that the Company seek to obtain these services from SBC before it obtains them from any other provider.

For the services each party must seek to obtain from the other, the prices, determined separately for each product or service, generally will be equal to the lessor of the cost of the product or service plus a specified rate of return, the prices charged to other customers, the current market rate or, in some circumstances, a specific rate. If either party can secure lower prices for comparable services that the other party will not match, then that party is free to utilize the lowest cost provider. Subsequent to November 5, 2003, the Company and SBC have agreed to use a fixed price for voice transport services (the substantial majority of SBC generated revenue) through January 2005. Although it is difficult to identify a precise market price since the products and services provided to each customer are customized to meet the needs of each customer, the fixed price currently charged to SBC is representative of the current market price for the voice transport service currently provided to SBC.

The methodology that the Company uses to determine the current market rate and to determine the cost of the product or service upon which a specified rate of return applies are complex and subject to different interpretations. If SBC and the Company are unable to agree on the methods used, the agreements with SBC provide that any disputes are resolved through binding arbitration. If SBC successfully challenged the Company's pricing methodology in an arbitration proceeding, resulting in a significant reduction in the voice transport price, the Company may not be able to continue to provide services to SBC. The Company is unable to predict the ultimate outcome of future price discussions with SBC.

SBC has the right to terminate the agreements if the Company begins to offer certain services that are competitive with SBC's services, if the Company materially breaches its agreements or the Company has a change in control without SBC's consent. The Company has the right to terminate the agreements if SBC materially breaches its agreements or SBC has a change in control without the Company's consent. In the event of a termination by either party due to these actions, the terminating party has the right to receive transition costs from the other party, not to exceed $200 million.

Either party may terminate a particular provider agreement if the action or failure to act of any regulatory authority materially frustrates or hinders the purpose of that agreement. There is no monetary remedy for such a termination.

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EX-3.(I)

EXHIBIT 3.6
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 3.6

CERTIFICATE OF
AMENDMENT OF THE
CERTIFICATE OF INCORPORATION
OF
LEUCADIA NATIONAL CORPORATION

UNDER SECTION 805 OF THE BUSINESS CORPORATION LAW

Pursuant to the provisions of Section 805 of the Business Corporation Law, the undersigned hereby certifies:

1. The name of the Corporation is Leucadia National Corporation (the "Corporation"). The name under which the Corporation was formed is Talcott National Corporation.

2. The date the Certificate of Incorporation was filed by the Department of State was May 24, 1968.

3. The Corporation is authorized to issue a total of 156,000,000 shares, consisting of 150,000,000 shares of Common Stock of the par value $1.00 per share and 6,000,000 shares of Preferred Stock of par value $1.00 per share. An amendment of the Corporation's Certificate of Incorporation effected by this Certificate of Amendment to increase the number of shares of Common Stock which the Corporation shall have authority to issue is hereby made.

To effect the foregoing, Article FOURTH is hereby amended and shall read in its entirety as follows:

FOURTH: The aggregate number of shares of capital stock of all classes which the Corporation shall have authority to issue is 306,000,000, divided into 6,000,000 shares, having a par value of $1 each, which are designated Preferred Stock and are issuable in series, and 300,000,000 shares, having a par value of $1 each, which are designated Common Stock.

No holder of shares of any class or series of stock of the Corporation, whether now or hereafter authorized or outstanding, shall have any pre-emptive, preferential or other right to subscribe for or purchase any shares of any class or series of capital stock of the Corporation, whether now or hereafter authorized or outstanding, or any bonds, notes, obligations, options, warrants, rights or other securities which the Corporation may at any time issue or sell, whether or not the same be convertible into or exercisable for the purchase of any class or series of capital stock of the Corporation, it being intended by this paragraph that all pre-emptive rights of any kind applicable to the securities of the Corporation are eliminated.

The designations, relative rights, preferences and limitations of each class of the Corporation's capital stock and each series thereof, to the extent fixed in the Corporation's Certificate of Incorporation, and the authority vested in the Board of Directors of the Corporation to establish and designate series of the Preferred Stock and to fix variations in the relative rights, preferences and limitations between such series, are as follows:

I. PREFERRED STOCK

General Provisions Relating to All Series

1. The Preferred Stock shall consist of one class, may be issued from time to time in one or more series, and the shares of any one series thereof may be issued from time to time. All shares of the Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to the dates, if any, from which dividends thereon may accumulate. All shares of Preferred Stock of all series shall be identical in all respects set forth in sections 1 through 5 hereof (except as otherwise permitted in such sections) and shall be of equal rank as set forth in sections 2 and 3 below. Subject to the foregoing, (i) the designations, relative rights, preferences and limitations of the shares of each such series may differ from those of any and all other such series authorized and/or outstanding and (ii) the Board of Directors of the Corporation is hereby expressly granted authority to establish and designate series and to fix with respect to any such series, or alter in any one or more respects from time to time, by resolution or resolutions adopted prior to the issuance of any shares of such series, and by filing a certificate under Section 805 of the Business Corporation Law, (a) the number of shares constituting such series and the designation thereof, (b) the rate of dividends, (c) redemption terms (including purchase and sinking funds provisions), (d) conversion rights into any class or series of capital stock of the Corporation, (e) liquidation preferences, (f) voting rights and (g) any other lawful rights, preferences and limitations.

2. Unless otherwise provided in the resolutions creating or altering a series, the holders of Preferred Stock of each series shall be entitled to receive, as and when declared by the Board of Directors, out of funds or other assets of the Corporation legally available therefor, cumulative dividends at the annual rate fixed by the Board of Directors with respect to such series, and no more, payable in cash, on such dates in each year as the Board of Directors may determine, such dividends with respect to each series to be cumulative from the date or dates fixed by the Board of Directors with respect to such series. The first dividend or distribution with respect to shares of any particular series not issued on a dividend date may be fixed by the Board of Directors at more or less than the regular periodic dividend or distribution thereon. In the event Preferred Stock of more than one series is outstanding, the Corporation in making any dividend payment upon Preferred Stock shall make dividend payments ratably upon all outstanding shares of Preferred Stock of all series in proportion to the respective amounts of dividends accrued and payable thereon to the date of such dividend payment. If the dividends or distributions on any shares of Preferred Stock shall be in arrears, the holders thereof shall not be entitled to any interest, or sum of money in lieu of interest, thereon. In no event, so long as any Preferred Stock shall be outstanding, shall any dividend whatsoever, whether in cash, stock or otherwise, other than a dividend payable in stock of the Corporation of a class junior to the Preferred Stock, be declared or paid, or any distribution made, on any stock of the Corporation of a class ranking junior to the Preferred Stock, nor shall any shares of any such junior class of stock be purchased or acquired for a consideration by the Corporation or be redeemed by the Corporation, nor shall any moneys be paid to the holders of, or set aside or made available for a sinking fund for the purchase or redemption of, any shares of any such junior class of stock unless (i) all dividends and distributions on all outstanding shares of Preferred Stock of all series for all past dividend periods shall have been paid and all dividends payable on or before the date of such dividend, distribution, purchase, acquisition, redemption, setting aside or making available shall have been paid or declared and a sum sufficient for the payment thereof set apart, and (ii) the Corporation shall have paid or set aside all amounts, if any, theretofore required to be paid or set aside as and for all matured purchase fund and sinking fund obligations, if any, for the shares of Preferred Stock of all series or to satisfy any distributions declared with respect to any shares of Preferred Stock of any series. The holders of Preferred Stock shall not be entitled to participate in any dividends payable on junior stock or to share in the earnings or profits of the Corporation other than or in excess of that hereinabove provided.

3. In the event of any dissolution, liquidation or winding-up of the Corporation, whether voluntary or involuntary, the holders of each series of Preferred Stock shall be entitled to receive, before any distribution or payment is made upon any stock ranking junior to the Preferred Stock, such amount of cash, shares, bonds or other property (which amount may vary depending on whether such dissolution, liquidation or winding-up is voluntary or involuntary) to which each such outstanding series of Preferred Stock shall be entitled in accordance with the provisions thereof together with an amount in cash equal to all dividends accrued and unpaid thereon to the date of such distribution or payment, and shall be entitled to no further payment. If, upon any such liquidation, dissolution or winding-up, the assets of the Corporation distributable among the holders of the Preferred Stock shall be insufficient to permit the payment in full to such holders of the amounts to which they are respectively entitled, the assets so distributable shall be distributed among the holders of the Preferred Stock then outstanding ratably in proportion to the amounts to which they are respectively entitled. For the purposes of this Section 3, neither the voluntary sale, lease, exchange or transfer of all or substantially all of the Corporation's property or assets to, nor the consolidation or merger of the Corporation with, one or more corporations, nor a reduction of the capital stock or stated capital of the Corporation, shall be deemed to be a dissolution, liquidation or winding-up, voluntary or involuntary.

4. The Corporation, at the option of the Board of Directors, may, subject to the provisions applicable to such series, redeem at any time or times, and from time to time, all or any part of the shares of any series of Preferred Stock subject to redemption by paying for each share such price or prices as shall have been fixed by the Board of Directors prior to the issuance of such series, plus an amount equal to dividends accrued and unpaid thereon to the date fixed for redemption, plus premiums in the amounts, if any, so fixed with respect to such series (the total amount per share so payable upon any redemption of shares of any series of Preferred Stock being herein referred to as the "redemption price"). Except as otherwise provided in the provisions relating to a particular series of Preferred Stock, not less than 15 days nor more than 60 days prior written notice shall be given to the holders of record of the shares so to be redeemed, which notice shall be given by mail, postage prepaid, addressed to such holders at their respective addresses as shown on the books of the Corporation. Such notice shall specify the shares called for redemption, the redemption price and the place at which, and the date on which, the shares called for redemption will, upon presentation and surrender of the stock certificates evidencing such shares, be redeemed. In case of redemption of less than all of the outstanding Preferred Stock of any one series, such redemption (unless otherwise stated in the provisions relating to such series) may be made pro rata or the shares to be redeemed may be chosen by lot, in such manner as the Board of Directors may determine. No failure to deliver or mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares so to be redeemed.

If such notice of redemption shall have been duly given, and if on or before the redemption date specified in such notice all funds necessary for such redemption shall have been set aside so as to be available therefor, then, notwithstanding that any certificate for the shares of such Preferred Stock so called for redemption shall not have been surrendered for cancellation, the shares represented thereby shall, from and after the date fixed for redemption, no longer be deemed outstanding, the right to receive dividends thereon shall cease to accrue from and after the date of redemption so fixed, and all rights with respect to such shares of Preferred Stock so called for redemption shall forthwith at the close of business on such redemption date cease and terminate, except the right of the holders thereof to receive the amount payable upon redemption thereof, but without interest; provided, however, that the Corporation may, after giving such notice of any such redemption and prior to the redemption date specified in such notice, deposit in trust, for the account of the holders of such Preferred Stock to be redeemed, with a bank or trust company having an office in the Borough of Manhattan, City, County and State of New York and having a capital, undivided profits and surplus aggregating at least $50,000,000, all funds necessary for such redemption, and, upon such deposit in trust, all shares of such Preferred Stock with respect to which such deposit shall have been made shall no longer be deemed to be outstanding, and all rights with respect to such shares of such Preferred Stock shall forthwith cease and terminate, except (a) the right of the holders thereof to receive the amount payable upon the redemption thereof, but without interest, and (b) the right of the holders thereof to exercise on or before the date fixed for redemption the rights, if any, not having theretofore expired, which the holders thereof shall have to convert the shares so called for redemption into, or exchange such shares for, shares of stock of any other class or classes or of any other series of the same or any other class or classes of stock of the Corporation.

Any funds so deposited which shall not be required for such redemption because of the exercise of any right of conversion or exchange or otherwise subsequent to the date of such deposit shall be returned to the Corporation forthwith. Any interest accrued on any funds so deposited shall belong to the Corporation and be paid to it from time to time. Any funds so deposited by the Corporation and unclaimed at the end of six years from the date fixed for such redemption shall be repaid to the Corporation, upon its request, after which repayment the holders of such shares so called for redemption shall look only to the Corporation for the payment of the redemption price thereof.

If at any time the Corporation shall have failed to pay dividends in full on all series of Preferred Stock then outstanding, thereafter and until such dividends, including all accrued and unpaid dividends, shall have been paid in full, or declared and funds sufficient for the payment thereof set aside for payment, the Corporation shall not redeem or purchase less than all of the Preferred Stock at such time outstanding; provided, however, that nothing shall prevent the Corporation from completing the purchase of shares of Preferred Stock for which a purchase contract has been entered into, or the redemption of any shares of Preferred Stock for which notice of redemption has been given, prior to such default.

5. Except as otherwise specifically provided with respect to a particular series of Preferred Stock, as hereinafter in this section 5 provided, and as required by law, the Preferred Stock shall have no voting rights.

Whenever dividends payable on the Preferred Stock shall be in default in an aggregate amount equivalent to at least six quarterly dividends on any of the shares of Preferred Stock then outstanding, the number of directors constituting the Board of Directors of the Corporation shall be increased by two, and the holders of the Preferred Stock, voting as a class (whether or not otherwise entitled to vote for the election of directors), shall be entitled to elect two directors of the Corporation to fill such newly-created directorships. Such directors shall serve (subject to the last sentence of the next paragraph of this section 5) until the next annual meeting of shareholders and until their successors are elected and qualify. Whenever such right of the holders of the Preferred Stock shall have vested, such right may be exercised initially either at a special meeting of such holders called as provided herein, or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders. The right of the holders of the Preferred Stock, voting as a class, to elect members of the Board of Directors of the Corporation as aforesaid shall continue until such time as the dividends accumulated on the Preferred Stock shall have been paid in full, at which time the special right of the holders of the Preferred Stock so to vote separately as a class for the election of directors shall terminate, subject to renewal and divestment from time to time upon the same terms and conditions.

At any time after the voting power to elect two additional members of the Board of Directors of the Corporation has become vested in the holders of the Preferred Stock, the Secretary of the Corporation may, and upon the request of the holders of record of at least 5% of the Preferred Stock then outstanding addressed to him, shall, call a special meeting of the holders of Preferred Stock for the purpose of electing such directors, to be held within 50 days after the receipt of such request; provided, however, that the Secretary need not call any such special meeting if the annual meeting of shareholders is to convene within 90 days after the receipt by the Secretary of such request. Such meeting shall be held at such place as shall be specified in the notice and upon notice as provided in the By-Laws of the Corporation for the holding of special meetings of shareholders. If such meeting shall not be so called within 20 days after the receipt of such request (not including, however, a request falling within the proviso of the second preceding sentence), then the holders of record of at least 5% of the Preferred Stock then outstanding may designate in writing one of their number to call such meeting, and the person so designated shall call such meeting at the place and upon the notice above provided, and for that purpose shall have access to the stock books of the Corporation. At any such special or annual meeting at which the holders of the Preferred Stock shall have the right to vote for the election of such two directors as aforesaid, the holders of 33 1/3% of the then outstanding Preferred Stock present in person or represented by proxy shall be sufficient to constitute a quorum of said class for the election of such two directors and for no other purpose, and the vote of the holders of a plurality of the Preferred Stock so present at any such meeting at which there shall be such a quorum shall be sufficient to elect two directors. Whenever the holders of the Preferred Stock shall be divested of such voting right hereinabove provided, the directors so elected by the Preferred Stock shall thereupon cease to be directors of the Corporation and thereupon the number of directors shall be reduced by two.

Every shareholder entitled to vote at any particular time in accordance with the foregoing two paragraphs shall have one vote for each share of Preferred Stock held of record by him and entitled to vote.

6. As used in connection with any series of Preferred Stock, the terms "junior stock", "junior class of stock" and "stock ranking junior to the Preferred Stock" shall mean and refer to the Common Stock and any other class or series of stock of the Corporation hereafter authorized which shall rank junior to the Preferred Stock with respect to the declaration and payment of dividends thereon and the distribution of amounts with respect thereto payable in the event of any liquidation, dissolution or winding-up of the Corporation.

II. COMMON STOCK

Subject to all of the rights of the Preferred Stock, dividends may be paid upon the Common Stock as and when declared by the Board of Directors out of funds and other assets legally available for the payment of dividends. The Board of Directors may declare a dividend or distribution upon the Common Stock in shares of any class or series of capital stock of the Company.

In the event of any liquidation, dissolution or other winding-up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock shall have been paid in full the amounts to which they respectively shall be entitled, or an amount sufficient to pay the aggregate amount to which such holders shall be entitled shall have been deposited in trust with a bank or trust company having its principal office in the Borough of Manhattan, City, County and State of New York, having a capital, undivided profits and surplus aggregating at least $50,000,000, for the benefit of the holders of the Preferred Stock, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

Except as otherwise expressly provided with respect to the Preferred Stock and except as otherwise may be required by law, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes and each holder of Common Stock shall be entitled to one vote for each share held.

III. TRANSFER RESTRICTIONS

(a) Certain Definitions. As used in this Part III of Article FOURTH, the following terms have the following respective meanings:

"Corporation Securities" means (i) shares of common stock of the Corporation, (ii) shares of preferred stock of the Corporation, (iii) warrants, rights, or options (within the meaning of Treasury Regulation ss.1.382-2T(h)(4)(v)) to purchase stock of the Corporation, and (iv) any other interests that would be treated as "stock" of the Corporation pursuant to Treasury Regulation ss.1.382-2T(f)(18).

"Percentage Stock Ownership" means percentage stock ownership as determined in accordance with Treasury Regulation ss.1.382-2T(g), (h), (j), and (k).

"Five-Percent Shareholder" means a Person or group of Persons that is identified as a "5-percent shareholder" of the Corporation pursuant to Treasury Regulation ss.1.382-2T(g)(1).

"Person" means an individual, corporation, estate, trust, association, company, partnership, joint venture or similar organization.

"Prohibited Transfer" means any purported Transfer of Corporation Securities to the extent that such Transfer is prohibited and void under this Part III of Article FOURTH.

"Restriction Release Date" means the earlier of December 31, 2024, the repeal of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") (and any comparable successor provision) ("Section 382"), or the beginning of a taxable year of the Corporation (or any successor thereof) to which no Tax Benefits may be carried forward.

"Tax Benefits" means the net operating loss carryovers, capital loss carryovers, general business credit carryovers, alternative minimum tax credit carryovers and foreign tax credit carryovers, as well as any "net unrealized built-in loss" within the meaning of Section 382, of the Corporation or any direct or indirect subsidiary thereof.

"Transfer" means any direct or indirect sale, transfer, assignment, conveyance, pledge, or other disposition. A Transfer also shall include the creation or grant of an option (within the meaning of Treasury Regulation ss.1.382-2T(h)(4)(v)). A Transfer shall not include an issuance or grant of Corporation Securities by the Corporation.

"Treasury Regulation ss.1.382-2T" means the temporary income tax regulations promulgated under Section 382, and any successor regulations. References to any subsection of such regulations include references to any successor subsection thereof.

(b) Restrictions. Any attempted Transfer of Corporation Securities prior to the Restriction Release Date, or any attempted Transfer of Corporation Securities pursuant to an agreement entered into prior to the Restriction Release Date, shall be prohibited and void ab initio to the extent that, as a result of such Transfer (or any series of Transfers of which such Transfer is a part), either (1) any Person or group of Persons shall become a Five-Percent Shareholder, or (2) the Percentage Stock Ownership interest in the Corporation of any Five-Percent Shareholder shall be increased; provided, however, that nothing herein contained shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange, Inc. in the Corporation Securities.

(c) Certain Exceptions. The restrictions set forth in paragraph (b) of this Part III of Article FOURTH shall not apply to an attempted Transfer if the transferor or the transferee obtains the approval of the Board of Directors of the Corporation. As a condition to granting its approval, the Board of Directors may, in its discretion, require an opinion of counsel selected by the Board of Directors that the Transfer shall not result in the application of any Section 382 limitation on the use of the Tax Benefits.

(d) Treatment of Excess Securities.

(i) No employee or agent of the Corporation shall record any Prohibited Transfer, and the purported transferee of such a Prohibited Transfer (the "Purported Transferee") shall not be recognized as a shareholder of the Corporation for any purpose whatsoever in respect of the Corporation Securities which are the subject of the Prohibited Transfer (the "Excess Securities"). Until the Excess Securities are acquired by another Person in a Transfer that is not a Prohibited Transfer, the Purported Transferee shall not be entitled with respect to such Excess Securities to any rights of shareholders of the Corporation, including without limitation, the right to vote such Excess Securities and to receive dividends or distributions, whether liquidating or otherwise, in respect thereof, if any. Once the Excess Securities have been acquired in a Transfer that is not a Prohibited Transfer, the Securities shall cease to be Excess Securities.

(ii) If the Board of Directors determines that a Transfer of Corporation Securities constitutes a Prohibited Transfer then, upon written demand by the Corporation, the Purported Transferee shall transfer or cause to be transferred any certificate or other evidence of ownership of the Excess Securities within the Purported Transferee's possession or control, together with any dividends or other distributions that were received by the Purported Transferee from the Corporation with respect to the Excess Securities ("Prohibited Distributions"), to an agent designated by the Board of Directors (the "Agent"). The Agent shall thereupon sell to a buyer or buyers, which may include the Corporation, the Excess Securities transferred to it in one or more arm's-length transactions (over the New York Stock Exchange, if possible); provided, however, that the Agent shall effect such sale or sales in an orderly fashion and shall not be required to effect any such sale within any specific time frame if, in the Agent's discretion, such sale or sales would disrupt the market for the Corporation Securities or otherwise would adversely affect the value of the Corporation Securities. If the Purported Transferee has resold the Excess Securities before receiving the Corporation's demand to surrender the Excess Securities to the Agent, the Purported Transferee shall be deemed to have sold the Excess Securities for the Agent, and shall be required to transfer to the Agent any Prohibited Distributions and the proceeds of such sale, except to the extent that the Agent grants written permission to the Purported Transferee to retain a portion of such sales proceeds not exceeding the amount that the Purported Transferee would have received from the Agent pursuant to paragraph (d)(iii) of this Article FOURTH if the Agent rather than the Purported Transferee had resold the Excess Securities.

(iii) The Agent shall apply any proceeds of a sale by it of Excess Securities and, if the Purported Transferee had previously resold the Excess Securities, any amounts received by it from a Purported Transferee, as follows: (1) first, such amounts shall be paid to the Agent to the extent necessary to cover its costs and expenses incurred in connection with its duties hereunder; (2) second, any remaining amounts shall be paid to the Purported Transferee, up to the amount paid by the Purported Transferee for the Excess Securities (or the fair market value, calculated on the basis of the closing market price for Corporation Securities on the day before the Transfer, of the Excess Securities at the time of the attempted Transfer to the Purported Transferee by gift, inheritance, or similar Transfer), which amount (or fair market value) shall be determined in the discretion of the Board of Directors; and (3) third, any remaining amounts, subject to the limitations imposed by the following proviso, shall be paid to the Leucadia Foundation; provided, however, that (i) if the Leucadia Foundation shall have terminated prior to its receipt of such amounts, such remaining amounts shall be paid to one or more organizations qualifying under Section 501(c)(3) of the Code (and any comparable successor provision) ("Section 501(c)(3)") selected by the Board of Directors, and (ii) if the Excess Securities (including any Excess Securities arising from a previous Prohibited Transfer not sold by the Agent in a prior sale or sales), represent a 5% or greater Percentage Stock Ownership interest in any class of Corporation Securities, then any such remaining amounts to the extent attributable to the disposition of the portion of such Excess Securities exceeding a 4.99 Percentage Stock Ownership interest in such class shall be paid to one or more organizations qualifying under Section 501(c)(3) selected by the Board of Directors. The recourse of any Purported Transferee in respect of any Prohibited Transfer shall be limited to the amount payable to the Purported Transferee pursuant to clause (2) of the preceding sentence. In no event shall the proceeds of any sale of Excess Securities pursuant to this Part III of Article FOURTH inure to the benefit of the Corporation.

(iv) If the Purported Transferee fails to surrender the Excess Securities or the proceeds of a sale thereof to the Agent within thirty business days from the date on which the Corporation makes a demand pursuant to paragraph (d)(ii) of this Article, then the Corporation shall institute legal proceedings to compel the surrender.

(v) The Corporation shall make the demand described in paragraph (d)(ii) of this Part III of Article FOURTH within thirty days of the date on which the Board of Directors determines that the attempted Transfer would result in Excess Securities; provided, however, that if the Corporation makes such demand at a later date, the provisions of this Part III of Article FOURTH shall apply nonetheless.

(e) Bylaws, Legends, etc.

(i) The Bylaws of the Corporation shall make appropriate provisions to effectuate the requirements of this Part III of Article FOURTH.

(ii) All certificates representing Corporation Securities issued after the effectiveness of this Part III of Article FOURTH shall bear a conspicuous legend as follows:

> THE TRANSFER OF THE SECURITIES REPRESENTED HEREBY IS SUBJECT TO RESTRICTIONS PURSUANT TO PART III OF ARTICLE FOURTH OF THE CERTIFICATE OF INCORPORATION OF LEUCADIA NATIONAL CORPORATION REPRINTED IN ITS ENTIRETY ON THE BACK OF THIS CERTIFICATE.

(iii) The Board of Directors of the Corporation shall have the power to determine all matters necessary to determine compliance with this Part III of Article FOURTH, including without limitation (1) whether a new Five-Percent Shareholder would be required to be identified in certain circumstances, (2) whether a Transfer is a Prohibited Transfer, (3) the Percentage Stock Ownership in the Corporation of any Five-Percent Shareholder, (4) whether an instrument constitutes a Corporation Security, (5) the amount (or fair market value) due to a Purported Transferee pursuant to clause (2) of paragraph (d)(iii) of this Part III of Article FOURTH, and (6) any other matters which the Board of Directors determines to be relevant; and the good faith determination of the Board of Directors on such matters shall be conclusive and binding for all the purposes of this Part III of Article FOURTH.

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4. The foregoing amendment was approved by the Board of Directors at a meeting on March 3, 2005 and by the holders of a majority of all outstanding shares entitled to vote thereon at a meeting of shareholders on May 17, 2005, and thereby duly adopted in accordance with the provisions of Section 803 of the Business Corporation Law of the State of New York.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment of the Certificate of Incorporation to be executed by a duly authorized officer as of the 17th day of May , 2005.

LEUCADIA NATIONAL CORPORATION

By: /s/Joseph A. Orlando

Name: Joseph A. Orlando
Title: Vice President and
Chief Financial Officer

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
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EX-10

EXHIBIT 10.21
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 10.21

Compensation of Directors

Directors who are also employees of Leucadia National Corporation receive no remuneration for services as a member of the Board of Directors or any committee of the Board of Directors. In 2005, each director who was not an employee received a retainer of $36,000 plus $500 for each meeting of the Board of Directors and $500 for each meeting of a committee of the Board of Directors ($600 if a committee chairman) that he attended. Members of the Audit Committee receive an additional annual retainer of $10,000 ($12,000 for the Audit Committee chairman). Under the terms of the 1999 stock option plan, as amended, non-employee director will automatically be granted options to purchase common shares (1,000 shares for years prior to 2006, and 2,000 shares for 2006 and subsequent years) on the date on which the annual meeting of shareholders will be held each year during the duration of the stock option plan. The purchase price of the common shares covered by the options is the fair market value of the common shares on the date of grant. These options become exercisable at the rate of 25% per year commencing one year after the date of grant. As a result of this provision, options to purchase 1,000 common shares at an exercise price of $36.05 per common share were awarded to each of Messrs. Dougan, Glaubinger, Hirschfield, Jordan, Keil and Nichols on May 17, 2005. The Company also reimburses directors for certain expenses incurred in connection with attending Board and committee meetings, including travel, hotel accommodations, meals and other incidental expenses for directors and their spouses accompanying them to Company-related events.

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
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EX-10

EXHIBIT 10.26 SQUARE 711 PURCH. AND SALE AGREE.
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 10.26

PURCHASE AND SALE AGREEMENT

* * * *

SQUARE 711 DEVELOPER, LLC,

AS SELLER,

AND

WALTON ACQUISITION HOLDINGS V, L.L.C.,

AS BUYER

* * * *

PROPERTY: SQUARE 711, LOT 160, WASHINGTON, DC

DATED: NOVEMBER 14, 2005

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT ("Agreement") is made between SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Seller"), and WALTON ACQUISITION HOLDINGS V, L.L.C., a Delaware limited liability company ("Buyer"). The effective date of this Agreement (the "Effective Date") is November 14, 2005.

RECITALS:

This Agreement is made with reference to the following facts:

A. Seller is the owner of the "Property" (as hereinafter defined), which includes certain real property located in Washington, D.C., and known as Square 711, lot 160, which land is more particularly described in Exhibit A attached hereto (the "Land").

B. Seller has agreed to sell the Property to Buyer, and Buyer has agreed to purchase the Property from Seller, under all of the terms set forth herein.

NOW, THEREFORE, for good and valuable consideration, Seller hereby agrees to sell to Buyer, and Buyer hereby agrees to purchase from Seller, the "Property" (which, as used herein, means the Land, together with all improvements thereto, all rights, privileges, easements and appurtenances thereto, all equipment and personal property, if any, owned by Seller and located at or used for such Property and all of Seller's right, title and interest in the "Assigned Properties" defined in the form of Assignment of Intangible Property attached to this Agreement), under all of the following terms and conditions:

1. Price and Deposit.

1.01 Purchase Price.

(a) The purchase price for the Property (the "Purchase Price") shall be One Hundred Twenty-Two Million and No/100 Dollars ($122,000,000.00).

(b) In addition to the Purchase Price set forth above, Buyer agrees to pay to Seller an additional bonus price (the "Density Bonus") after Closing in the amount of Twenty-Five Dollars ($25.00) per FAR square foot for each FAR square foot in excess of 2.2 million FAR square feet that Buyer "commences to develop" (which, as used herein, means obtaining base building permits and commencing construction of base building improvements) or, in the case of a land sale to an unaffiliated third party purchaser, that such purchaser is entitled to develop (after taking into account any restrictions imposed by Buyer in connection with such sale or otherwise). This obligation will survive for ten (10) years after Closing (the "Covenant Period"). Buyer will execute and deliver at Closing a recordable covenant running with the land (the "Density Bonus Covenant") that will be recorded in the land records immediately after the Deed, the form of which will be agreed upon during the Study Period. The Density Bonus Covenant will be subordinate to any acquisition, construction or permanent financing or refinancing placed on the Property by Buyer or its successors and assigns, and will be released upon sale of parcels or commencement of development prior to reaching the 2.2 million FAR square foot threshold or upon payment of the applicable Density Bonus. The Density Bonus

will be payable at such time or times during the Covenant Period as Buyer commences to develop or completes the sale of development rights (either currently applicable to the Property or applicable to the Property in the future) to unaffiliated third parties in excess of 2.2 million FAR square feet cumulatively (without double-counting). In the event Buyer commences to develop or sell all or any portion of the Land, then the FAR for any Land Buyer previously commenced to develop or sold (unless the relevant square footage has already been taken into account) shall be aggregated with the then current development or sale, or both, for purposes of calculating the Density Bonus.

1.02 Payment. The Purchase Price shall be paid as follows:

(a) Not later than 3:00 p.m. (Washington, DC time) on November 16, 2005, Buyer shall deposit with the Title Company (as defined in Section 2.04 below), which shall also act as escrow agent ("Escrow Agent"), a deposit (by wire transfer of immediately available federal funds sent in accordance with the instructions to be provided by the Escrow Agent) in the amount of Two Million and No/100 Dollars ($2,000,000.00) (the "Initial Deposit"). Unless Buyer delivers the Study Period Notice (defined in Section 2.02 below), on or before 3:00 p.m. (Washington, DC time) on the Study Period Expiration Date (defined in Section 2.02 below), Buyer shall deposit with Escrow Agent an additional deposit (by a wire transfer of immediately available federal funds) in the amount of Five Million and No/100 Dollars ($5,000,000.00) (the "Second Deposit"). The Initial Deposit and, if delivered in accordance herewith, the Second Deposit are collectively referred to as the "Deposit." Failure by Buyer to deliver the Second Deposit to Escrow Agent on time shall result in a termination of this Agreement and Buyer receiving a return of the Initial Deposit. The Deposit shall be held, released or retained by Escrow Agent in accordance with the terms and provisions of Section 8 of this Agreement. Unless Buyer terminates this Agreement pursuant to Section 2.02 or 2.04, the Deposit shall be non-refundable, except upon (x) the occurrence of a default by Seller in accordance with Section 7.01 hereof or (y) the failure of a condition to Closing set forth in Section 3.02 hereof.

(b) Upon Closing under this Agreement, the Deposit and the remainder of the Purchase Price, subject to closing adjustments provided herein, shall be paid by wire transfer of funds to Escrow Agent's account. If such payment is received later than 12:00 p.m. (Washington, DC, time) on the Closing Date, then all pro-rations pursuant to Section 5.05 hereof shall be made as of the following business day.

2. Review of Property.

2.01 Property Information.

Within two (2) business days after the Effective Date, Seller shall deliver to Buyer, or make available for review by Buyer, copies of the following documents, to the extent in the Seller's actual physical possession, unless such materials were already previously provided to Buyer:

(a) All written leases, licenses or other occupancy agreements (with any amendments thereto) of any portions of the Property which are in effect on the Effective Date.

(b) Seller's most recent survey of the Property.

(c) The bills for real estate taxes and assessments received by Seller during 2005.

(d) All contracts or agreements (with any amendments thereto) for maintenance, trash removal, landscaping, snow removal and other ongoing services provided to Seller in connection with the Property, if any.

(e) A current title insurance commitment related to the Property, together with copies of all exceptions noted in Schedule B-2 thereof.

(f) A copy of all Environmental Materials (as defined in ss.3.01 below).

(g) Those items described on Exhibit G hereto.

(h) Copies of all other information and documents that pertain to the physical condition of the Property.

2.02 Study Period. Buyer shall have a period (the "Study Period"), commencing upon the Effective Date and ending at 3:00 pm (Washington, D.C. time) on December 14, 2005 (the "Study Period Expiration Date") in which to determine in Buyer's discretion whether, for any reason or for no reason, to proceed to closing of the purchase of the Property. If Buyer elects not to proceed to closing of the purchase of the Property, then Buyer shall have the right to terminate this Agreement upon written notice to Seller delivered prior to 3:00 p.m. Washington, DC, time on the Study Period Expiration Date (the "Study Period Notice"), in which event the Deposit (less $100, which shall be paid to Seller as consideration for such termination) shall be returned to Buyer and the parties shall have no further liability hereunder (excepting any obligations, covenants and agreements of the parties hereto which pursuant to the terms of this Agreement survive termination, including without limitation Buyer's obligations under Sections 2.03, 8.03, 9.04, 9.07 and 9.08, both parties' obligations under Sections 8.03, 9.07, 9.08 and 9.16 and the indemnity obligations of Buyer and Seller under Sections 2.03, 9.04 and 9.07 (collectively the "Continuing Obligations")). In the event Buyer does not deliver the Study Period Notice in accordance with this Section 2.02, Buyer shall be deemed to have automatically waived its right to terminate this Agreement, and the parties shall proceed to closing in accordance with the terms set forth herein.

2.03 Right of Entry. During the period commencing on the Effective Date and expiring at Closing (or, if earlier, the date on which this Agreement is terminated), Buyer and its agents shall have the right to enter the Property for the purpose of examining the environmental, physical, and other conditions of the Property. Such right of entry shall be governed by the following provisions:

(a) In exercising such right of entry, Buyer or the Buyer's representatives, attorneys, consultants, engineers, architects, prospective lenders, prospective partners and other employees and agents, who, because of their involvement with the proposed transaction, need to know such information for the purpose of giving advice with respect to, bidding on or consummating the

proposed transaction (collectively, the "Buyer Parties") are entitled to enter upon the Property, upon reasonable prior notice to Seller and at times reasonably agreed upon by Seller, and for the sole purposes, each of which must be expressly approved in advance by Seller, in Seller's reasonable discretion, (i) to perform inspections and tests of the Property, including surveys, environmental studies and examinations, and (ii) to examine the books and records of Seller relating to the Property, excluding (1) any proprietary information related to Seller's business, (2) any opinions, appraisals, audits, internal memoranda or other internal work product or similar documents with respect to the Property and (3) any information related to the financing of the Seller or the Property. All such surveys or inspections undertaken by or on behalf of Buyer shall be conducted in strict accordance with all applicable laws and regulations and in a manner reasonably acceptable to Buyer and Seller. Buyer shall not communicate (whether in person or by telephone) with any officials at environmental, zoning, assessment or other government agencies regarding the Property or the Seller by name without Seller's prior written consent (which consent shall not be unreasonably withheld). Seller (and, at Seller's option and cost, Seller's counsel) shall have the absolute right to be present at any meetings (including meetings conducted by telephone) with any governmental and quasi-governmental authorities and officials, including but not limited to any Advisory Neighborhood Commission members, or CSX Realty Development, LLC, or any affiliate (or its attorneys), whether at a formal or informal meeting. Buyer shall provide copies of any correspondence sent to or received from such officials, or CSX Realty Development, LLC (or its attorneys), within two (2) business days after receipt or dispatch, as the case may be. Buyer shall not have the right to make any commitments to any such parties that are in any way binding on Seller or the Property.

(b) If Buyer wishes to engage in any testing of any portion of the Property, Buyer shall obtain Seller's prior written consent thereto, which may be refused or conditioned as Seller may deem appropriate in its reasonable discretion. Notwithstanding anything to the contrary contained herein, Buyer shall not conduct or allow any physically intrusive testing of, on or under the Property without first obtaining Seller's written consent as to the timing and scope of the work to be performed, which shall not be unreasonably withheld, and which consent may contain any additional reasonable requirements of Seller with respect to such testing. Without limiting the generality of the foregoing, Seller's written approval (which may be granted, withheld or conditioned in Seller's reasonable discretion) shall be required prior to conducting any Phase II environmental survey or any testing or sampling of surface or subsurface soils, surface water, groundwater or any materials in or about the Property in connection with Buyer's environmental due diligence. If any testing is approved by Seller, Buyer agrees to cooperate with any reasonable request by Seller in connection with the timing of any such inspection or test. Buyer agrees to provide Seller, upon Seller's request, and without any representations or warranties, copies of the final versions of any written inspection or test report or summary prepared by any unrelated third party (excluding attorneys), and copies of all test results. Buyer agrees that any inspection, test or other study or analysis of the Property by Buyer shall be performed at Buyer's expense and in accordance with applicable law. Under no circumstances shall any of Buyer's inspections or sampling in any way invalidate or adversely affect Seller's rights under that certain Amended and Restated Environmental Agreement dated as of December 13, 2002, by and between CSX Realty Development, LLC, and First & M Street Investing Company, LLC, or that certain Environmental Escrow Agreement dated December 13, 2002, between CSX Realty Development, LLC, and First & M Street Investing Company, LLC (collectively, the

"CSX Environmental Agreements"). Buyer agrees at its own expense to promptly restore the Property or, at Seller's option, to reimburse Seller for any repair or restoration costs, if any inspection or test requires or results in any damage to or alteration of its condition (other than that arising from the discovery of preexisting conditions).

(c) Buyer agrees that Buyer and Buyer's representatives or contractors accessing the Property will be covered by not less than $2,000,000 (per occurrence) commercial general liability insurance naming Seller as insured, issued by a licensed insurance company, and otherwise reasonably acceptable to Seller.

(d) Buyer agrees that any materials or information provided or made available to Buyer by Seller or its representatives pursuant to Section 2.01 or otherwise in connection with the Property and any and all information, studies and tests obtained by Buyer pursuant to Section 2.03 above (collectively, the "Property Information") is proprietary and confidential, unless such information is in the public domain or is available to Buyer from any other source (other than by reason of a breach by Buyer of the Confidentiality Agreement or a breach by a third party of a confidentiality agreement with Seller (if Buyer is aware of such confidentiality agreement)). Buyer further agrees that all such Property Information and any notes regarding such Property Information ("Notes") will be used solely for the purpose of evaluating the potential purchase of the Property by Buyer and will not be used or duplicated for any other purpose. Buyer shall keep all Property Information and Notes strictly confidential pursuant to the provisions of Section 9.16 hereof. Notwithstanding the foregoing, Buyer may disclose the Property Information to the Buyer Parties, provided that for any Buyer Parties who do not sign a confidentiality agreement, Buyer shall inform such Buyer Parties of the confidential nature of such information and shall direct and cause such Buyer Parties to keep all such information in the strictest confidence and to use such information only in connection with the proposed transaction and in accordance with the terms of this Agreement. If, at any time, either (i) Buyer elects not to proceed with the purchase of the Property; (ii) this Agreement is terminated for any reason; or (iii) Seller requests such information following the termination of this Agreement, Buyer will promptly deliver to Seller all Property Information and destroy all Notes, and promptly certify to Seller, in writing, that, to the best of Buyer's knowledge, all Property Information has been returned and all Notes destroyed. In addition, Buyer shall, concurrently therewith, deliver to Seller, without any representations or warranties, true and correct copies of the final versions of all written feasibility studies, drawings, plans and reports prepared by unrelated third parties (excluding attorneys) on behalf of Buyer. All obligations of Buyer under this Section 2.03(d) and Section 9.16 shall be referred to as the "Confidentiality Obligations." The Confidentiality Obligations shall survive Closing until the earlier of (a) the Closing or (b) one (1) year after the originally scheduled Closing Date.

(e) Buyer agrees to indemnify, defend with counsel reasonably acceptable to Seller and hold harmless Seller and all employees, affiliates, subsidiaries, shareholders, officers, directors, trustees and partners of Seller, as well as any investment manager and other agents of Seller (collectively, the "Seller Parties"), from and against any and all actual loss, injury, damage, claim, lien, liability, suit, cost, including without limitation reasonable attorneys' fees and costs, or expense (collectively, "Claims"), caused by or arising from the exercise by Buyer or any of the Buyer Parties or their respective employees, contractors, consultants, agents or representatives of the right of access under this Agreement or arising out of damage to persons

or property caused Buyer or the Buyer Parties in connection with Buyer's investigations of the Property under this Section 2.03 (other than that arising from the discovery of pre-existing conditions). The indemnity in this Section 2.03(e) shall survive closing or any termination of this Agreement.

2.04 Legal Review Period. Seller has delivered to Buyer a title insurance commitment dated March 3, 2005 ("Title Commitment") with respect to the Property from Tri-State Commercial Closings, Inc. and a survey of the Property last revised on August 10, 2005 (the "Survey") prepared by VIKA, Incorporated. All of the matters set forth on such Title Commitment and Survey shall be deemed to be "Permitted Exceptions" hereunder (other than the printed exceptions, which shall not constitute Permitted Exceptions). Buyer has requested Commonwealth Land Title Insurance Company, c/o Commercial Settlements, Inc. ("Title Company") prepare a title commitment and to deliver said title commitment to Buyer not later than November 18, 2005. When issued, such title commitment shall thereafter constitute the Title Commitment hereunder. In the event that any matters of title or survey that are specified in any update of such Title Commitment or Survey with respect to the Property (a "New Title Matter") were not in the original Title Commitment, then Buyer shall notify Seller in writing of any such title or survey matter to which Buyer objects (the "Title Notice") within five (5) business days after Buyer's receipt of such update. If Buyer does so notify Seller of a New Title Matter objectionable to Buyer within the prescribed time set forth above, Seller shall have five (5) business days in which to determine whether to cure the defect or other matter so objected to by Buyer and to notify Buyer in writing of Seller's decision in this regard. Notwithstanding anything to the contrary in this Agreement, Seller shall not be required or obligated to expend any amount of money or take any other action to cure any defect or other matter, except that Seller will cause to be paid off and released at or prior to Closing any deed of trust encumbering title to the Property, any other lien securing a monetary obligation and any matter affecting title caused to be recorded by Seller after the date of this Agreement that is not expressly permitted by this Agreement (collectively, the "Seller Encumbrances"). If Seller is unable or elects not to cure, to the reasonable satisfaction of Buyer, the New Title Matter (other than a Seller Encumbrance) objected to by Buyer (and Buyer shall not be required to accept affirmative title insurance as a cure), then Buyer shall have the right, as its sole remedy on account thereof, to either (i) waive such New Title Matter and take title to the Property without any adjustment in the Purchase Price (in which case such New Title Matter shall be a Permitted Exception hereunder), or (ii) terminate this Agreement and receive a return of the Deposit. In the event Buyer elects to terminate this Agreement by timely notifying Seller of Buyer's election as aforesaid, the Deposit shall be returned to Buyer and the parties shall have no further liabilities hereunder except for the Continuing Obligations. In the event that Buyer fails to initially notify Seller in writing of a defect or other objectionable matter within five (5) business days after Buyer's receipt of the Title Commitment update that discloses the same, or Buyer fails to terminate the Agreement within the prescribed time upon Seller's failure to cure the defect or other matter to Buyer's reasonable satisfaction, then such title and survey matters (other than Seller Encumbrances) shall be deemed to be Permitted Exceptions and Buyer shall be deemed to have automatically waived any objection to such title and survey matters.

2.05 CSX Environmental Agreements. The Government of the District of Columbia, Department of Health ("DOH"), has approved a Work Plan for remediation of the contaminated soil and groundwater at the

Property, as set forth in a letter dated December 13, 1999 from Theodore J. Gordon, Chief Deputy for Public Health Assurance, to CSX Real Property, a copy of which has been provided to Buyer (the "Work Plan"). Pursuant to the CSX Environmental Agreements, CSX Realty Development, LLC ("CSX") has agreed, among other things, to exercise good faith efforts to obtain a Closure Letter from the District of Columbia Department of Health regarding the presence of contamination at the Property, to perform certain remediation work with respect to groundwater at the Property necessary to obtain a Closure Letter, to establish an escrow fund to cover the cost of the remediation work to be performed by CSX and to indemnify First & M Street Investing Company, LLC, and Seller, as successor thereto, and their respective successors and assigns, against certain claims or losses arising in connection with the contamination or the remediation work. An escrow fund in the amount of One Hundred Thousand Dollars ($100,000) has been established pursuant to an Environmental Escrow Agreement dated December 13, 2002, among CSX, First & M Street Investing Company, LLC, and Miles and Stockbridge, as escrow agent, a copy of which has been provided to Buyer (the "Environmental Escrow Agreement"). At Closing, Seller shall assign to Buyer all of Seller's rights accruing from and after the Closing under the Work Plan and the CSX Environmental Agreements, and Buyer shall assume, pursuant to the Assignment of Environmental Agreements (as defined below), all of Seller's obligations, if any, under the Work Plan and the CSX Environmental Agreements.

2.06 As Is, Where Is. Except as otherwise may be expressly set forth herein or in any documents executed and delivered by Seller at Closing (the "Seller Closing Documents"): (a) Seller makes no representation or warranty as to the truth, accuracy or completeness of the Property Information, including without limitation the contents of Seller's or Seller's agents' and representatives' books and records, contracts, rent rolls, leases or income and expense statements, which it may make available to Buyer in connection with Buyer's evaluation of the Property, including without limitation the Property Information, or that actual results will conform to any projections contained therein; (b) Seller expressly disclaims any and all liability for representations, warranties, express or implied, in such materials or in any other written, oral or other communications transmitted or made available to Buyer by Seller or its consultants, agents or representatives including, without limitation, computer disks containing files with financial data or projections; (c) Buyer acknowledges and agrees that all materials, data and other information made available to Buyer are made available as a convenience and accommodation only; and (d) Buyer shall be responsible for verifying through Buyer's own due diligence the accuracy and completeness of all documents and information, provided by Seller to Buyer, and any reliance by Buyer on such documents and information shall be at Buyer's own risk.

3. Representations and Warranties.

3.01 Seller's Representations and Warranties. Seller hereby represents and warrants that:

(a) All of the documents and information required to be delivered to Buyer pursuant to Section 2.01 have been or will be so delivered without intentional alteration or omission. The leases, licenses and other occupancy agreements, contracts and service agreements, including any amendments thereto, delivered pursuant to Section 2.01 are all the leases, licenses, occupancy agreements, contracts and service agreements affecting the Property

and such leases licenses, occupancy agreements and contracts and service agreements, are true, accurate and complete copies of such agreements.

(b) To Seller's knowledge, there are not pending any special assessments (with the exception of a special assessment for construction of the New York Avenue subway stop) or condemnation actions with respect to the Property. All real estate taxes, due and payable with respect to the Property, on or before closing (excepting special assessments or benefit charges, which are payable over a period of years) have been or will be paid in full prior to closing, subject to pro-ration in accordance with Section 5.05 below.

(c) This Agreement has been, and all the documents to be delivered by Seller to Buyer at closing pursuant to Section 5.02 will be, duly authorized, executed and delivered by Seller or will be at Closing binding on Seller. Seller is a limited liability company, duly organized and validly existing and in good standing under the laws of Delaware, is qualified to do business in the District of Columbia. Seller has the capacity and authority to enter into this Agreement and consummate the transactions herein provided. Seller has obtained all consents and permissions related to the transactions and contemplated and required under any covenant, agreement, encumbrance or applicable laws.

(d) To Seller's knowledge, this Agreement, and the transfer of the Property by Seller, do not violate any contract, agreement or instrument to which Seller is a party or by which the Seller is bound or any applicable law.

(e) The Property is not, or at Closing hereunder will not be, subject to mechanic's liens or other similar liens for services provided to or on behalf of the Seller, or other matters of record that evidence, secure or create a lien upon the Property, for payment of any monetary sum, other than a lien for real estate taxes, assessments, vault rents or other similar charges not yet due and payable.

(f) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986.

(g) To Seller's knowledge, there is no court action, arbitration, mediation, reference, investigation or other legal proceedings (i) pending or threatened against Seller before any court or administrative agency that affects or could affect Seller's ability to perform its obligations under this Agreement or that, if decided adversely to Seller, could have a material adverse affect on the Property, or (ii) specifically relating to the Property (other than routine slip and fall claims covered by insurance) that are pending or threatened or have previously been settled or otherwise concluded since January 1, 2001.

(h) Except as disclosed in the environmental reports and other materials listed on Exhibit B attached hereto (the "Environmental Materials"), Seller has received no written notices related to any Environmental Laws or any Hazardous Substances pertaining to the Property. To Seller's knowledge, Seller has no environmental reports or studies relating to the Property in its possession or control other than the Environmental Materials and the Environmental Materials delivered to Buyer are true and complete copies

thereof. For purposes of this Agreement, "Environmental Laws" shall mean all federal, state and local laws, statutes, ordinances, codes, rules, regulations, decisions, or decrees, and any judicial interpretation of any of the foregoing, applicable to the Property that pertains or relates to Hazardous Substances, and all amendments to any of the foregoing (including, without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986; the Resource Conservation and Recovery Act of 1976; the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Hazardous Materials Transportation Act; the Toxic Substances and Control Act of 1976; the Occupational Safety and Health Act; the Safe Drinking Water Act; and the Underground Storage Tank Management Act of 1990). For the purposes of this Agreement "Hazardous Substances" shall mean any "hazardous substance," "hazardous material," "toxic substance" or "solid waste" as such terms are presently defined in those laws specifically listed under the definition of Environmental Laws in this Agreement.

(i) There are no due and payable but unpaid leasing commissions relating to the Property.

(j) Seller has not entered into any agreement or assumed any obligation which is not of public record with any governmental authority or agency which would impose on Buyer the obligation to make any contributions of money, dedications of land, grants of easements or rights of way, or to construct, install or maintain any improvements, public or private, on or off the Property, or which otherwise affect, restrict or encumber the development of the Property, which has not been, or will not be, satisfied or discharged prior to closing, and to Seller's knowledge no predecessor-in-interest to Seller has entered into any such agreements or obligations.

(k) Seller has not received any written notice (which shall not include notices to the general public in news sources, etc.) of any pending or contemplated Taking (as defined in Section 6 hereof) with respect to the Property.

(l) Except (i) as provided in certain letter agreements or proposals with James G. Davis Construction Corporation and Walsh/Davis Joint Venture (the "Davis Agreement"), a true and correct copy of which Davis Agreement has been provided to Buyer, and (ii) as provided in the CSX Environmental Agreements, true and correct copies of which have been provided to Buyer (it being understood that the CSX Environmental Agreements permit ongoing access by CSX Realty Development, LLC to the Property for the purposes set forth therein), Seller has not granted any other party any rights to use or occupy any portion of the Property and to Seller's knowledge no predecessor-in-interest to Seller has granted any such rights.

(m) To Seller's knowledge, the materials described in Section 2.01 include all materials in Seller's possession relating to the physical condition of the Property, excluding any internal development studies or plans or any proprietary or confidential information, but including architectural and engineering studies and drawings in Seller's possession.

(n) Seller has received no written notice to the effect that the Property is not in compliance with applicable laws or that there has been or may be an investigation of the Property by any governmental authority.

(o) Seller is not, and is not acting on behalf of, "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), that is subject to Title I of ERISA, a "plan" as defined in Section 4975 of the Internal Revenue Code or an entity deemed to hold the plan assets of any of the foregoing.

Any reference in this Agreement to "knowledge," "actual knowledge" or "best of knowledge" of Seller, shall be deemed to mean the actual knowledge of Matthew J. Klein, Dodd Walker and Joseph M. O'Connor, without inquiry or review of Seller's books and records. Matthew J. Klein, Dodd Walker and Joseph M. O'Connor are the persons employed by Seller or its constituent members who have primary responsibility for the Property. Any reference in this Agreement to the receipt of notices or other communications by Seller shall be deemed to mean the knowledge by Mr. Klein, Mr. Walker or Mr. O'Connor of receipt by Seller of such notice or communication in writing to Seller. Buyer acknowledges and agrees that neither such party nor any other employee or agent of Seller shall have any duty or obligation under this Agreement or other law to make any affirmative investigation of the matters covered by the foregoing provisions in order to determine the accuracy or truthfulness thereof. Except as expressly set forth in this Agreement and the Seller Closing Documents: (1) Buyer has not relied and will not rely on, and Seller is not liable for or bound by, any express or implied warranties, guaranties, statements, representations or information pertaining to the Property or relating thereto made or furnished by Seller, or any real estate broker or agent representing or purporting to represent Seller, or any third party in the form of reports or otherwise, to whomever made or given, directly or indirectly, orally or in writing; and (2) in addition, Buyer hereby acknowledges and agrees that the Property is to be conveyed by Seller to Buyer in "as-is, where-is, with all faults" condition without warranty or representation, express or implied, as to zoning, physical condition, environmental condition, suitability for a particular purpose or any other matter whatsoever.

3.02 Conditions to Buyer's Closing. The sole conditions precedent to the Buyer's obligation to close hereunder shall be the (i) continued accuracy as of the Closing Date in all material respects of the representations and warranties set forth in Section 3.01 above, (ii) the performance by Seller in all material respects of its covenants and agreements contained in this Agreement to be performed or observed by Seller prior to or on the Closing Date, and (iii) the unconditional and irrevocable agreement in writing by the Title Company, upon payment by Buyer of the premium therefor, to issue to Buyer at Closing an ALTA Form B (1970, amended 10/17/70) extended coverage owner's title insurance policy, effective as of the date and time of the recordation of the Deed, insuring Buyer as owner of the Property with coverage in the amount of the Purchase Price (subject, however, to the Permitted Exceptions), together with all title endorsements requested by Buyer (and issued by the Title Company in a pro forma or title commitment delivered to Seller) prior to the Study Period Expiration Date. If any representation or warranty set forth in Section 3.01 above shall not be correct in any material respect at or before Closing, as may be determined by the certificate delivered from Seller to Buyer at closing (as described in Section 5.02) or otherwise, or if the Title Company fails upon closing and payment of its premium to commit to issue a title policy to Buyer as above provided, or if any other condition above is not satisfied, Buyer may, as its sole remedy

on account thereof, terminate this Agreement and receive a return of its Deposit, in which event the parties shall have no further liability hereunder (except for the Continuing Obligations and as provided in Section 7.01 if Seller is in default). Absent any such termination, upon Closing hereunder the covenants, representations and warranties set forth in Section 3.01 above, as modified by the certificate delivered from Seller to Buyer at closing as described in Section 5.02, shall be deemed remade as of the date of Closing hereunder. However, notwithstanding anything to the contrary herein, to the extent that (i) any documents or information regarding the Seller or the Property are disclosed in writing (which shall include disclosure by email) to Buyer or brought to Buyer's attention prior to Closing in writing (including email); or (ii) Buyer otherwise knows about any facts or information that would cause any of Seller's representations, warranties or covenants hereunder to be inaccurate or not in compliance with this Agreement, and Buyer nevertheless closes on purchase of the Property, Buyer shall be deemed to have accepted and to have waived any objection to or claim based on such documents or information. Furthermore, except with respect to the covenants, representations and warranties which are expressly to survive Closing hereunder pursuant to Section 3.05 below, all covenants, representations and warranties contained in this Agreement shall merge in the deed delivered at Closing and shall not survive closing hereunder.

3.03 Buyer's Representations and Warranties. Buyer hereby represents and warrants to Seller as follows:

(a) This Agreement has been, and all the documents to be delivered by Buyer at Closing will be, duly authorized, executed and delivered by Buyer or will be at Closing binding on Buyer. Buyer is a limited liability company, duly organized and validly existing and in good standing under the laws of Delaware. Buyer has the capacity and authority to enter into this Agreement and consummate the transactions herein provided. Buyer has obtained all consents and permissions related to the transactions and contemplated and required under any covenant, agreement, encumbrance or applicable laws..

(b) This Agreement, and the acquisition of the Property by Buyer, shall not violate any contract, agreement or instrument to which Buyer is a party or by which the Buyer is bound or any applicable laws.

3.04 Conditions to Seller's Closing. If any representation or warranty set forth in Section 3.03 above shall not be correct in any material respect at or before Closing and such failure prevents Buyer from consummating closing hereunder on the Closing Date, Seller may terminate this Agreement and retain the Deposit as its sole remedy.

3.05 Survival of Representations. All of the covenants, representations, and warranties of Seller and Buyer expressly made in this Agreement shall survive Closing hereunder for a period of one hundred eighty (180) days (the "Survival Period"). If any claim is initiated within the Survival Period (which may only be initiated by written notice to Seller), then unless such claim is settled by the parties, a lawsuit must be initiated within forty five (45) days after the expiration of the Survival Period, failing which Buyer shall have no further right to institute a claim or action under this Agreement.

4. Pre-closing Obligations.

4.01 Operations. Between the Effective Date and Closing hereunder, Seller shall continue to operate the Property in the normal course of business and maintain its current insurance.

4.02 Actions Affecting Property. Between the Effective Date and the Closing Date, Seller shall give Buyer written notice of any actions taken or notices received, with regard to leases, title or otherwise, with respect to the Property. Between the Study Period Expiration Date and Closing hereunder, Seller shall not execute any new leases without Buyer's prior written approval, which approval may be withheld, conditioned or delayed in Buyer's sole and absolute discretion. In addition, during the period between the Study Period Expiration Date and Closing hereunder, Seller shall not execute any documents, agreements or instruments affecting the Property, or (to the extent within Seller's control) otherwise allow or permit the imposition of any liens or other encumbrances which affect title to the Property, without the prior written approval of the Buyer. In the event that Buyer fails to respond within five (5) business days after its receipt of any written request for approval of a lease or any other document, then Buyer's approval shall be deemed denied.

4.03 Transferable Development Rights. Pursuant to that certain Certificate of Transfer of Development Rights (Transfer Number Seven) dated as of May 6, 2002, by and among Theodore Cardinal McCarrick, Roman Catholic Archbishop of Washington, First & M Street Investing Company, LLC, and the District of Columbia Government, recorded as Instrument Number 2002116594 among the District of Columbia land records (the "TDR Agreement"), Seller, as successor to First & M Street Investing Company, LLC, is the owner of 11,538 square feet of transferable development rights ("TDR"), as defined therein and under applicable District of Columbia law. Seller shall transfer and convey to Buyer, at Closing, all right, title and interest in and to the TDR as set forth in the TDR Agreement, which transfer shall be effected pursuant to the Deed (as defined below).

5. Closing and Settlement.

5.01 Closing Date. The purchase and sale contemplated herein shall close (the "Closing") at the offices of DLA Piper Rudnick Gray Cary US LLP ("Seller's Counsel"), 1200 19th Street, NW, Washington, DC, at 10:00 am on January 30, 2006 (the "Closing Date"). In addition, at the request of either party, the parties shall meet at the aforesaid offices of Seller's Counsel one day prior to the Closing Date in order to verify compliance with all terms of the Agreement by both parties.

5.02 Seller's Deliveries. At Closing, concurrently with payment to Seller of the Purchase Price (subject to closing adjustments in accordance with this Agreement), Seller shall execute and deliver to Buyer the following documents ("Seller's Deliveries"):

(a) A special warranty deed in the form of Exhibit C attached hereto.

(b) An assignment of tangible and intangible property rights in the form of Exhibit D attached hereto (the "Assignment").

(c) Evidence, in form reasonably satisfactory to the Title Company, of Seller's power and authority to enter into this transaction.

(d) A written certificate stating that all representations and warranties contained in Section 3.01 above remain, as of the date of closing, correct in all material respects as when first made hereunder or, if not correct, stating the extent to which any such representations and warranties are not correct ("Seller's Certificate").

(e) A District of Columbia Form FP-7C (the "FP-7C").

(f) An owner's title affidavit in the form of Exhibit E attached hereto.

(g) an assignment and assumption of the Work Plan and the CSX Environmental Agreements in the form attached hereto as Exhibit F (the "Assignment of Environmental Agreements").

(h) A settlement statement in accordance with the terms of this Agreement (the "Settlement Statement").

(i) Such additional documents as may be reasonably necessary or customary to consummate the transactions contemplated by this Agreement.

(j) A FIRPTA certificate.

(k) The Density Bonus Covenant (as defined in Section 1.01(b)).

(l) To the extent they are then in Seller's possession, and have not theretofore been delivered to Buyer: (i) all architectural and engineering studies and drawings; and (ii) all correspondence and records relating to the CSX Environmental Agreements and the on-going operations and maintenance of the Property.

5.03 Buyer's Deliveries.

(a) At Closing, Buyer shall pay the Purchase Price in accordance with Section 1.01(a).

(b) At Closing, Buyer shall execute and deliver to Seller the following documents:

(i) The Settlement Statement.

(ii) The Assignment.

(iii) A written certificate stating that all representations and warranties contained in Section 3.03 above remain, as of the date of Closing, correct in all material respects as when first made hereunder or, if not correct, stating the extent to which any such representations and warranties are not correct (the "Buyer's Certificate").

(iv) The FP-7C.

(v) The Assignment of Environmental Agreements.

(vi) The Density Bonus Covenant.

(vii) Such additional documents as may be reasonably necessary or customary to consummate the transactions contemplated by this Agreement.

5.04 Possession. Possession of the Property shall be delivered to the Buyer on the date of Closing.

5.05 Prorations. The following provisions shall apply to the division of funds, obligations and payments between the parties as of closing hereunder:

(a) The parties shall adjust and prorate the following items as of 11:59 p.m. on the day prior to Closing: All real property taxes, assessments and other governmental impositions of any kind or nature, including any special assessments or similar charges, accrued or imposed in any connection with the Property (collectively "Taxes"), which relate to the tax year or other applicable tax period within which the Closing occurs (whether paid or accrued). Special assessments imposed by the Washington Metropolitan Area Transit Authority for the New York Avenue transit stop shall be pro-rated as of the date of Closing.

(b) The parties agree that in the event the Seller's proceeds of the Purchase Price are not delivered to Seller's account pursuant to Section 1.02(b) by 2:00 p.m., Washington, DC, time on the day of Closing determined in accordance with Section 5.01 above, then the prorations described in subsection (a) above shall be recalculated as of 11:59 p.m., Washington, DC, time on the day immediately prior to the first day on which Seller has such funds by 2:00 p.m. Eastern Standard Time. Such recalculation shall not diminish or otherwise affect the parties' obligation to close at the time and at the place required by the terms of this Agreement.

(c) The obligations under this section shall survive Closing. In the event that any errors in prorations made at closing are discovered or additional adjustments to prorations are necessary after closing, the parties shall promptly re-adjust the subject amounts, with such payments to be made between the parties as are necessary to correct the errors. In all events, the parties shall make such adjustments, or confirm in writing that no such adjustments are necessary, within nine (9) months after the date of Closing.

5.06 Closing Costs. Buyer and Seller shall each pay one-half of the District of Columbia Transfer Tax and the District of Columbia Recordation Tax imposed on the recordation of the Deed. Buyer shall pay all costs of the survey, examination of title and all title insurance policy premiums. Seller and Buyer shall each pay the costs of its own attorneys. Seller shall pay any costs to release any deeds of trust or monetary liens affecting the Property.

6. Condemnation. In the event any governmental or quasi-governmental authority notifies Seller, or Seller becomes aware, of any permanent or temporary actual taking or condemnation of all or any portion of the Property ("Taking"), Seller shall promptly notify in writing Buyer of the same. If such Taking would not materially adversely affect Buyer's intended development or use

of the Property (as reasonably determined by Buyer), Buyer shall proceed to Closing with no reduction in the Purchase Price, and all proceeds of such Taking less all reasonable costs of collection incurred by Seller shall be delivered or assigned to Buyer at Closing. If, however, such Taking would materially adversely affect Buyer's intended development or use of the Property (as reasonably determined by Buyer), then Buyer shall have the right, at its sole option, either to (a) proceed to Closing with no reduction in the Purchase Price, in which event any and all proceeds of such Taking less all reasonable costs of collection incurred by Seller shall be delivered or assigned to Buyer at closing, or (b) terminate this Agreement, in which event the Deposit shall be promptly released to Buyer, and Seller and Buyer thereafter shall be released from any further liabilities or obligations under this Agreement, except for the Continuing Obligations. Within ten (10) days after Buyer's receipt of written notice from Seller regarding the occurrence of any Taking, Buyer shall notify Seller in writing of Buyer's determination as to whether such Taking would or would not materially adversely affect Buyer's intended development or use of the Property (as reasonably determined by Buyer). If Buyer fails to deliver such written notice to Seller prior to the expiration of said 10-day period, then Buyer shall be deemed to have made a determination that such Taking shall not adversely affect Buyer's intended development of the Property, and an election to proceed to closing with no reduction of the Purchase Price in accordance with clause (a) above.

7. Default/Remedies.

7.01 Default by Seller. If the closing fails to occur due to Seller's default in its obligations to be performed on the Closing Date, then Buyer shall have, as its sole option and remedy on account thereof, the right to either (a) enforce this Agreement by specific performance, or (b) terminate this Agreement and receive a return of the Deposit.

7.02 Default by Buyer. If the Closing fails to occur due to Buyer's default in its obligations to be performed on the Closing Date (all conditions to Buyer's obligation to close having been satisfied or waived in writing), then Seller shall have the right to terminate this Agreement and to retain the full amount of the Deposit hereunder, as Seller's sole remedy and liquidated damages on account of the Buyer's default. Notwithstanding the foregoing, this provision shall not limit the Seller's right to pursue and recover on a claim with respect to any Continuing Obligations of Buyer. The parties agree that the Seller's actual damages would be difficult to ascertain and that the total Deposit is the parties' best and good faith estimate of such damages and not a penalty.

8. Deposit.

8.01 Disbursement of Deposit. Escrow Agent shall hold the Deposit in an interest bearing account at a federally insured financial institution in the Washington metropolitan area or a U.S. Treasury money market fund. Any interest earned on the Deposit shall be and become part of the Deposit. Escrow Agent shall retain or return the Deposit, as appropriate, as provided in this Agreement. If by 6:00 p.m., Washington, DC, time, on the expiration date of the Study Period, Buyer has delivered the Study Period Notice, terminating the Agreement, then Escrow Agent shall return the Deposit to Buyer.

8.02 Disputes. In the event of any dispute between Seller and Buyer regarding the disbursement of the Deposit, Escrow Agent shall hold the Deposit until (i) Seller and Buyer agree with respect to the disbursement of the Deposit or (ii) Escrow Agent receives a final, non-appealable, unstayed order binding upon it from a court of competent jurisdiction with respect to the disbursement of the Deposit. Notwithstanding the foregoing, in the event this Agreement is terminated by Buyer by delivery of the Study Period Notice within the Study Period, then the Deposit shall be disbursed promptly to Buyer.

8.03 Attorneys' Fees and Interest. In the event there exists a dispute between Seller and Buyer as to the disbursement of the Deposit in accordance with Section 8.01, and a court of competent jurisdiction determines that the Deposit should have been disbursed to either Seller or to Buyer, then in addition to all other amounts payable under this Agreement, and notwithstanding any limitation set forth in this Agreement on the liability of any party, the non-prevailing party in such litigation or proceeding shall pay all fees and expenses (including, without limitation, court costs and reasonable attorneys' fees) incurred by the other party in obtaining the release of the Deposit.

9. Miscellaneous.

9.01 Assignment. Buyer represents to Seller that Buyer intends to purchase the Property for Buyer's own investment purposes. Likewise, Buyer shall not assign or transfer this Agreement or any interest herein or in the Property to any third party without the prior written consent of the Seller. However, Buyer shall have the right, upon written notice to Seller but without Seller's consent, to assign this Agreement prior to or at closing to any entity in which an entity controlled by or under common control with Walton Street Capital, LLC and an entity controlled by or under common control with StonebridgeCarras, LLC have direct or indirect interests. Likewise, Seller may withhold its consent to, and Buyer hereby agrees to not undertake, any other assignment for the purpose of transferring directly or indirectly the rights to purchase the Property in return for monetary consideration. Upon any assignment, the original named Buyer herein shall not be released but shall remain primarily responsible for all duties, obligations and liabilities of the Buyer hereunder. This Agreement shall inure to the benefit of, and be binding upon, the successors and assigns of the parties hereto.

9.02 No Personal Liability. No constituent member in or agent of either party, nor any present or future partner, member, manager, trustee, beneficiary, director, officer, shareholder, employee, advisor, affiliate or agent of any partnership, limited liability company, corporation, trust or other entity that has or acquires a direct or indirect interest in either party or in any affiliate of either party shall have any personal liability, directly or indirectly, under or in connection with this Agreement or any agreement made or entered into under or in connection with the provisions of this Agreement, or any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter, and each party and its successors and assigns and, without limitation, all other persons and entities, shall look solely to the other party's interest in the Property (and the proceeds therefrom) for the payment of any claim or for any performance, and each party on behalf of itself and its successors and assigns hereby waives any and all such personal liability. For purposes of this Section 9.02, no negative capital account or any contribution or payment obligation of any partner or

member in either party shall constitute an asset of such party. The limitations of liability contained in this Section shall survive the termination of this Agreement or the Closing Date, as applicable, and are in addition to, and not in limitation of, any limitation on liability applicable to either party provided elsewhere in this Agreement or by law or by any other contract, agreement or instrument.

9.03 Limitation of Liability. To the extent that Seller has obligations or liabilities of any kind after closing under this Agreement, recourse for enforcement of such obligations or liabilities (if any) shall be limited to an amount of Two Million and No/100 Dollars ($2,000,000.00), and no action may be taken with respect to any greater amounts or other assets of Seller; however, the foregoing shall not include or limit any amounts payable under Section 9.08 or other collection costs or interest on any judgments. However, this provision shall not be construed or interpreted as creating any such obligations or liabilities of Seller, which shall be determined by other provisions of this Agreement. Seller shall not dissolve, liquidate or wind up its activities prior to the expiration of the Survival Period. This Section 9.03 shall survive the Closing.

9.04 Limitation of Claims. Except as set forth in this Agreement or in the Seller Closing Documents: (1) this sale and conveyance is made on an as-is where-is basis and Seller makes no warranty or representation, express or implied, as to merchantability, suitability or fitness for a particular purpose of the Property, the state of repair of the Property, or with respect to soil conditions or the presence or release of Hazardous Substances; (2) Buyer hereby agrees to release Seller and each of Seller's partners, members, trustees, directors, officers, employees, asset managers, attorneys, affiliates and related entities, heirs, successors, and assigns (collectively, the "Releasees") from and against any and all liabilities, losses, claims (including third party claims), demands, damages (of any nature whatsoever), causes of action, costs, penalties, fines, judgments, attorneys' fees, consultants' fees and costs and experts' fees (collectively, the "Claims") with respect to any and all claims, whether direct or indirect, known or unknown, foreseen or unforeseen, that may arise on account of or in any way be connected with the Property, including, without limitation, the physical, environmental and structural condition of the Property or any law or regulation applicable thereto, including, without limitation, any claim or matter (regardless of when it first appeared) relating to or arising from (i) the presence of any environmental problems, or the use, presence, storage, release, discharge, or migration of Hazardous Substances on, in, under or around the Property regardless of when such Hazardous Substances were first introduced in, on or about the Property, (ii) any patent or latent defects or deficiencies with respect to the Property or any portion thereof, (iii) any and all matters related to the Property or any portion thereof, including without limitation, the condition and/or operation of the Property and each part thereof, and (iv) the presence, release and/or remediation of asbestos and asbestos containing materials in, on or about the Property regardless of when such asbestos and asbestos containing materials were first introduced in, on or about the Property; (3) Buyer hereby waives and agrees not to commence any action, legal proceeding, cause of action or suits in law or equity, of whatever kind or nature, directly or indirectly, against the Releasees or their agents in connection with any claims described above; (4) in this connection and to the greatest extent permitted by law, Buyer hereby acknowledges that factual matters now known to it may have given or may hereafter give rise to causes of action, claims, demands, debts, controversies, damage, costs, losses and expenses which are presently unknown, unanticipated and

unsuspected, and Buyer further agrees, represents and warrants that the waivers and releases herein have been negotiated and agreed upon in light of that realization and that Buyer nevertheless hereby intends to release, discharge and acquit Seller from any such unknown claims, debts, and controversies which might in any way be included as a material portion of the consideration given to Seller by Buyer in exchange for Seller's performance hereunder other than the excluded claims. This release shall be given full force and effect according to each of its expressed terms and provisions, including those relating to unknown and unsuspected claims, damages and causes of action. The provisions of this Section 9.04 shall survive any termination of this Agreement and shall survive the Closing and shall not be deemed merged into any instrument or conveyance delivered at the Closing.

9.05 Notices. All notices given in connection with this Agreement shall be in writing and may be delivered (a) personally, (b) by United States registered or certified mail, postage prepaid, (c) by Federal Express or other reputable courier service regularly providing evidence of delivery (with charges paid by the party sending the notice), or (d) by facsimile, provided that such telecopy shall be immediately followed by delivery of such notice pursuant to clause (a), (b) or (c) above. Any such notice to a party shall be addressed at the respective address set forth below (subject to the right of a party to designate a different address for itself by notice similarly given):

IF TO SELLER:

c/o Leucadia International Corporation
315 Park Avenue South
New York, NY 10010
Attn: Joseph M. O'Connor
Facsimile: 212.598.4869

c/o Akridge Real Estate Services
601 Thirteenth Street, NW, Suite 300 North
Washington, DC 20005
Attn: Mathew J. Klein
Facsimile: 202.347.8043

with a copy to:

DLA Piper Rudnick Gray Cary US LLP
1200 19th Street, NW
Washington, DC 20036
Attn: Frederick L. Klein
Facsimile: 202.689.7455

IF TO BUYER:

c/o Walton Street Capital, L.L.C.
900 North Michigan Avenue, Suite 1900
Chicago, Illinois 60611
Attn: Mr. Timothy J. Junker
Facsimile: 312.915.2881

with a copy to:

c/o StonebridgeCarras, LLC
Two Bethesda Metro Center, Suite 220
Bethesda, Maryland 20814
Attn: Mr. George A. Carras
Facsimile: 312.664.6705

with a copy to:

Pircher, Nichols & Meeks
1925 Century Park East, Suite 1700
Los Angeles, California 90067
Attn: Real Estate Notices (SAC/APJ)
Facsimile: 310.201.8922

If to Escrow Agent:

Commercial Settlements, Inc.
1015 15th Street, N.W., Suite 300
Washington, DC 20005
Attn: Mr. Paul Beever
Facsimile: 202.737.4108

Service of any such notice or other communications so made shall be deemed effective on the day of actual delivery (whether accepted or refused) as evidenced by confirmed answerback if by facsimile; provided, however, that if such actual delivery occurs on a non-business day, then such notice or demand so made shall be deemed effective on the first business day after the day of actual delivery. No communications via electronic mail shall be effective to give any notice, request, direction, demand, consent, waiver, approval or other communications hereunder.

9.06 Entire Agreement. This Agreement contains all agreements of the parties with respect to the Property and supersedes any prior discussions, contracts or other agreements with respect thereto. No modifications to this Agreement or waivers of any rights or benefits provided herein shall be binding unless signed by the party against whom such modification or waiver is sought to be enforced.

9.07 Broker. Each of Seller and Buyer represents and warrants to the other that it has not dealt with any broker or finder in connection with the transaction contemplated by this Agreement, except for Cassidy & Pinkard on behalf of Seller (the "Broker"). Seller shall pay a commission to the Broker at Closing according to separate agreement. Furthermore, each of Seller and Buyer indemnifies and holds the other harmless from and against any losses, damages, costs or expenses (including attorneys' fees) incurred by such other party due

to a breach of the foregoing warranty and representation. The foregoing indemnity shall survive closing or any termination of this Agreement.

9.08 Attorney's Fees. If any action is brought by either party hereto against the other party, the party in whose favor a final judgment shall be entered shall be entitled to recover court costs and reasonable attorneys' fees incurred in connection therewith.

9.09 Perpetuities. If the rule against perpetuities would invalidate this Agreement or any portion hereof, due to the potential failure of an interest in property created herein to vest within a particular time, then notwithstanding anything to the contrary herein, each such interest in property must vest, if at all, before the passing of 21 years from the date of this Agreement, or this Agreement shall become null and void upon the expiration of such 21 year period and the parties shall have no further liability hereunder.

9.10 Severability. No determination by any court, governmental body or otherwise that any provision of this Agreement or any amendment hereof is invalid or unenforceable in any instance shall affect the validity or enforceability of any other such provision or such provision in any circumstance not controlled by such determination. Each such provision shall be valid and enforceable to the fullest extent allowed by, and shall be construed wherever possible as being consistent with, applicable law.

9.11 Recording. This Agreement may not be recorded among the land records or among any other public records without the Seller's prior written consent (which consent may be withheld for any reason).

9.12 Counterparts. This Agreement may be signed in counterparts, and by facsimile, and shall be fully enforceable when signed in such manner.

9.13 Timing. The phrase "business days" as used herein shall mean the days of Monday through Friday, excepting only Federal holidays. The phrase "calendar days" as used herein shall mean all days of the week, including all holidays. The term "days" without reference to calendar or business days shall mean calendar days. Time is of the essence of this Agreement. However, whenever action must be taken (including the giving of notice or the delivery of documents) under this Agreement during a certain period of time (or by a particular date) that ends or occurs on a non-business day, then such period (or date) shall be extended until the immediately following business day.

9.14 Soil Disclosure. The characteristics of soil on the Property as described by the Soil Conservation Service of the United States Department of Agriculture in the Soil Survey of the District of Columbia and as shown on the Soil Maps of the District of Columbia is Urban soil. For further information, Buyer may contact a soil-testing laboratory, the District of Columbia Department of Environmental Services or the Soil Conservation Service of the Department of Agriculture. The foregoing information is provided pursuant to applicable law and shall not be deemed a representation or warranty.

9.15 Underground Storage Tanks. Buyer acknowledges that, except as otherwise described in the Environmental Reports, pursuant to the District of Columbia Underground Storage Tank Management Act of 1990 and Amendment of 1992 (the "UST Act"), prior to the Date of this

Agreement, Seller has informed Buyer in writing that Seller has no knowledge of the existence or removal of underground storage tanks. The disclosure of Seller's lack of knowledge was made solely for the purpose of complying with the disclosure requirements of the UST Act and no representation or warranty of any nature whatever is made with respect to the possibility of the existence or removal of any underground storage tank(s) that may have existed or been removed prior to Seller's ownership of the Property.

9.16 Confidentiality. During the period commencing on the date hereof and ending on the earlier to occur of (a) the Closing, or (b) one (1) year after the originally scheduled Closing Date hereunder, Seller and Buyer agree that the terms of the transaction contemplated by this Agreement (including without limitation, the Purchase Price and the other material economic terms of this transaction, and any documents or materials delivered by Seller to Buyer in connection with Buyer's due diligence) shall be maintained in strict confidence and no disclosure, whether through press releases or any other means of publication (oral or written), of such documentation and information will be made or permitted (excluding information available from other sources other than by reason of a breach of this Section 9.16), except to such brokers, attorneys, lenders, consultants, engineers, architects, partners and others as are involved in the negotiation and consummation of this transaction (collectively, the "Representatives") and except to the extent any disclosure is required by law, including any federal and state securities laws. In furtherance of the foregoing, Seller and Buyer agree as follows: (i) Seller and Buyer shall advise each of its respective Representatives of the confidential nature of any documentation and information disclosed to them and of the parties' obligations under this Section 9.16; (ii) each party shall be liable for any Representative's breach of this Section 9.16 (except for a Representative who has executed a confidentiality agreement), Seller and Buyer acknowledging that there may be no adequate remedy at law and that Buyer and Seller shall each have the right to seek injunctive relief; and (iii) Seller and Buyer shall defend, indemnify and hold the other party harmless from and against any and all claims, damages, liabilities and expenses, including reasonable attorneys' fees, arising out of or resulting from a breach of this Section by either party or such party's Representatives. Notwithstanding any terms or conditions in this Agreement or any related agreement to the contrary, but subject to restrictions reasonably necessary to comply with federal or state securities laws, any person may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment and tax structure. The parties are also permitted to disclose any information otherwise deemed confidential under this paragraph in connection with the performance of its obligations hereunder and any litigation relating to the Property or this transaction, and as may be required in connection with filings required by the parties, or their respective affiliates, to comply with securities laws. The provisions of this Section 9.16 shall survive any termination of this Agreement, but shall not survive Closing.

9.17 Interpretation. Words used in the singular shall include the plural, and vice-versa, and any gender shall be deemed to include the other. Whenever the words "including", "include" or "includes" are used in this Agreement, they shall be interpreted in a non-exclusive manner. The captions and headings of the Sections of this Agreement are for convenience of reference only, and shall not be deemed to define or

limit the provisions hereof. Except as otherwise indicated, all Exhibit and Section references in this Agreement shall be deemed to refer to the Exhibits and Sections in this Agreement.

9.18 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE DISTRICT OF COLUMBIA (WITHOUT REGARD TO CONFLICTS OF LAW).

9.19 No Third Party Beneficiaries. Except as otherwise expressly provided in this Agreement, Seller and Buyer do not intend by any provision of this Agreement to confer any right, remedy or benefit upon any third party, and no third party shall be entitled to enforce or otherwise shall acquire any right, remedy or benefit by reason of any provision of this Agreement.

9.20 Further Instruments. Each party will, whenever and as often as it shall be requested so to do by the other, cause to be executed, acknowledged or delivered any and all such further instruments and documents as may be necessary or proper, in the reasonable opinion of the requesting party, in order to carry out the intent and purpose of this Agreement.

9.21 Consents and Approvals. Except as otherwise expressly provided herein, any approval or consent provided to be given by a party hereunder must be in writing to be effective and may be given or withheld in the sole and absolute discretion of such party.

9.22 Exclusivity. During the term of this Agreement, Seller shall not solicit, negotiate or enter into any agreement for the sale or conveyance of any portion of the Property or enter into any other communications concerning or related to the sale of the Property to any third party.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the dates set forth below.

SELLER:

SQUARE 711 DEVELOPER, LLC,
A DELAWARE LIMITED LIABILITY COMPANY

By:

Joseph M. O'Connor
Executive Manager

Date of Execution: , 2005

BUYER:

WALTON ACQUISITION HOLDINGS V, L.L.C.,
A DELAWARE LIMITED LIABILITY COMPANY

By: Walton Street Real Estate Fund V, L.P.,
a Delaware limited partnership
its Managing Member

By: Walton Street Managers V, L.P.,
a Delaware limited partnership
its General Partner

By: WSC Managers V, Inc.,
a Delaware corporation
its General Partner

By:

Name:
Title:

Date of Execution: , 2005

The undersigned, Commercial Settlements, Inc., agrees to serve as the Escrow Agent and to hold and disburse the Deposit as provided in this Agreement.

COMMERCIAL SETTLEMENTS, INC.

By: _____

Name:
Title:

Exhibits

Exhibit A - Description of Property
Exhibit B - Environmental Materials
Exhibit C - Deed
Exhibit D - Assignment of Tangible and Intangible Property
Exhibit E - Owner's Affidavit
Exhibit F - Assignment and Assumption of Environmental Agreements
Exhibit G - Due Diligence Materials

EXHIBIT A

DESCRIPTION OF PROPERTY

All that certain lot or parcel of land situate and lying in the District of Columbia, and more particularly described as follows:

Lot 160 in the subdivision made by First & M Street Investing Company, LLC, in Square 711, as shown on plat recorded among the Records of the Office of the Surveyor for the District of Columbia in Book 196 at page 43.

TOGETHER WITH certain transferable rights described in that certain Certificate of Transfer of Development Rights, Transfer Number Seven, dated as of May 6, 2002, by and between Theodore Cardinal McCarrick, Roman Catholic Archbishop of Washington, and his successors in office, a corporation sole, a Federally created corporation, the District of Columbia and First and M Street Investing Company, LLC, recorded in the Land Records of the District of Columbia on October 8, 2002, as Instrument Number 2002116594.

EXHIBIT B

ENVIRONMENTAL MATERIALS

1. Full sized surveys - Topographic and Utility, prepared by Wiles Mensch, dated March 3, 2004.

2. Phase I Environmental Site Assessment, June 10, 2003, Prepared by Advantage Environmental Consultants ("AEC").

3. Corrective Action Plan, June 18, 2003, Prepared by AEC.

4. Contaminated Soil Management Plan, June 18, 2003, Prepared by AEC.

5. Subsurface Investigation Report, June 17, 2003, Prepared by AEC.

6. Letter titled Summary of Environmental Cost Estimates from AEC to Akridge, June 12, 2003.

7. Letter titled Summary of Remediation Environmental Cost Estimates from AEC to Akridge, December 1, 2003.

8. WMATA Lease for Real Property, dated July 16, 2003 - Lease #OB3030.754.

9. Deed of Gift, dated July 16, 2003 by 1st & M to WMATA.

10. Application for Voluntary Remediation Action Program (VRAP) Plan (A through H), September 11, 2003, Prepared by AEC.

11. VRAP Authorization Letter, October 22, 2003, Prepared by DC Dept. of Health.

12. VRAP Approval Letter, July 11, 2005, Prepared by DC Dept. of Health.

13. Risk Based Closure Evaluation, Volume 1, July 22, 1999, URS Greiner Woodward Clyde.

14. Risk Based Closure Evaluation, Volume 2, July 22, 1999, URS Greiner Woodward Clyde.

15. Phase I Environmental Site Assessment, October 7, 2002, EBI Consultants.

16. 2 - 11x17 Color Aerials of the site.

17. 2 - 11x17 Alta Surveys, prepared by AMT, dated October 22, 2002.

18. 2 - Full sized Alta Surveys, prepared by AMT, dated October 22, 2002.

19. Amended and Restated Environmental Agreement, dated December 13, 2002 (CSX, 1st M).

20. Environmental Escrow Agreement, dated December 13, 2002 (CSX, 1st & M, Miles & Stockbridge).

21. Groundwater Monitoring Report, January 2, 2003, AMEC Earth & Environment, Inc.

22. Memo-Summary of Limited Subsurface Investigation, January 2003, AMEC.

23. Memo-Summary of Gauging and LNAPL Extraction Events, May 2004, AMEC.

24. EMG Letter Report, August 4, 1999: discussion of site conditions, recent investigations and proposed development activities.

25. Meeting Minutes, August 19, 1999: from meeting between CSX, Penrose, URS Greiner Woodward-Clyde and EMG on August 11, 1999.

26. EMG Letter Report, September 9, 1999: Site Reconnaissance and sampling for suspect Asbestos in Bluestone aggregate.

27. Letter titled Environmental Document Review from EMG to Penrose Group, August 4, 1999.

28. Letter titled Estimated Soil Disposal Costs from EMG to Penrose Group, August 4, 1999.

29. Letter to Marshall Williams, CSX, dated December 13, 1999 from District of Columbia Dept. of Health.

30. Work Plan for Hydrogeologic Investigation, November 23, 1988, Wapora, Inc.: initial remediation plans for CSX property.

31. Environmental Assessment, March 1, 1989, Wapora, Inc.: environmental investigation conducted by Wapora on CSX property.

32. DRAFT Work Plan, November 13, 1989, Woodward-Clyde: Suggested remediation strategies for CSX property, and summary of environmental to date.

33. Summary of Findings for Site Investigation, December 10, 1989, Dames & Moore: summary of the investigation conducted by Dames & Moore December 3-9, 1989. Included soil borings and sampling and ground water sampling.

34. DRAFT Report, Biofeasibility Study of Soil and Ground-Water Contaminated with Petroleum Hydrocarbon Compounds, December 28, 1989, Hunter Biosciences Inc.: study to determine if bioremediation would be an effective remediation choice.

35. Investigation of Salt Pile Runoff in the Groundwater at M Street Maintenance Facility, (prepared for Department of Public Works), March 9, 1990, Geo Trans, Inc. (letter report): investigation of the impact of a chloride plume on the CSX property.

36. Additional Site Information (5 Appendices), April 23, 1990, Woodward-Clyde (submitted to D. C. Environmental Control Division): revised schedule of activities, summary of bench-scale biofeasibility studies, sample locations and abbreviations, base neutrallacid extractable data in soil, and metal data in soil.

37. Additional Site Information (5 Appendices), May 16, 1990, Woodward-Clyde (submitted to D. C. Environmental Control Division): TPH soil data, VOC soil data, groundwater metal data, WCC proposed outline for May 17, 1990 meeting.

38. Site History, July 1990, Woodward-Clyde: history of past site uses, underground storage tanks and aboveground storage tanks.

39. Indications of Off-site Petroleum Contamination Source(s), July 10, 1990, Woodward-Clyde: report of data to indicate impact from off-site sources.

40. Results of TCLP Analysis, August 30, 1990, Woodward-Clyde: soil data to determine any hazardous nature of the on-site contaminated soils.

41. Result of Conductivity & Soil Gas Analysis, October 30, Woodward-Clyde.

42. Results of Conductivity & Soil Gas Analysis, November 15, 1990, Woodward-Clyde.

43. Progress Reports on Bimonthly Bailing & Monitoring of Monitor Wells and Piezometers, Woodward-Clyde: February 18, 1992, March 16, 1992, April 10, 1992.

44. Progress Report on Monthly Bailing & Sampling of Monitor Wells and Piezometers, Woodward-Clyde: March 17, 1992.

45. "Fingerprinting" Report on Monthly Bailing & Sampling of Monitor Wells and Piezometers, Woodward-Clyde: April 14, 1992, May 27, 1992, July 1, 1992, July 23, 1992, October 9, 1992 (also includes discussion of related issues).

46. Status Report & Request for Approval to Continue Remediation Activities, October 30, 1995, Woodward-Clyde Consultants.

47. Dept. of Consumer & Regulatory Affairs - Second Notice of Proposed Rulemaking - Underground Storage Tank Regulations.

48. Draft Chronology of Events - November 1987 to July 1993, Mount Clare Properties, Inc., First and M Streets, N. E., Washington, D.C.

49. November and December 1994 PetroTrap Results, Letter to Dr. Sreenivas, dated January 4; 1995.

50. Cap and VRAP prepared for Archstone, dated March 28, 2005.

51. Phase I ESA, dated March 22, 2005, Prepared by Blackstone for Archstone.

52. March 31, 2005 Geo Evaluation prepared by Balter.

53. Geotechnical Engineering Analysis prepared by ECS, dated May 4, 2004.

54. July 8, 2004 Letter from Michael Daneker of Arnold & Porter to Dr. V. Sreenivas of the Bureau of Hazardous Materials & Toxic Substances.

55. June 2, 2005 Letter from Douglas Green of DLA Piper Rudnick Gray Cary to Michael Daneker. June 28, 2005 Letter from Michael Daneker to Douglas Green.

56. Environmental Site Assessment prepared by Environ International Corporation dated October, 2005.

57. Woodward-Clyde transmittals of reports to District of Columbia dated as follows:

October 7, 1993	for	September 1993
September 8, 1993	for	August 1993
January 3, 1995	for	December 1994
February 8, 1995	for	January 1995
February 27, 1995	for	February 1995
March 27, 1995	for	March 1995
April 19, 1995	for	April 1995
May 22, 1995	for	May 1995
July 27, 1995	for	June 1995
August 18, 1995	for	July 1995
November 7, 1995	for	October 1995
December 11, 1995	for	November 1995
February 12, 1996	for	December 1995 & January 1996
April 4, 1996	for	March 1996
June 27, 1996	for	April & May 1996
August 29, 1996	for	June & July 1996

Adjacent Property Reports

1. Environmental Assessment, Woodward & Lothrop Warehouse, January 24, 1989, ATEC Environmental Consultants [prepared for Woodward & Lothrop].

2. Plan of Action for Removal of Contaminated Soils and Free Product, 30-60 M Street, N.E. June 28, 1991.

3. Briggs Environmental Sampling at 145 0 Street, N. E., October 8, 1991, Washington, D.C. Dept. of Public Works (letter report).

4. Summary of Remedial Activities, 30/60 M Street, November 11, 1991, Briggs Associates [prepared for 30/60 M St. Limited Partnership].

5. Quarterly Progress Reports by ATEC Environmental Consultants [prepared for Woodward & Lathrop].

   9/1/89 - 10/15/89
   10/16/89 - 11/30/89
   2/1/90 - 3/31/90
   4/90 - 5/31/90

6. Quarterly Progress Reports by ATEC Environmental Consultants [prepared for Woodward & Lathrop].

   10/1/90 - 2/31/90
   1/1/91 - 3/31/91
   4/1/91- 6/30/91

EXHIBIT C

FORM OF SPECIAL WARRANTY DEED

SPECIAL WARRANTY DEED

THIS SPECIAL WARRANTY DEED is made as of this _____ ___, 200___, by and between SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company (the "Grantor"), having an address of c/o The John Akridge Company, Suite 300 North, 601 13th Street, NW, Washington, DC 20005, and, _____, a _____, having an address of _____ (the "Grantee").

WITNESSETH:

THAT, for and in consideration of the sum of Ten Dollars ($10.00), cash in hand paid, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor does hereby grant, bargain, sell and convey, with Special Warranty of Title, unto Grantee, its successors and assigns, fee simple title to that certain parcel of land situate in the District of Columbia (the "Real Estate"), and being more particularly described in Schedule A attached hereto and made a part hereof.

TO HAVE AND TO HOLD the Real Estate, together with all improvements, rights, privileges, and appurtenances thereunto belonging or pertaining to the Grantee, its successors and assigns, forever.

TOGETHER WITH all of Grantor's right, title and interest in and to those certain Transferable Development Rights more particularly described in Schedule B attached hereto and made a part hereof, but only to the extent such rights constitute real property rights.

This conveyance is made subject to the covenants, restrictions, conditions, easements, reservations, agreements and rights-of-way, which encumber the Real Estate and are of record.

WITNESS their hand and seals the day and year above written.

GRANTOR:

Witness

_____, a _____

By (SEAL)
Name:

Title:

DISTRICT OF COLUMBIA) SS:

The foregoing Special Warranty Deed was acknowledged before me on this _____ day of _____, 200_, by _____, as the _____ of _____, for the purpose therein contained.

WITNESS my hand and seal this _____ day of _____, 200_.

NOTARY PUBLIC

My Commission expires: _____

SCHEDULE A

LEGAL DESCRIPTION OF REAL PROPERTY

All that certain lot or parcel of land situate and lying in the District of Columbia, and more particularly described as follows:

Lot 160 in the subdivision made by First & M Street Investing Company, LLC, in Square 711, as shown on plat recorded among the Records of the Office of the Surveyor for the District of Columbia in Book 196 at page 43.

SCHEDULE B

DESCRIPTION OF TRANSFERABLE DEVELOPMENT RIGHTS

Certain transferable rights described in that certain Certificate of Transfer of Development Rights, Transfer Number Seven, dated as of May 6, 2002, by and between Theodore Cardinal McCarrick, Roman Catholic Archbishop of Washington, and his successors in office, a corporation sole, a Federally created corporation, the District of Columbia and First and M Street Investing Company, LLC, recorded in the Land Records of the District of Columbia on October 8, 2002, as Instrument Number 2002116594

EXHIBIT D

FORM OF ASSIGNMENT OF INTANGIBLE PROPERTY

ASSIGNMENT OF TANGIBLE AND INTANGIBLE PROPERTY

THIS ASSIGNMENT OF TANGIBLE AND INTANGIBLE PROPERTY (this "Assignment"), is executed on this _____, 2005, by SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Seller"), for the benefit of _____, a _____ ("Buyer"), under the following circumstances:

A. Contemporaneously herewith, Buyer is acquiring from Seller certain real property located in the District of Columbia, and described in Exhibit A hereto (the "Property"), pursuant to that certain Purchase and Sale Agreement, dated as of November 14, 2005, between Buyer and Seller (the "Purchase Agreement").

B. In connection with the foregoing acquisition, Seller desires to transfer and assign to Buyer all of Seller' right, title and interest in and to the certain property and rights herein described.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby agrees as follows:

1. Assignment. Seller hereby transfers and assigns to Buyer, to the extent assignable, all of Seller's right, title and interest in and to the following (the "Assigned Properties"):

(a) all tangible personal property, if any, located on the Property and used in connection with Seller's ownership, use or contemplated development of the Property; and all architectural and engineering studies and drawings in connection with Seller's ownership, use or contemplated development of the Property;

(b) all permits, licenses, certificates, development rights, governmental approvals, entitlements, development agreements, utility agreements with any governmental or quasi-governmental entities or agencies with respect to the providing of utility services to the Property and sanitary or storm sewer capacity or reservations relating to the Property, or the right to develop the Property;

(c) all agreements with or applications to any governmental authority with respect to any zoning modification, variance, exception, platting or other matter relating to the zoning, use, development, subdivision or platting of the Property;

(d) all agreements, studies, reports, correspondence and other documents relating to the presence or absence of any endangered species or environmentally sensitive areas on the Property;

(e) all claims, demands or causes of action Seller has or may have arising out of or relating to or caused by any defects in any of the studies or reports prepared for Seller and hereby assigned to Buyer;

(f) all of Seller's right, title and interest in those certain transferable rights described in that certain Certificate of Transfer of Development Rights, Transfer Number Seven, dated as of May 6, 2002, by and between Theodore Cardinal McCarrick, Roman Catholic Archbishop of Washington, and his successors in office, a corporation sole, a Federally created corporation, the District of Columbia and First and M Street Investing Company, LLC, recorded in the Land Records of the District of Columbia on October 8, 2002, as Instrument Number 2002116594; and

(g) all other rights, privileges and appurtenances owned by Seller and in any way related to the Property.

2. Assumption. Buyer hereby accepts such assignment, and assumes all of Seller's obligations under such agreements and documents specified in Exhibit "___" arising from and after the date hereof.

3. Seller's Representation. Seller represents and warrants to Buyer that Seller has not assigned, transferred, or hypothecated its interest in the above-described property to any other person or entity. Except as set forth in the immediately preceding sentence or the Purchase Agreement, Seller makes no representation or warranty with respect to the Assigned Properties.

IN WITNESS WHEREOF, Seller has executed this Assignment as of the date first set forth above.

SELLER:

SQUARE 711 DEVELOPER, LLC,
a Delaware limited liability company

By:

Name: Joseph M. O'Connor
Title: Executive Manager

BUYER:

---,
a _____

By: _____

Name:
Title:

EXHIBIT E

OWNER'S AFFIDAVIT

The undersigned, solely in his capacity as Executive Manager of SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Owner"), and not personally, deposes and say that:

1. Owner is the owner of the premises known as Square 711, lot 160, Washington, D.C. (the "Property").

2. No person other than the Owner is in possession or has a right to possession of Property except as set forth in the agreements attached as Exhibit "A".

3. Owner has no actual knowledge of any unrecorded easement, or claim of easement, affecting the Property.

4. Any repair or improvement of the Property commissioned by or on behalf of Owner within the last 90 days was either completed and paid for in full or will be completed and paid for in full in the ordinary course of business.

5. To the best of Owner's knowledge, there are no unpaid real estate taxes or assessments affecting the Property except those currently due and payable and Owner has received no written notice regarding future or pending special assessments, except for assessments related to the construction of the WMATA transit station adjoining the Property as set forth in Sections 47-881 et seq. of the District of Columbia Code.

6. Owner has delivered no unrecorded mortgage or other lien affecting the Property.

THIS AFFIDAVIT is made for the purpose of inducing _____ TITLE INSURANCE COMPANY ("Title Company") to issue a title insurance policy or other title evidence, and if acting as escrow or closing agent, then to disburse any funds held as escrow or closing agent. Affiant hereby indemnifies and agrees to save harmless the Title Company against any damages or expense, including attorney's fees, sustained as a result of any of the foregoing matters not being true and accurate.

SQUARE 711 DEVELOPER, LLC

By: _____
Executive Manager

Sworn to and subscribed before me
this _____, 2005.

Notary Public

EXHIBIT F

ASSIGNMENT AND ASSUMPTION
OF ENVIRONMENTAL AGREEMENTS

THIS ASSIGNMENT AND ASSUMPTION OF ENVIRONMENTAL AGREEMENTS (this "Assignment"), is executed by SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Seller"), for the benefit of _____, a _____ ("Buyer"), as of the ___ day of _____, 200__ under the following circumstances:

A. Contemporaneously herewith, Buyer is acquiring from Seller certain real property located in the District of Columbia, and described in Exhibit A hereto (the "Property"), pursuant to that certain Purchase and Sale Agreement, dated as of November 14, 2005, between Buyer and Seller (the "Purchase Agreement").

B. Seller purchased the Property from First & M Street Investing Company, LLC ("Prior Owner"). In connection with the purchase of the Property, Prior Owner assigned to Seller, and Seller assumed, the rights and obligations set forth in that certain Amended and Restated Environmental Agreement dated December 13, 2002, between Prior Owner and CSX Realty Development, LLC ("CSX"), a copy of which is attached hereto as Exhibit B, that certain Environmental Escrow Agreement dated December 13, 2002, between Prior Owner and CSX, a copy of which is attached hereto as Exhibit C, and that certain letter dated December 13, 1999 from Theodore J. Gordon, Chief Deputy for Public Health Assurance, to CSX Real Property, a copy of which is attached hereto as Exhibit D (collectively the "Environmental Agreements").

C. In connection with the foregoing acquisition, Seller has agreed to assign, transfer and convey to Buyer, and Buyer has agreed to take and accept all of Seller's right, title and interest in and to the Environmental Agreements, and to assume all of Seller's obligations under the Environmental Agreements.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby agrees as follows:

1. Assignment. Seller hereby transfers and assigns to Buyer all of Seller's right, title and interest in and to the Environmental Agreements.

2. Assumption. Buyer hereby accepts such assignment, and assumes all of Seller's obligations under the Environmental Agreements arising from and after the date hereof. Nothing herein shall obligate Buyer to perform CSX's obligations thereunder.

3. Seller's Representation. Seller represents and warrants to Buyer that Seller has not assigned, transferred, or hypothecated its interest in the Environmental Agreements, except in connection with Seller's existing mortgage financing which is being released as of the date hereof. Except as set forth in the immediately preceding sentence and the Purchase Agreement, Seller makes no representation or warranty with respect to the Environmental Agreements.

IN WITNESS WHEREOF, Buyer and Seller have executed this Assignment as of the date first set forth above.

SELLER:

SQUARE 711 DEVELOPER, LLC,
a Delaware limited liability company

By: _____

Name: Joseph M. O'Connor
Title: Executive Manager

BUYER:

_____, a

_____

By: _____

Name: _____

Title: _____

EXHIBIT G

ADDITIONAL DUE DILIGENCE MATERIALS

1) Boundary & Top prepared by Kidde Consultants, dated Nov 1998
2) NOMA letter dated August 9, 2005
3) Public Space Permit - 11-16-04
4) Proposal from Potomac Construction for sidewalk construction
5) Assignment of Lease and Other Rights, dated September 15th, 2003
6) Certificate of Transfer of Development Rights, dated May 6th 2002
7) WASA Water and Sewer Availability Letter, dated April 4, 2004
8) Fireflow test letter to Wiles Mensch, dated March 24, 2005
9) June 30, 2005 Zoning Opinion - Holland & Knight
10) NOMA Letter to Andy Altman dated July 29, 2005
11) Walsh / Davis letter dated August 2, 2004
12) Walsh / Davis letter dated, April 6, 2005
13) Council of the District of Columbia Notice DC Law 14-44
14) Real Property Tax Bills from the last 2 years
15) Full sized VIKA surveys
16) Archstone Due Diligence binder

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-10

EXHIBIT 10.27 FIRST AMEND. SQ. 711
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 10.27

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT

This FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT ("First Amendment"), dated as of December 14, 2005, is made between SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Seller"), and WALTON ACQUISITION HOLDINGS V, L.L.C., a Delaware limited liability company ("Buyer").

RECITALS

WHEREAS, Seller and Buyer have entered into that certain Purchase and Sale Agreement dated as of November 14, 2005 (the "Original Agreement") for the purchase and sale of certain real property located in Washington, D.C., and known as Square 711, Lot 160, as more particularly described in the Original Agreement; and

WHEREAS, Seller and Buyer desire to amend the Original Agreement as provided herein.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the adequacy and receipt of which is hereby acknowledged, the parties hereby agree as follows:

1. Defined Terms. Capitalized terms that are not otherwise defined in this First Amendment shall have the same meaning ascribed thereto in the Original Agreement. The Original Agreement, as amended by this First Amendment, is referred to in this First Amendment as the "Purchase Agreement."

2. Purchase Price. Notwithstanding any provision of the Original Agreement to the contrary, including, but not limited to, Section 1.01(a) thereof, the term "Purchase Price" shall mean the sum of One Hundred Twenty-One Million Eight Hundred Eighty-Five Thousand and No/100 Dollars ($121,885,000.00).

3. Density Bonus Covenant. Section 1.01(b) of the Original Agreement is hereby deleted in the entirety and all references to the Density Bonus Covenant are hereby stricken from the Original Agreement.

4. Deposit. Upon Buyer's execution and delivery of this First Amendment to Seller, the Initial Deposit shall be non-refundable to Buyer (except as otherwise provided in the Original Agreement, including, but not limited to, Sections 2.04 and 7.01 thereof), and Buyer shall have no further right to terminate the Purchase Agreement under Section 2.02 thereof. Notwithstanding the provisions of Section 1.02(a) to the contrary, Buyer shall have until 3:00 p.m. (Washington, DC time) on December 15, 2005, to deposit the Second Deposit with the Escrow Agent.

5. Pro Forma Title Policy. The pro forma title policy attached hereto as Exhibit A is the pro forma for purposes of the closing condition set forth in Section 3.02(iii) of the Original Agreement. Buyer has approved the pro forma title policy attached hereto as Exhibit A, and Buyer has also approved the updated survey of the Property prepared by Vika Incorporated.

6. Assignment of Right of First Refusal. At Closing, Seller shall assign to Buyer its right, title and interest in the "Right of First Refusal" (as hereinafter defined) pursuant to the form of assignment attached hereto as Exhibit B (the "Assignment of Right of First Refusal"). "Right of First Refusal" means that certain right of first refusal to purchase, lease, or otherwise obtain any interest in or portion of the real property (the "Adjacent Property") conveyed by First & M Street Investing Company, LLC, a Delaware limited liability company, to the Washington Metropolitan Area Transit Authority ("WMATA") pursuant to that certain Deed of Gift, dated July 16, 2003, which right may be exercised if WMATA desires to sell, lease, assign, transfer or otherwise grant, convey or dispose of the same, including, without limitation, any air rights or rights to develop improvements in the air space above the Adjacent Property.

7. Assignment to Land Trust. Without limitation on the provisions of Section 9.01 of the Original Agreement, Buyer shall be permitted to assign its rights as buyer under the Purchase Agreement to a land trust organized under the laws of the District of Columbia which is beneficially owned by an entity controlled by or under common control with Walton Street Capital, LLC and an entity controlled by or under common control with StonebridgeCarras, LLC. Notwithstanding such assignment, Walton Acquisition Holdings V, L.L.C. shall remain liable for all obligations of Buyer under the Purchase Agreement.

8. Extension of Closing Date. The Closing Date is hereby extended to February 15, 2006. Time is of the essence as to such Closing Date.

9. Davis Agreement.

a. Seller shall request that Walsh/Davis Joint Venture Buyer and its lender to be added as additional insureds under the insurance carried in connection with the Davis Agreement as of the Closing. Seller's inability to cause such change to be made to Walsh/Davis Joint Venture's policy shall not be a default under the Purchase Agreement nor shall the implementation of such change be a condition to closing for Buyer.

b. The term "Davis Agreement" as used in the Purchase Agreement shall be revised to mean "collectively, (a) that certain letter dated August 2, 2004 from Walsh/Davis Joint Venture to Seller; and (b) that certain letter dated April 6, 2005 from Seller to Walsh/Davis Joint Venture and countersigned by Walsh/Davis Joint Venture on April 25, 2005."

10. Additional Closing Deliveries. In addition to the deliveries required under Section 5.02 of the Original Agreement, at Closing Seller shall also be required to deliver the following documents: (a) a notice to WMATA that Buyer will become the successor owner of the Property and that all future notices should be delivered to Buyer, (b) a notice to CSX Realty Development, LLC that Seller's interest in the CSX Environmental Agreements has been assigned to Buyer, and (c) the Assignment of Right of First Refusal, duly executed and acknowledged by Seller. In addition to the deliveries required under Section 5.03 of the Original Agreement, at Closing Buyer shall also be required to deliver the Assignment of Right of First Refusal, duly executed and acknowledged by Buyer.

11. Work Plan. The last sentence of Section 2.05 of the Original Agreement is hereby deleted and replaced with the following sentence: "At Closing, Seller shall assign to Buyer all of Seller's rights accruing from and after the Closing under the CSX Environmental Agreements, and Buyer shall assume, pursuant to the Assignment of Environmental Agreements (as defined below), all of Seller's obligations, if any, under the CSX Environmental Agreements." The definition of "Assignment of Environmental Agreements" is hereby changed to "an assignment and assumption of the CSX Environmental Agreements in the form attached hereto as Exhibit F." All references to "that certain letter dated December 13, 1999 from Theodore J. Gordon, Chief Deputy for Public Health Assurance, to CSX Real Property" in the Assignment of Environmental Agreements are hereby stricken.

12. Reaffirmation. The terms of this First Amendment shall govern and control over any conflicting provisions in the Original Agreement. Except in the case of such conflicts and as expressly amended by this First Amendment, the terms and provisions of the Original Agreement shall remain unchanged and in full force and effect.

13. Counterparts. This First Amendment may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and such counterparts may be exchanged by facsimile or electronic transmission.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the date set forth above.

SELLER:

SQUARE 711 DEVELOPER, LLC,
A DELAWARE LIMITED LIABILITY COMPANY

By: _____
Joseph M. O'Connor
Executive Manager

BUYER:

WALTON ACQUISITION HOLDINGS V, L.L.C.,
A DELAWARE LIMITED LIABILITY COMPANY

By: Walton Street Real Estate Fund V, L.P.,
a Delaware limited partnership
its Managing Member

By: Walton Street Managers V, L.P.,
a Delaware limited partnership
its General Partner

By: WSC Managers V, Inc.,
a Delaware corporation
its General Partner

By: _____
Name:
Title:

EXHIBIT A

PRO FORMA TITLE POLICY

EXHIBIT B

FORM OF ASSIGNMENT OF RIGHT OF FIRST REFUSAL

THIS ASSIGNMENT OF RIGHT OF FIRST REFUSAL (the "ASSIGNMENT") is made and entered into as of the ___ day of _____, 2006, by and between SQUARE 711 DEVELOPER, LLC, a Delaware limited liability company ("Assignor") and _____, a Delaware limited liability company ("ASSIGNEE").

WITNESSETH:

A. Assignor, as seller, and Walton Acquisition Holdings V, L.L.C., a Delaware limited liability company ("ORIGINAL BUYER"), the predecessor in interest to Assignee, as purchaser, have entered into that certain Purchase and Sale Agreement dated November 14, 2005 (as amended and modified, the "PURCHASE AGREEMENT") whereby Assignor has agreed to sell, and Original Buyer agreed to purchase, certain real property in the District of Columbia more particularly described in the Purchase Agreement (the "PROPERTY").

B. First & M Street Investing Company, LLC, a Delaware limited liability company ("PRIOR OWNER"), donated real property adjacent to the Property (the "ADJACENT PROPERTY") to the Washington Metropolitan Area Transit Authority ("WMATA"), which WMATA has used for part of the development of a new Metro Station. In connection therewith, (i) Prior Owner and WMATA entered into a certain letter agreement between Prior Owner and WMATA executed by Prior Owner on July 16, 2003 and by WMATA on July 29, 2003, a copy of which is attached hereto as Exhibit A (the "LETTER AGREEMENT"), (ii) Prior Owner and WMATA entered into a certain Washington Metropolitan Area Transit Authority Lease for Real Property (the "LEASE") between Prior Owner, as lessor, and WMATA, as lessee, dated July 16, 2003, and (iii) in the Deed of Gift from Prior Owner to WMATA, dated July 16, 2003, attached hereto as Exhibit B, Prior Owner reserved a right of first refusal to purchase, lease, or otherwise obtain any interest in or portion of the Adjacent Property in the event WMATA desires to sell, lease, assign, transfer or otherwise grant, convey or dispose of the same, including, without limitation, any air rights or rights to develop improvements in the air space above the Adjacent Property (the "RIGHT OF FIRST REFUSAL").

C. Pursuant to that certain Assignment of Lease and Other Rights between Prior Owner and Assignor, dated as of September 15, 2003, and attached hereto as Exhibit C, Prior Owner assigned to Assignor certain rights of Prior Owner under the Letter Agreement, the Lease and the Right of First Refusal.

D. In connection with the Purchase Agreement, Assignor has agreed to assign, transfer and convey to Assignee, and Assignee has agreed to take and accept the right, title and interest of Assignor under the Right of First Refusal.

AGREEMENT:

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein set forth and other good and valuable consideration, the receipt of sufficiency of which are acknowledged hereby, the parties agree as follows:

1. Assignor hereby assigns, transfers and sets over unto Assignee all of Assignor's right, title and interest under the Right of First Refusal accruing from and after the date hereof.

2. Assignee hereby accepts such assignment and assumes all of Assignor's obligations under the Right of First Refusal accruing from and after the date hereof.

3. This Assignment shall be construed under the laws of the District of Columbia.

4. This Assignment is made without representation or warranty from Assignor, except as may be specifically set forth in the Purchase Agreement, and subject to all conditions and limitations set forth therein as to Assignor's liability, and as provided below in this Section 4, Assignor represents and warrants to Assignee that Assignor has not previously assigned, encumbered or otherwise transferred its rights under the Right of First Refusal (except as collateral for a loan which is secured by the Property, but which is being retired as of the date hereof).

The provisions hereof shall bind and inure to the benefit of Assignor and Assignee, and their respective successors and assigns.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed, or caused to be executed this Assignment as of the date first above written.

ASSIGNOR:

SQUARE 711 DEVELOPER, LLC,
a Delaware limited liability company

By:

Joseph M. O'Connor
Executive Manager

ASSIGNEE:

---,
a Delaware limited liability company

By:

Name:

Its:

DISTRICT OF COLUMBIA) SS:

The foregoing Assignment was acknowledged before me on this _____ day of _____, 2006, by _____, as the _____ of _____, for the purpose therein contained.

WITNESS my hand and seal this _____ day of _____, 2006.

NOTARY PUBLIC

My Commission expires: _____

DISTRICT OF COLUMBIA) SS:

The foregoing Assignment was acknowledged before me on this _____ day of _____, 2006, by _____, as the _____ of _____, for the purpose therein contained.

WITNESS my hand and seal this _____ day of _____, 2006.

NOTARY PUBLIC

My Commission expires: _____

EXHIBIT "A"

LETTER AGREEMENT

[SEE ATTACHED]

EXHIBIT "B"

DEED OF GIFT

[SEE ATTACHED]

EXHIBIT "C"

ASSIGNMENT OF LEASE AND OTHER RIGHTS

[SEE ATTACHED]

LEUCADIA NATIONAL CORP (LUK)

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EX-10

EXHIBIT 10.37 IAN M. CUMMING SERVICES AGREEMENT
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 10.37

SERVICES AGREEMENT

THIS SERVICES AGREEMENT ("Agreement") is entered into as of January 1, 2004 between Leucadia National Corporation, a New York corporation ("Leucadia") and Ian M. Cumming ("Executive").

WHEREAS, Executive is the Chairman of the Board of Directors and Chief Executive Officer of Leucadia and the holder of a significant number of outstanding common shares and common share purchase warrants of Leucadia, and

WHEREAS, Leucadia and Executive have determined that in the interests of confidentiality and to permit Executive to devote all of his professional time to matters related to the business of Leucadia and otherwise, it is in the best interests of each of Leucadia and Executive that Leucadia provide certain services to the Executive for himself and for his family members and/or affiliated entities on the terms and conditions set forth in this Agreement, and

WHEREAS, Executive wishes to obtain from Leucadia, and Leucadia wishes to provide to Executive such services upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. SERVICES. As of the effective date of this Agreement, Leucadia agrees to provide the services described in this Agreement in consideration of the payment of the compensation described herein.

At the request of Executive, Leucadia shall provide the following services, as applicable:

a. Accounting/Cash Management Services.

(i) Provide general accounting services, prepare personal financial statements, provide cash management services, maintain files and monitor investments, debt and payables.

(ii) Provide information to banks, brokers, attorneys, tax accountants and other professional advisors to Executive or his family and/or affiliates as requested.

b. Tax Services.

Collect and report tax information to tax accountants and provide other ancillary services related thereto.

2. PERSONNEL. Leucadia directly or through its subsidiaries shall provide all personnel necessary to carry out the services specified in this Agreement. The number of personnel providing such assistance at any one time and the number of hours such personnel devote to the specified services shall not be

fixed and shall at all times be determined by Leucadia in its sole judgment, but shall at all times be adequate to properly and promptly perform and discharge the specified services. It is expected that the accounting and tax related services provided hereunder will be fulfilled by Corinne A. Maki, an employee of Leucadia; if Ms. Maki is unable to fulfill these responsibilities, Leucadia shall provide such other personnel as necessary to carry out these services.

3. COMPENSATION. As compensation for the services provided under this Agreement, Leucadia shall be paid at an annual rate of $39,000, payable in advance at the beginning of each calendar year, plus any additional amounts that may be agreed upon by Leucadia and Executive.

4. TERM AND TERMINATION. The term of this Agreement shall commence on the effective date set forth in the preamble to this Agreement and continue for consecutive annual periods unless earlier terminated on not less than 120 days prior notice, or such shorter period as may be agreed upon by Leucadia and Executive.

5. RELATIONSHIP WITH THE CUMMING FOUNDATION AND CUMMING INVESTMENT CO., LC.

Leucadia acknowledges that Ms. Maki is Secretary and Treasurer of the Cumming Foundation and the Chief Financial Officer of Cumming Investment Co.., LC, and agrees to provide the services of Ms. Maki to the Cumming Foundation and to Cumming Investment Co. LC under this Agreement.

6. WAIVER. The waiver by any party of a breach or violation of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach.

7. GOVERNING LAW. This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

8. ASSIGNMENT. No party hereto shall have the right to assign any of its rights, duties or obligations under this Agreement without the prior written consent of the other parties.

9. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if personally served on the party to whom the notice is to be given, or 72 hours after mailing, if mailed to the party to whom notice is to be given by first class mail, postage prepaid and properly addressed to the party at its address set forth on the signature page of this Agreement or any other address that such party may designate by written notice to the other parties.

10. SUCCESSORS AND ASSIGNS. Subject to the restrictions on assignment set forth hereinabove, this Agreement shall be binding upon and inure to the benefit of the legal representatives, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first hereinabove written.

LEUCADIA NATIONAL CORPORATION,
a New York corporation

By: /s/ Joseph A. Orlando

Name: Joseph A. Orlando
Title: Vice President and Chief Financial Officer

IAN M. CUMMING

/s/ Ian M. Cumming

LEUCADIA NATIONAL CORP (LUK)

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EX-10

EXHIBIT 10.38 JOSEPH S. STEINBERG SERV. AGREEMENT
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 10.38

SERVICES AGREEMENT

THIS SERVICES AGREEMENT ("Agreement") is entered into as of January 1, 2004 between Leucadia National Corporation, a New York corporation ("Leucadia") and Joseph S. Steinberg ("Executive").

WHEREAS, Executive is the President of Leucadia and the holder of a significant number of outstanding common shares and common share purchase warrants of Leucadia, and

WHEREAS, Leucadia and Executive have determined that in the interests of confidentiality and to permit Executive to devote all of his professional time to matters related to the business of Leucadia and otherwise, it is in the best interests of each of Leucadia and Executive that Leucadia provide certain services to the Executive for himself and for his family members and/or affiliated entities on the terms and conditions set forth in this Agreement, and

WHEREAS, Executive wishes to obtain from Leucadia, and Leucadia wishes to provide to Executive such services upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

1. SERVICES. As of the effective date of this Agreement, Leucadia agrees to provide the services described in this Agreement in consideration of the payment of the compensation described herein.

At the request of Executive, Leucadia shall provide the following services, as applicable:

a. Accounting/Cash Management Services.

(i) Provide general accounting services, prepare personal financial statements, provide cash management services, maintain files and monitor investments, debt and payables.

(ii) Provide information to banks, brokers, attorneys, tax accountants and other professional advisors to Executive or his family and/or affiliates as requested.

b. Tax Services.

Collect and report tax information to tax accountants and provide other ancillary services related thereto.

c. Transportation Services.

Provide Executive with a car and driver for incidental personal use, which use shall not constitute more than twenty percent of the aggregate total number of hours worked by drivers during the term of this Agreement.

2. PERSONNEL. Leucadia directly or through its subsidiaries shall provide all personnel necessary to carry out the services specified in this Agreement. The number of personnel providing such assistance at any one time and the number of hours such personnel devote to the specified services shall not be fixed and shall at all times be determined by Leucadia in its sole judgment, but shall at all times be adequate to properly and promptly perform and discharge the specified services. It is expected that the accounting and tax related services provided hereunder will be fulfilled by Corinne A. Maki, an employee of Leucadia; if Ms. Maki is unable to fulfill these responsibilities, Leucadia shall provide such other personnel as necessary to carry out these services.

3. COMPENSATION. As compensation for the services provided under this Agreement, Leucadia shall be paid at an annual rate of $54,000, payable in advance at the beginning of each calendar year, plus any additional amounts that may be agreed upon by Leucadia and Executive.

4. TERM AND TERMINATION. The term of this Agreement shall commence on the effective date set forth in the preamble to this Agreement and continue for consecutive annual periods unless earlier terminated on not less than 120 days prior notice, or such shorter period as may be agreed upon by Leucadia and Executive.

5. WAIVER. The waiver by any party of a breach or violation of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach.

6. GOVERNING LAW. This Agreement shall be construed in accordance with and governed by the laws of the State of New York.

7. ASSIGNMENT. No party hereto shall have the right to assign any of its rights, duties or obligations under this Agreement without the prior written consent of the other parties.

8. NOTICES. All notices and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of service if personally served on the party to whom the notice is to be given, or 72 hours after mailing, if mailed to the party to whom notice is to be given by first class mail, postage prepaid and properly addressed to the party at its address set forth on the signature page of this Agreement or any other address that such party may designate by written notice to the other parties.

9. SUCCESSORS AND ASSIGNS. Subject to the restrictions on assignment set forth hereinabove, this Agreement shall be binding upon and inure to the benefit of the legal representatives, successors and assigns of the parties hereto.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first hereinabove written.

LEUCADIA NATIONAL CORPORATION,
a New York corporation

By: /s/ Joseph A. Orlando

Name: Joseph A. Orlando
Title: Vice President and Chief Financial Officer

JOSEPH S. STEINBERG

/s/ Joseph S. Steinberg

LEUCADIA NATIONAL CORP (LUK)

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EX-21

EXHIBIT 21
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI
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Exhibit 21

LEUCADIA NATIONAL CORPORATION
Subsidiaries as of December 31, 2005

Name	State/Country of Incorporation
Baldwin Enterprises, Inc.	Colorado
NSAC, Inc.	Colorado
RRP, Inc.	Colorado
AIC Financial Corporation	Delaware
American Investment Company	Delaware
Antilles Crossing International, LP	Delaware
Antilles Crossing, LP	Delaware
ATX Communications, Inc.	Delaware
ATX Licensing, Inc.	Delaware
ATX Telecommunications Services of Virginia, LLC	Delaware
Baldwin Aircraft Leasing, LLC	Delaware
Baldwin Carib, LP	Delaware
Baldwin-CIS L.L.C.	Delaware
BELLPET, Inc.	Delaware
BIA Investments, LLC	Delaware
Burlington Equipment, LLC	Delaware
Burnham Developer, LLC	Delaware
Cannon & Associates, LLC	Delaware
CCL Historical, Inc.	Delaware
Conwed Corporation	Delaware
Conwed Plastics, LLC	Delaware
Conwed Plastics Acquisition Company, LLC	Delaware
CoreComm - ATX, Inc.	Delaware
CoreComm - Voyager, Inc.	Delaware
CoreComm Communications, Inc.	Delaware
CoreComm Illinois, Inc.	Delaware
CoreComm Indiana, Inc.	Delaware
CoreComm Internet Group, Inc.	Delaware
CoreComm Maryland, Inc.	Delaware
CoreComm Massachusetts, Inc.	Delaware
CoreComm Michigan, Inc.	Delaware
CoreComm Missouri, Inc.	Delaware
CoreComm New Jersey, Inc.	Delaware
CoreComm New York, Inc.	Delaware
CoreComm Newco, Inc.	Delaware
CoreComm Ohio, Inc.	Delaware
CoreComm Pennsylvania, Inc.	Delaware
CoreComm Rhode Island, Inc.	Delaware
CoreComm Services, LLC	Delaware
CoreComm Vermont, Inc.	Delaware
CoreComm West Virginia, Inc.	Delaware
CoreComm Wisconsin, Inc.	Delaware
Cortelyou Communications Corp.	Delaware
CX Aviation, LLC	Delaware
CXL Aviation, LLC	Delaware
Double Canyon Vineyards, LLC	Delaware
FCC Holdoco I, Inc.	Delaware
Glen Cove TND, LLC	Delaware
Hain WD Claims Holding, LLC	Delaware
Hawaii Ventures, LLC	Delaware
HWB 2507 Kalakaua, LLC	Delaware
Horizon Telecommunications, Inc.	Delaware
Idaho Holding Corp.	Delaware
Jerico One Corp.	Delaware

Exhibit 21

LEUCADIA NATIONAL CORPORATION
Subsidiaries as of December 31, 2005, continued

Name	State/Country of Incorporation
Lake Charles Corp.	Delaware
Lake Charles Cogeneration LLC	Delaware
LCH Opportunities, LLC	Delaware
Leucadia Aviation, Inc.	Delaware
Leucadia Cellars, Ltd.	Delaware
Leucadia-Eagle Corporation	Delaware
Leucadia Property Holdings, Ltd.	Delaware
Leucadia Symphony, Ltd.	Delaware
LNC Investments, LLC	Delaware
LR Credit 1, LLC	Delaware
LR Credit 2, LLC	Delaware
LR Credit 3, LLC	Delaware
LR Credit 4, LLC	Delaware
LUK-A3D, LLC	Delaware
LUK-Acquisition III, LLC	Delaware
LUK-Asia LLC	Delaware
LUK Broadcasting, LLC	Delaware
LUK-Burlington Holdings, LLC	Delaware
LUK-Carib, LLC	Delaware
LUK Clec LLC	Delaware
LUK-HY Fund, LLC	Delaware
LUK-Israel LLC	Delaware
LUK-MB Corp.	Delaware
LUK-MB1, LLC	Delaware
LUK-Myrtle Beach, LLC	Delaware
LUK-Saffran, LLC	Delaware
LUK-Shop, LLC	Delaware
LUK-Symphony, LLC	Delaware
LUK-Symphony Management, LLC	Delaware
LUK-TTP, LLC	Delaware
LUK-Visible, LLC	Delaware
Lympus, LLC	Delaware
Maine Isles, Inc.	Delaware
MK Resources Company	Delaware
Mundano, LLC	Delaware
Nead Corporation	Delaware
Neward Corporation	Delaware
North East Point, LLC	Delaware
One Technology Center, LLC	Delaware
Rastin Investing Corp.	Delaware
Rehab Works, LLC	Delaware
Square 711 Developer, LLC	Delaware
Stillwater Holdings, LLC	Delaware
Symphony Health Services, Inc.	Delaware
Symphony Health Services, LLC	Delaware
Symphony Respiratory Services, LLC	Delaware
Terra Thermal Power, LLC	Delaware
VTA Management Services, LLC	Delaware
VTA Staffing Services, LLC	Delaware
Voyager Data Services, Inc.	Delaware

Exhibit 21

LEUCADIA NATIONAL CORPORATION
Subsidiaries as of December 31, 2005, continued

Name	State/Country of Incorporation
Draper Lake, LLC	Florida
LUK-Draper, Inc.	Florida
Rosemary Beach Cottage Rental Company	Florida
Rosemary Beach Land Company	Florida
Rosemary Beach Realty, Inc.	Florida
Alumni Forest Products, LLC	Georgia
Idaho Timber, LLC	Idaho
Idaho Timber of Boise, LLC	Idaho
Idaho Timber of Texas, LLC	Idaho
Idaho Timber of Kansas, LLC	Idaho
Idaho Timber of North Carolina, LLC	Idaho
Idaho Timber of Albuquerque, LLC	Idaho
Idaho Timber of Montana, LLC	Idaho
Idaho Timber of Idaho, LLC	Idaho
Idaho Timber of Mountain Home, LLC	Idaho
Idaho Timber of Cartage, LLC	Idaho
Idaho Cedar Sales, LLC	Idaho
MegsINet Internet, Inc.	Illinois
College Life Development Corporation	Indiana
Professional Data Management, Inc.	Indiana
Voyager Information Networks, Inc.	Michigan
TTP Corporation	Nevada
Empire Insurance Company	New York
HWB Ventures, Inc.	New York
Leucadia, Inc.	New York
Leucadia Investors, Inc.	New York
L-Credit, LLC	New York
LR-Credit, LLC	New York
LR-Credit 5, LLC	New York
LR-Credit 6, LLC	New York
LR-Credit 7, LLC	New York
LR-Credit 8, LLC	New York
LR-Credit 9, LLC	New York
LR-Credit 10, LLC	New York
LUK-REN, Inc.	New York
New Suffolk Land Co. LLC	New York
New Suffolk Land Co. I LLC	New York
New Suffolk Land Co. II LLC	New York
New Suffolk Land Co. III LLC	New York
New Suffolk Land Co. IV LLC	New York
PLRC, Inc.	New York
Digicom, Inc.	Ohio
Phlcorp, Inc.	Pennsylvania
Pine Ridge Winery, LLC	Texas
American Investment Holdings, LLC	Utah
Aviation Leasing Company, LLC	Utah
Baxter Investment Company, LLC	Utah
Leucadia Financial Corporation	Utah
Leucadia International Corporation	Utah
Leucadia Properties, Inc.	Utah
Silver Mountain Industries, Inc.	Utah
Telluride Properties Acquisition, Inc.	Utah
Terracor II	Utah
WMAC Investment Corporation	Wisconsin
Canadian International Power Company Limited	Wyoming

Exhibit 21

LEUCADIA NATIONAL CORPORATION
Subsidiaries as of December 31, 2005, continued

Name	State/Country of Incorporation
AC (Barbados) IBC, Inc.	Barbados
Tele (Barbados) Inc.	Barbados
Iguazu Ventures, Ltd.	British Virgin Islands
LUK-Japan Ltd.	British Virgin Islands
LUK Jersey (Holding) Limited	Jersey
LUK (Jersey) Limited	Jersey
Antilles Crossing Holding Company (St. Lucia) Limited	St. Lucia
Antilles Crossing (St. Lucia) Limited	St. Lucia
Iberia Exploraciones, S.A.	Spain
Antilles Crossing - St. Croix, Inc.	U.S. Virgin Islands

Subsidiaries not included on this list, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2005.

LEUCADIA NATIONAL CORP (LUK)

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EX-23

EXHIBIT 23.1 PWC CONSENT
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the 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) of Leucadia National Corporation of our report dated March 8, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York
March 8, 2006

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-23

EXHIBIT 23.5 EYWILTEL CONSENT
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 23.5

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the 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 (No. 333-118102) of Leucadia National Corporation of our report dated February 20, 2004, with respect to the consolidated financial statements of WilTel Communications Group, Inc. included in the Annual Report (Form 10-K) of Leucadia National Corporation for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Tulsa, Oklahoma
March 3, 2006

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-31

IAN M. CUMMING EXHIBIT 31.1
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 31.1

CERTIFICATIONS

I, Ian M. Cumming, certify that:

1. I have reviewed this annual report on Form 10-K of Leucadia National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent

functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2006

By:/s/ Ian M. Cumming

Ian M. Cumming
Chairman of the Board and
Chief Executive Officer

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-31

JOSEPH S. STEINBERG EXHIBIT 31.2
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSIC

Exhibit 31.2

CERTIFICATIONS

I, Joseph S. Steinberg, certify that:

1. I have reviewed this annual report on Form 10-K of Leucadia National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial

reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2006

By:/s/ Joseph S. Steinberg

Joseph S. Steinberg
President

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-31

JOSEPH A. ORLANDO EXHIBIT 31.3
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 31.3

CERTIFICATIONS

I, Joseph A. Orlando, certify that:

1. I have reviewed this annual report on Form 10-K of Leucadia National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2006

By: /s/ Joseph A. Orlando

Joseph A. Orlando
Chief Financial Officer

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
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212. 460.1900
http://www.leucadia.com/

EX-32

IAN M. CUMMING EXHIBIT 32.1
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ian M. Cumming, as Chairman of the Board and Chief Executive Officer of Leucadia National Corporation (the "Company") certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-K report for the period ending December 31, 2005 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2006

By: /s/ Ian M. Cumming

Ian M. Cumming
Chairman of the Board and
Chief Executive Officer

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-32

JOSEPH S. STEINBERG EXHIBIT 32.2
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 32.2

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph S. Steinberg, as President of Leucadia National Corporation (the "Company") certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-K report for the period ending December 31, 2005 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2006

By: /s/ Joseph S. Steinberg

Joseph S. Steinberg
President

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

EX-32

JOSEPH A. ORLANDO EXHIBIT 32.3
10-K Filed on 03/08/2006 - Period: 12/31/2005
File Number 001-05721

GSI

Exhibit 32.3

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph A. Orlando, as Chief Financial Officer of Leucadia National Corporation (the "Company") certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the accompanying Form 10-K report for the period ending December 31, 2005 as filed with the U.S. Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 8, 2006

By: /s/ Joseph A. Orlando

Joseph A. Orlando
Chief Financial Officer

EXHIBIT 6

Portion of
Leucadia's SEC Form 10-K/A
For Year Ending December 31, 2005
Filed on March 9, 2006

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

10-K/A

LEUCADIA NATIONAL CORPORATION 2005 10-K/A
Filed on 03/09/2006 - Period: 12/31/2005
File Number 001-05721

GSI

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 1)

[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

We inadvertently omitted (i) the signature of PricewaterhouseCoopers LLP and (ii) the March 8, 2006 date from PricewaterhouseCoopers LLP's "Report of Independent Registered Public Accounting Firm" included in Item 15 of our Form 10-K for the fiscal year ended December 31, 2005, which was filed with the Securities and Exchange Commission ("SEC") on March 8, 2006 (the "Form 10-K").

In order to comply with certain technical requirements of the SEC's rules in connection with the filing of this amendment on Form 10-K/A, we are (i) setting forth in this amendment the complete text of Item 15 (Exhibits and Financial Statement Schedule), as amended and (ii) adding, as exhibits, certain current dated certifications of our principal executive and principal financial officers.

Except for the matters described above, this amendment does not modify or update disclosures in, or exhibits to, the Form 10-K originally filed on March 8, 2006. Furthermore, except for the matters described above, this amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the original Form 10-K.

EXHIBIT 7

Portion of
Leucadia's SEC Form 10-K/A
For Year Ending December 31, 2005
Filed on March 24, 2006

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

10-K/A

Filed on 03/24/2006 - Period: 12/31/2005
File Number 001-05721

GSI

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 2)

[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 15 of the Annual Report on Form 10-K, as amended, of Leucadia National Corporation (the "Company") for the fiscal year ended December 31, 2005 to reflect that the financial statements referred to in Item 15(c)(1), (2), (3) and (5) have been filed herewith pursuant to Item 3-09(b) of Regulation S-X:

EXHIBIT 8

Portion of
Leucadia's SEC Form 10-K/A
For Year Ending December 31, 2005
Filed on November 3, 2006

LEUCADIA NATIONAL CORP (LUK)

315 PARK AVE S
NEW YORK, NY 10010
212. 460.1900
http://www.leucadia.com/

10-K/A

AMEND. NO.3
Filed on 11/03/2006 - Period: 12/31/2005
File Number 001-05721

GSI

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.

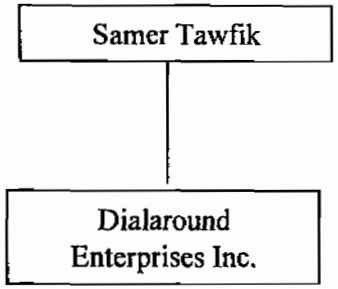
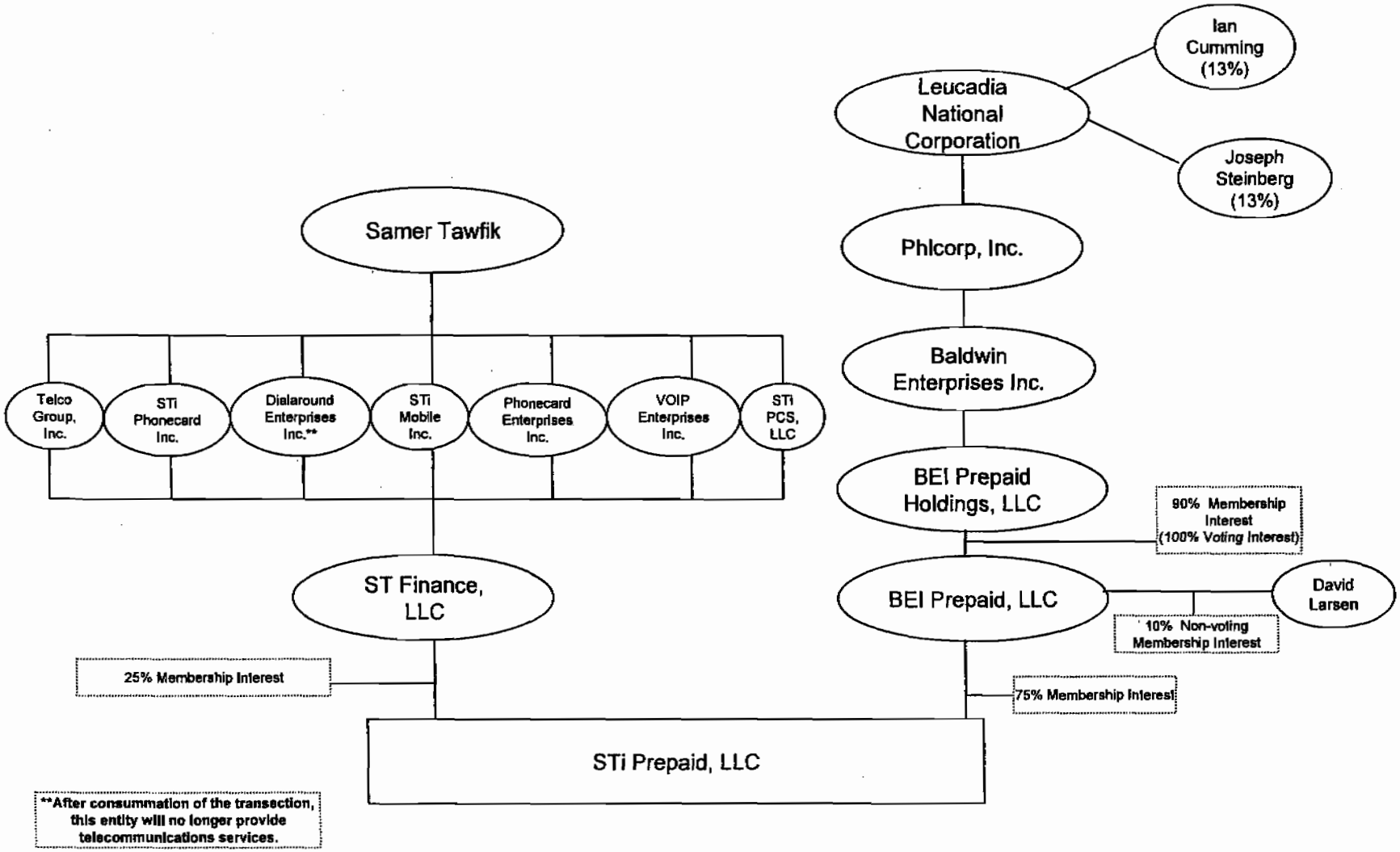
EXPLANATORY NOTE

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:

EXHIBIT 9

Corporate Diagrams for Asset Transfer

Pre-Transaction Ownership of Applicants



Post-Transaction Ownership of Applicants