EXHIBIT E

Leucadia National Corporation's Financials

STi Prepaid is a newly formed privately held entity that does not have annual financial statements or quarterly financial statements at this time. STi Prepaid provides the financials of its ultimate majority owner Leucadia National Corporation ("Leucadia").

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, 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	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

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, 2006 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): $4,751,155,000.

On February 15, 2007, the registrant had outstanding 216,351,466 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 2007 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, real estate activities, medical product development, winery operations and residual banking and lending activities that are in run-off. The Company also owns equity interests in operating businesses and investment partnerships which are accounted for under the equity method of accounting, including gaming entertainment, land based contract oil and gas drilling, real estate activities and development of a copper mine in Spain. 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 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 $3,893,300,000 at December 31, 2006, equal to a book value per common share of the Company (a "common share") of negative $.04 at December 31, 1978 and $18.00 at December 31, 2006. Shareholders' equity and book value per share amounts have been reduced by the $811,900,000 special cash dividend paid in 1999.

In July 2006, the Company sold Symphony Healthcare Services, LLC ("Symphony") to RehabCare Group, Inc. for approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement by the buyer ($31,700,000 at date of sale) and certain 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 September 2006, the Company sold ATX Communications, Inc. ("ATX") to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, and recorded a pre-tax gain on sale of discontinued operations of $41,600,000.

During 2006, the Company recorded net security gains of approximately $117,200,000, principally from the sale of publicly traded debt and equity securities that had been classified as available for sale securities. These gains include a gain of $37,400,000 from the sale of 115,000,000 common shares of Level 3 Communications, Inc. ("Level 3"), which were received in December 2005 in connection with Level 3's purchase of WilTel Communications Group, LLC ("WilTel").

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 and infrastructure project in Western Australia. Fortescue is a publicly traded company on the Australian Stock Exchange (Symbol: FMG).

The Company's manufacturing operations are conducted through Idaho Timber, LLC ("Idaho Timber") and Conwed Plastics, LLC ("Conwed Plastics"). Acquired in May 2005, Idaho Timber is headquartered in Boise, Idaho and primarily remanufactures dimension lumber and remanufactures, packages and/or produces other specialized wood products. Conwed Plastics manufactures and markets lightweight plastic netting used for a variety of purposes including, among other things, building and construction, erosion control, packaging, agricultural, carpet padding, filtration and consumer products.

The Company's gaming entertainment operations are conducted through its controlling interest in Premier Entertainment Biloxi, LLC ("Premier"), which is the owner of the Hard Rock Hotel & Casino Biloxi ("Hard Rock Biloxi"), located in Biloxi, Mississippi. The Hard Rock Biloxi was severely damaged by Hurricane Katrina and is currently being rebuilt. As discussed below, in September 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code").

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 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 net cash proceeds of approximately $75,700,000, and recorded a pre-tax gain of $48,900,000.

The Company's medical product development operation is conducted through Sangart, Inc. ("Sangart"), which became a majority-owned subsidiary of the Company in 2005. Sangart is developing a product called Hemospan(R), which is a form of cell-free hemoglobin that is designed for intravenous administration to treat a wide variety of medical conditions, including use as an alternative to red blood cell transfusions.

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.

The Company's land based contract oil and gas drilling investment is conducted by Goober Drilling, LLC, ("Goober"), in which the Company acquired a 30% interest in April 2006. In January 2007, the Company increased its interest in Goober to 42% for additional cash consideration of $25,000,000. The Company has also agreed to lend to Goober, on a secured basis, up to $171,000,000 to finance new equipment purchases and construction costs, repay existing debt and finance working capital needs ($126,000,000 was outstanding at December 31, 2006).

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 11.6% of Inmet's current outstanding common shares.

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 16, 2006, 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 the operating units identified above, which offer different products and services and are managed separately. At acquisition, the Company's investment in Premier was reported as the gaming entertainment segment; however, it was deconsolidated and classified as an investment in an associated company upon its filing with the bankruptcy court in September 2006. Although Premier is not currently reported as an operating segment, an expanded description of its activities is presented below due to the size of this investment and the Company's expectation that it will be reported as an operating segment in the future. Other operations primarily consist of the Company's wineries, Caribbean-based telecommunications services and residual banking and lending activities that are in run-off.

In addition to Premier, associated companies include equity interests in other entities that the Company accounts for on the equity method of accounting. Investments in associated companies include HomeFed Corporation ("HomeFed"), a corporation engaged in real estate activities, Goober, CLC, Jefferies Partners Opportunity Fund II, LLC ("JPOF II"), EagleRock Capital Partners (QP), LP ("EagleRock"), Wintergreen Partners Fund, L.P. ("Wintergreen") and Safe Harbor Domestic Partners L.P. ("Safe Harbor"). JPOF II, EagleRock, Wintergreen and Safe Harbor 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 include the Company's investment in Fortescue. Corporate assets, revenues, overhead expenses and interest expense are not allocated to the operating units.

Conwed Plastics 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. Unconsolidated non-U.S. based investments include 38% of Light and Power Holdings Ltd., the parent company of the principal electric utility in Barbados, the 30% ownership of CLC and the investment in Fortescue. 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 2006, 2005 and 2004 is presented in the following table. Consolidated subsidiaries are reflected as of the date of acquisition, which was May 2005 for Idaho Timber and November 2005 for Sangart. Associated Companies are only reflected in the table below under identifiable assets employed.

	2006	2005	2004
		(In millions)	
Revenues and other income (a):			
Manufacturing:			
Idaho Timber	$345.7	$239.0	$--
Conwed Plastics	106.4	93.6	64.4
Domestic Real Estate	86.7	29.9	63.5
Medical Product Development	.7	.1	--
Other Operations	42.8	59.0	70.8
Corporate (b)	280.4	268.3	180.9
Total consolidated revenues and other income	$862.7	$689.9	$379.6
Income from continuing operations before income taxes and equity in in income (losses) of associated companies:			
Manufacturing:			
Idaho Timber	$12.0	$8.2	$--
Conwed Plastics	17.9	14.2	7.9
Domestic Real Estate	44.0	4.1	20.7
Medical Product Development	(21.1)	(1.4)	--
Other Operations	(14.4)	7.5	18.6
Corporate (b)	95.4	101.8	59.6
Total consolidated income from continuing operations before income taxes and equity in income (losses) of associated companies	$133.8	$134.4	$106.8
Identifiable assets employed:			
Manufacturing:			
Idaho Timber	$132.3	$162.7	$--
Conwed Plastics	83.6	81.9	50.4
Domestic Real Estate	198.1	182.7	253.2
Medical Product Development	12.2	7.0	--
Other Operations	257.8	245.0	403.7
Investments in Associated Companies	773.0	375.5	460.8
Corporate	3,846.8	4,062.0	2,070.1
Assets of discontinued operations	--	144.1	1,562.2
Total consolidated assets	$5,303.8	$5,260.9	$4,800.4

(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 $116,600,000, $199,500,000 and $123,100,000 during 2006, 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 include a gain from the sale of Level 3 of $37,400,000 in 2006 and a gain from the sale of White Mountains Insurance Group, Ltd. ("WMIG") of $146,000,000 in 2005. For 2006, 2005 and 2004, security gains include provisions of $12,900,000, $12,200,000 and $4,600,000, respectively, to write down investments in certain available for sale securities. The write-downs of the available for sale securities resulted from declines in market value determined to be other than temporary.

(c) For the years ended December 31, 2006, 2005 and 2004, income from continuing operations has been reduced by depreciation and amortization expenses of $39,500,000, $32,600,000 and $28,700,000, respectively; such amounts are primarily comprised of Corporate ($11,600,000, $10,700,000 and $11,400,000, respectively), manufacturing ($17,500,000, $14,200,000 and $5,200,000, respectively) and other operations ($6,400,000, $5,700,000 and $8,200,000, respectively). Depreciation and amortization expenses for other segments are not material.

(d) For the years ended December 31, 2006, 2005 and 2004, income from continuing operations has been reduced by interest expense of $79,400,000, $65,500,000 and $60,600,000, respectively; such amounts are primarily comprised of Corporate ($70,900,000, $63,200,000 and $55,300,000, respectively) and other operations ($8,000,000, $1,200,000 and $3,300,000, respectively). In 2006, interest expense for other operations was comprised of Premier during the period it was a consolidated subsidiary. Interest expense for other segments is not material.

At December 31, 2006, the Company and its consolidated subsidiaries had 1,323 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 dimension lumber; remanufacturing, bundling and bar coding of home center boards for large retailers; and production of 5/4" radius-edge, pine decking. Idaho Timber also manufactures and/or distributes a number of other specialty wood products. Idaho Timber has over 25 years of operating experience in its industry. The Company's investment in Idaho Timber was $123,200,000 at December 31, 2006.

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 941,000 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 2006 actual shipments averaged approximately 59 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 92% of that product line. The combined revenue of these two customers in this product line was 18% of Idaho Timber's total revenue for the year ended December 31, 2006. The customer base for the dimension lumber business is much less concentrated; no customer accounts for more than 6% of revenue. Idaho Timber's sales are somewhat concentrated in regions where its facilities are located, with the largest being Florida, 22%; North Carolina, 17%; and Texas, 12%.

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 involved 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. The U.S. argued for the right to impose antidumping and countervailing 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.

In October 2006, this trade dispute over Canadian imports was resolved and a new Softwood Lumber Agreement between Canada and the U.S. became effective. The new agreement terminated all ongoing administrative agency reviews and litigation, revoked the antidumping and countervailing duty orders and imposed a graduated export tax ranging from zero to 15 percent based on the Random Length Composite Index ("RLCI"), which is calculated using the current market value of a combination of lumber products. A larger RLCI will result in a smaller export tax with the tax decreasing to zero if the RLCI exceeds $355 per thousand board feet. In addition, the agreement also provides that the export tax can increase by 50% if shipments exceed a certain level (expressed as a percentage of total U.S. shipments) for each Canadian export region. Each Canadian export region can also make an election to pay a smaller export tax, zero to five percent, if they agree to abide by certain export volume restrictions that are determined based on a percentage of U.S. consumption. The agreement has a seven year term and may be extended for an additional two years. 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, Idaho Timber 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 Conwed Plastics, the Company manufactures and markets lightweight plastic netting used for a variety of purposes including, among other things, building and construction, erosion control, packaging, agricultural, carpet padding, filtration and consumer products. These products are primarily used for containment purposes, reinforcement of other products, packaging for produce and meats, various types of filtration and erosion prevention. Conwed Plastics believes it is a market leader in netting products used in carpet cushion, turf reinforcement, erosion control and packaging. Packaging, agricultural and building and construction markets tend to be seasonal, with peak periods in the second and third quarters of the calendar year. Carpet padding, filtration and consumer product markets are not usually subject to seasonal fluctuations resulting in sales that tend to be evenly spread throughout the year. The Company's investment in Conwed Plastics was $65,500,000 at December 31, 2006.

Conwed Plastics has completed five acquisitions since 2004 and continues to look for additional acquisition opportunities that provide synergies with existing customers, its manufacturing capacity, processes and technology, and/or raw material needs. In May of 2006, Conwed Plastics acquired Polynet Inc. for $2,300,000 in cash thereby increasing its market share in the packaging business. Polynet's business was completely integrated into the division's existing Roanoke manufacturing facility; post-acquisition revenues from this acquisition were approximately $1,600,000.

Certain of Conwed Plastics' 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 its operations.

Sales and Marketing

Conwed Plastics' manufacturing revenues were $106,300,000, $93,300,000 and $64,100,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Products are marketed both domestically and internationally with approximately 13.7% of 2006 revenues generated by customers from Europe, Latin America, Japan and Australia. Products are sold primarily through an employee sales force, located in the United States and Europe. Conwed Plastics emphasizes development of new products and new applications of existing products to sustain revenue growth. New product development focuses on market niches where proprietary technology and expertise can lead to sustainable competitive economic advantages. This targeted product development at times is carried out in partnership with a prospective customer or industry where the value of the product has been recognized. Conwed Plastics also focuses on developing new products which provide an upgrade to a current product used by an existing customer. Over the last several years, Conwed Plastics has spent approximately 2% to 5% of annual sales on the development and marketing of new products and new applications of existing products.

Approximately half of Conwed Plastics' revenues are generated on a make to order basis. The remainder of Conwed Plastics' sales requires a more substantial investment in inventory that is stored at various locations to service customers with short lead time requirements. In the aggregate, inventory is turned over between 6 and 7 times per year. The top 10 customers with multiple locations represent approximately 30% - 37% of total sales. The largest single customer typically represents 5% - 8% of total sales; for the year ended December 31, 2006, the largest single customer represented 6% of total sales. Order backlog generally ranges from 6% - 12% of annual sales throughout the year.

Competition

Conwed Plastics 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 90% from 2002. Conwed Plastics has been able to raise prices to its customers during this period to offset the 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.

Conwed Plastics has had excess manufacturing capacity over the past few years, principally in its Belgium facility which became operational during 2001. Utilization of this capacity improved in 2006 as the manufacturing capacity in Belgium was used to meet sales growth in the U.S. In addition, manufacturing production for customers in Australia and Asia has been moved away from domestic facilities to the Belgium facility. Conwed Plastics believes that its manufacturing capacity is appropriate for its current level of business and will be sufficient to meet expected demand over the next few years.

Conwed Plastics has 3 to 5 competitors in most of its market segments but the size and type of its competition varies by market segment.

Gaming Entertainment

Acquisition

During 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 10 3/4% 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 ($11,300,000 is outstanding at December 31, 2006). At acquisition, the Company consolidated Premier as a result of its controlling voting interest.

Premier owns the Hard Rock Hotel & Casino Biloxi, located in Biloxi, Mississippi, which was severely damaged by Hurricane Katrina and which is currently being rebuilt. The Hard Rock Biloxi was scheduled to be fully opened to the public on August 31, 2005; two days prior to opening, Hurricane Katrina hit the Mississippi Gulf Coast. Located on an 8.5 acre site on the Mississippi Gulf Coast, upon reconstruction the resort will have approximately 1,500 slot machines and 50 table games, five restaurants (including a Hard Rock Cafe and Ruth's Chris Steakhouse), a full service spa, a 5,200 square foot pool and beach area, 3,000 square feet of retail space, an eleven-story hotel with 318 rooms and suites and a Hard Rock Live! entertainment venue with a capacity of 1,200 persons. Premier expects to complete reconstruction and re-open to the public in July 2007.

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 $160,900,000 with respect to $168,200,000 face amount of coverage; the remaining $12,900,000 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.

Bankruptcy Filing

On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under the Bankruptcy Code, before the United States Bankruptcy Court for the Southern District of Mississippi, Southern Division (the "Court"). Premier filed its petitions in order to seek the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which had been denied to Premier by its pre-petition secured bondholders. Premier continues 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.

The Bankruptcy Court issued an interim order granting Premier the right to use approximately $34,000,000 of the funds that are under the control of the indenture trustee of the Premier Notes to fund ongoing construction costs and operations. As of December 31, 2006, $20,200,000 has been released to Premier pursuant to this order and $133,200,000 remains in the restricted accounts under the control of the indenture trustee. Premier believes that the remaining funds in the restricted accounts together with permitted equipment financing will be sufficient to rebuild the Hard Rock Biloxi similar to its condition immediately preceding Hurricane Katrina.

Premier filed an amended disclosure statement and plan of reorganization on February 22, 2007. Voting on the plan of reorganization is not expected to occur until the second quarter of 2007. The Company has also committed to provide up to $180,000,000 to finance Premier's plan of reorganization, which would principally be used to pay-off the Premier Notes.

The Company 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 ($125,600,000 as of December 31, 2006, including all loans and equity interests). The bankruptcy filings were made to give 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. Upon its emergence from bankruptcy proceedings, the Company expects that Premier will be accounted for as a consolidated subsidiary.

Marketing

Premier's marketing strategy is to position the resort as a full service gaming, boutique hotel and entertainment resort catering to the Mississippi Gulf Coast marketplace and the southern region of the United States. Premier believes it will benefit from the "Hard Rock" brand name and from being within walking distance to the Beau Rivage, an MGM Mirage property and the largest hotel and casino in the Mississippi Gulf Coast market. In the future, once Premier establishes a regular customer base, it intends to expand its marketing activities and attempt to present the resort as a full-service destination resort. Premier believes that the Hard Rock concept and unique brand of entertainment will appeal to a broad range of customers.

Competition

The devastation caused by Hurricane Katrina has dramatically changed the competitive nature of the Gulf Coast gaming market. All twelve casinos in the Gulf Coast gaming market were severely damaged and shut down by the impact of Hurricane Katrina. Currently ten casinos are operating in the market and all that had planned to reopen have reopened except for the Hard Rock Biloxi. Since the Hard Rock Biloxi has no operating history, its ability to compete against larger, better financed and/or more established resorts with existing customer bases is uncertain. Premier anticipates its competitive position will be strengthened by the worldwide familiarity of the Hard Rock brand, but it has no prior operating history to rely upon.

Insurance Matters

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 risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that will 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.

Premier's current insurance policy expires in July 2007; Premier expects it will purchase new insurance coverage that will be in effect for the balance of the 2007 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. Premier cannot currently estimate how much insurance will be available to it at an acceptable premium.

Environmental

Premier will operate its business near and over the water on the Mississippi Gulf Coast. Premier is, and upon reconstruction of the resort will be, subject to various federal, state and local laws, ordinances and regulations that (1) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as the handling and disposal of hazardous material or solid or hazardous wastes, and (2) may impose joint and several liability on current and former property owners or operators for the costs of investigation, removal and remediation of hazardous substances or wastes related to the environment without regard to fault. Premier currently has not identified any such issues associated with its property that could reasonably be expected to have an adverse effect on Premier or its results of operations. However, it is possible that historical or neighboring activities have affected, or the reconstruction and operation of the resort could affect Premier's property and, as a result, material obligations or liabilities under environmental laws could arise in the future.

Domestic Real Estate

At December 31, 2006, the Company's domestic real estate properties had a book value of $176,700,000. 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 37% occupied with tenants primarily under short-term leases and is being marketed for sale. The property has a book value of approximately $52,000,000 at December 31, 2006.

Certain of the Company's other real estate investments and their respective carrying values as of December 31, 2006 include: approximately 104 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 ($35,300,000); approximately 76 acres of land located on the island of Islesboro, Maine, and approximately 120 acres of land located in Rockport, Maine, each of which have submitted plans for residential subdivisions ($27,700,000 in the aggregate); a fifteen acre, unentitled air rights parcel above the train tracks behind Union Station in Washington, D.C. ($10,100,000); an operating shopping center on Long Island, New York that has 71,000 square feet of retail space ($9,500,000); 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 540 acre parcel is located near Mountain Village, Colorado, a ski resort bordering Telluride, Colorado.

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 7.3% and 8.2% 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 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, 2006, its investment had a carrying value of $45,700,000 which is included in investments in associated companies. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD); at December 31, 2006, the market value of the Company's investment was $163,300,000.

In February 2006, Square 711, a 90% owned subsidiary of the Company, completed the sale of 8 acres of unimproved land in Washington, D.C. The Company received net cash proceeds of approximately $75,700,000, and recorded a pre-tax gain of $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.

Medical Product Development

Business

At December 31, 2006, the Company owned approximately 69% of Sangart, a biopharmaceutical company principally engaged in developing an oxygen transport agent for various medical uses. From 2003 through December 31, 2006, the Company invested an aggregate of $49,200,000 in Sangart, principally to help fund Sangart's ongoing product development activities (as a development stage company, Sangart does not have any revenues from product sales). The Company expects to invest up to an additional $50,000,000 in March 2007, which would increase its ownership interest up to 89%, and the Company would also receive warrants for the right (but not the obligation) to invest up to another $50,000,000 on the same terms. Sangart became a consolidated subsidiary of the Company in 2005; the book value of the Company's investment in Sangart was $6,800,000 at December 31, 2006.

In 2002, Sangart commenced human clinical trials of its current product candidate, Hemospan(R), a form of cell-free hemoglobin administered intravenously to treat a variety of medical conditions, including use as an alternative to red blood cell transfusions. A principal function of human blood is to transport oxygen throughout the body, the absence of which can cause organ dysfunction or death. The basis for Sangart's technology is the result of more than 20 years of research in the understanding of how hemoglobin (the oxygen carrier in red blood cells) functions outside of red blood cells in a cell-free environment. Hemospan offers universal compatibility with all blood types and, as compared to red blood cell transfusions, reduced risk of infectious disease transmission and a longer storage life. Hemospan is made from human hemoglobin that is extracted from outdated human blood obtained from accredited blood centers, which is then combined with polyethylene glycol using Sangart's proprietary processes. Sangart's manufacturing process is able to generate approximately three units of Hemospan using a single unit of blood, which serves to expand the supply of donated blood. Sangart owns or exclusively licenses twelve U.S. patents and has more than thirty applications pending worldwide covering product composition, manufacturing or methods of use.

Sangart has completed three clinical studies involving 132 patients, of whom 93 were administered Hemospan. These trials were Phase I and Phase II studies designed to assess product safety and gather early indications of the product's effectiveness. Sangart is currently conducting an additional Phase II clinical trial in the U.S., and in February 2007 commenced two Phase III clinical trials in Europe that are designed to demonstrate Hemospan's safety and effectiveness in preventing and treating low blood pressure during surgery and in reducing the incidence of operative and postoperative complications. The Phase III studies are expected to involve over 800 patients, and will not be completed until 2008. Upon completion, Sangart plans to submit an application for marketing approval to the appropriate regulatory authorities in Europe in late 2008, with a U.S. application to follow. The initial application for marketing approval may be for a relatively narrow subset of elective surgery procedures; subsequent clinical trials will likely be required to evaluate and demonstrate the safety and effectiveness of Hemospan in additional elective surgeries, trauma care, and other circumstances in which delivery of oxygen to tissue provides clinical benefit (e.g., sickle cell disease, strokes and heart attacks). Obtaining the requisite regulatory approvals is outside of Sangart's control, and regulatory agencies could require expanded or additional clinical trials resulting in additional development cost expenditures and delays. The Company cannot state with certainty when, if ever, such approvals will be received.

Substantially all of the funding needed for Hemospan development has come from sales of Sangart's equity securities. The anticipated $50,000,000 investment to be made in March 2007 is expected to be sufficient to fund Sangart's activities through the completion of its Phase III trials, after which additional funds (which could come from the exercise of the Company's warrants) will be required to fund activities prior to commercial launch.

Competitive Environment

Hemospan is intended to address the needs of the blood market. Currently there are more than 14,000,000 units of packed red blood cells transfused each year in the U.S., the majority of which are used in treating trauma and elective surgery patients for whom Hemospan may be an alternative. Currently there are no similar products approved for sale in the U.S. or the European Union. Other companies are developing products that could potentially compete with Hemospan, some of which have already completed Phase III clinical trials. One company currently has a pending marketing approval application in the United Kingdom and another has announced its intention to apply for marketing approval in the U.S. in 2007. As such, it is possible that competing products could obtain marketing approval in the U.S. and/or Europe prior to Hemospan obtaining approval.

Any successful commercialization of Hemospan will depend on an adequate supply of raw materials, principally blood and polyethylene glycol, at an acceptable quality, quantity and price. Sangart is currently working with potential suppliers of raw materials; however, commitments from suppliers of blood and polyethylene glycol to support a commercial launch are not yet in place and competitors may seek commitments from the same blood suppliers. Sangart leases a 56,700 square foot combination office and manufacturing facility that currently produces Hemospan for its clinical trials. Sangart believes that its current manufacturing facility will have more than enough capacity to support a commercial launch, but capital improvements and engineering designs will be required. In addition to obtaining requisite regulatory approvals and increasing manufacturing capacity for the manufacture and sale of Hemospan, Sangart would have to create sales, marketing and distribution capabilities prior to any commercial launch of this product, either directly or in partnership with a service provider.

Government Regulation

As a product intended for medical use, clinical trials, marketing approval, manufacturing and distribution of Hemospan is highly regulated. An application for marketing approval may only be made after the safety and effectiveness of the product has been demonstrated, including through human clinical trial data. In the United States, the U.S. Food and Drug Administration regulates medical products, including the category known as "biologics" which includes Hemospan. The Federal Food, Drug and Cosmetic Act and the Public Health Service Act govern the testing, manufacture, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of Hemospan.

In Europe, each country has its own agency that regulates clinical trials. However, the Committee for Medicinal Products for Human Use ("CHMP"), which is administered by the European Agency for the Evaluation of Medicinal Products, is an EU-wide regulatory body. Following completion of clinical trials, marketing approval can be granted either by a centralized application through CHMP, or on a country-by-country basis. The trend is for centralized applications, and it is likely that Sangart will make a centralized filing for Hemospan through CHMP.

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 229 acres of vineyards in Napa Valley, California and 116 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, 2006, the Company's combined net investment in these wineries was $69,900,000. The wineries sold approximately 81,000 9-liter equivalent cases of wine generating revenues of $19,500,000 during 2006, and 76,900 9-liter equivalent cases of wine generating revenues of $17,800,000 during 2005.

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 2006, direct sales to consumers represented 22% of case sales and 44% of wine revenues. Sales of the Company's wines in California (excluding direct sales to consumers) amounted to approximately 12% of 2006 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. 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. 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. 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. For Pine Ridge and Archery Summit, low yields in the 2004 harvest will result in lower cases available for sale in 2007 as compared with 2006.

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 2005, the U.S. Supreme Court decided that such discriminatory state direct shipment laws violated the Commerce Clause of the U.S. Constitution. As a result, many 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. Overall, these changes have improved the Company's ability to sell wine directly to consumers, but have also increased the complexity of compliance reporting and taxation required for each state.

The Company continues to review additional investments in the wine business to achieve synergies with the existing properties and broaden the wine portfolio. Potential investments could include new wine businesses, vineyards in other locations or new wine brands. The Company has purchased approximately 611 acres of farmland in Washington State ($3,300,000), some of which is under short-term leases to third parties. The Company plans to plant 90 acres with grape vineyards, and may build a winery in the future.

Energy Projects

During the past few years, the Company has been incurring costs (all of which have been expensed) to investigate and evaluate the development of a number of domestic energy projects. The projects the Company has investigated all employ gasification technology to convert different types of fossil fuels into clean energy products. Gasification technology generally involves the combination of coal, petroleum coke or petroleum pitch ("feedstocks") with water, which is then fed into a gasifier and converted into a low BTU gas ("syngas"). Potential pollutants like sulfur and mercury are chemically stripped from the syngas through another process, resulting in syngas that can be applied to many commercial uses including the generation of electrical power, the manufacture of methanol and hydrogen, the production of ammonia for fertilizer, conversion to liquid fuels and, through a methanation process, upgrading the liquid fuels to a pipeline quality natural gas. The gasification process can also generate large quantities of commercial quality steam that can be sold to industrial customers. The Company has incurred expenses investigating and evaluating these projects of $8,300,000, $1,600,000 and $4,400,000 during the years ended December 31, 2006, 2005 and 2004, respectively.

Although there are a number of projects the Company is currently investigating, the Company is not obligated to develop any of the projects. Any project that the Company might develop would likely require a significant equity investment by the Company, the acquisition of substantial non-recourse borrowings to build the projects (total development costs for these types of projects range from $1 billion to $3 billion), the procurement of and purchase commitment for long-term supplies of feedstock, long-term commitments from purchasers of the output, and significant technological and engineering expertise to implement. The investigation, evaluation and financing of these projects takes years to complete; the Company does not expect that any of the projects it is currently working on would reach the financing stage in the next 18 to 24 months, if ever. This diligence process can be costly, and no assurance can be given that the Company will be successful in fully developing any of these projects.

Antilles Crossing Group

The Company owns approximately 75% of entities comprising the Antilles Crossing Group ("ACG"), a startup venture that constructed a sub-sea fiber optic cable system in the Caribbean. The remaining interest is principally owned by Light & Power Holdings Ltd., in which the Company holds a 38% interest.

ACG has completed the construction of 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 is only the second to be built to Barbados and St. Lucia and is expected to alleviate much of the bandwidth supply restrictions to those islands. Since ACG completed construction activities during 2006, operating revenues were not material reflecting the start-up nature of the enterprise.

The system has allowed ACG to begin providing telecommunications and data services to carriers serving the islands of Barbados and St. Lucia. In addition, TeleBarbados Inc, one of the ACG entities, is building an on-island fiber and wireless communications network on Barbados and is providing residential and commercial data and voice services there. A launch of similar services in St. Lucia is expected in 2007. International telecommunications and data services are highly competitive, based on price, reliability of service and breadth of coverage, and are impacted by regulatory requirements and technological advances.

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 $2,200,000 and $3,000,000 as of December 31, 2006 and 2005, respectively. Pre-tax income for the banking and lending operations was $1,800,000, $1,400,000 and $22,000,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Other Investments

Fortescue

The Company invested $408,000,000 in Fortescue's Pilbara iron ore and infrastructure project in Western Australia, including expenses. In exchange for its cash investment, the Company received 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's Cloud Break and Christmas Creek areas only. The note is unsecured and subordinate to the project's senior secured debt referred to below. 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 its aggregate fair value, based on the closing price of Fortescue's common shares on that date. Subsequent to acquisition, the Company's investment in the Fortescue common shares is classified as a non-current available for sale investment and carried at market value as of each balance sheet date. At December 31, 2006, the market value of the Fortescue common shares was $276,300,000.

For accounting purposes, the Company bifurcated its remaining Fortescue 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.

The project information disclosed below was obtained from Fortescue's website, (http://www.fmgl.com.au/), which contains substantial additional information about Fortescue and the project. In April 2006, Fortescue announced a proved reserve estimate of 121 million metric tons of iron ore and a probable reserve estimate of 932 million metric tons of iron ore, in accordance with the Australasian Joint Ore Reserves Committee code. Fortescue and its independent mining consultant, Snowden Mining Industry Consultants ("Snowden"), have completed a Mining Definitive Feasibility Study for this reserve. Snowden's study focused exclusively on the Cloud Break and Christmas Creek mining tenements, which cover an area of approximately 770 square kilometers. Fortescue also announced that it has received all major approvals required under the various governmental, environmental, and native title processes for the Cloud Break and Christmas Creek tenements. Fortescue has substantial additional tenements in the Pilbara region of Western Australia which have not yet been approved for mining activities (mining revenues from other areas do not increase the interest paid on the FMG note).

Fortescue's feasibility study was commissioned to identify a quantity and quality of iron ore that would support an initial mine plan that produces 45 million metric tons per annum ("mtpa") for a 20 year period. Fortescue has announced agreements with third parties that intend to purchase 41.5 mtpa of the initial 45 mtpa plan; these agreements include relationships with 8 of the largest steel mills in China. These agreements reference the benchmark price for premium Pilbara iron ore which is set annually based on the first negotiated price between any of the world's largest steel mills and one of the world's three largest iron ore producers. The benchmark price for the year beginning in April 2007 has been set at a price that represents a 9.5% increase over the current price for iron ore.

In addition to the Company's investment, Fortescue raised $2,051,000,000 of senior secured debt to fund the construction of the project. Fortescue is building a 260 kilometer railroad, a port and related port infrastructure at Port Hedland, Australia, as well as a crushing and screening plant, access roads and other infrastructure at the mine site. Construction on the rail, port, and mine site has begun and Fortescue has announced that it expects to begin shipping ore in 2008. The control budget for the infrastructure associated with the mine, rail and port, first published by Fortescue in April 2006, aggregates A$2,246,000,000 ($1,762,000,000 at exchange rates in effect on February 15, 2007).

Goober

In April 2006, the Company acquired a 30% limited liability company interest in Goober for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober, on a secured basis, up to $80,000,000 to finance new rig equipment purchases and construction costs and to repay existing debt. In June 2006, the Company agreed to increase the secured credit facility amount to an aggregate of $126,000,000 to finance additional new rig equipment purchases and construction costs. As of December 31, 2006, the outstanding balance of the existing credit facility was $126,000,000. The Company's investment in Goober is classified as an investment in an associated company. From acquisition to December 31, 2006, Goober's revenues were $91,800,000 and its pre-tax income (excluding interest expense payable to the Company), was $27,300,000. After deducting depreciation and amortization related to purchase accounting adjustments, the Company's share of Goober's pre-tax earnings before intercompany interest was $2,000,000.

In January 2007, the credit facility was further amended to increase the interest rate on the facility from LIBOR plus 2% to LIBOR plus 5%, and to provide Goober with an additional secured credit facility for up to $45,000,000 at an interest rate of LIBOR plus 10%. In addition, the Company increased its equity interest in Goober to 42% for an additional equity investment of $25,000,000. The additional funding was required primarily due to increased raw material and labor costs to construct the new rigs and working capital needs due to delays in rig construction.

Goober is a land based contract oil and gas drilling company based in Stillwater, Oklahoma that provides drilling services to exploration and production companies in the Mid-Continent Region of the U.S., primarily in Oklahoma and Texas. Goober typically generates revenues through drilling contracts based on daily rates, footage (charged by depth of the well) or based on a turnkey contract (fixed price to drill a well). Goober supplies the drilling rig and all ancillary equipment and drilling personnel. Upon completion, a well is connected to the customer's rig pump, storage facility and eventually a pipeline. Goober's business is regionally concentrated with major independent and local oil and gas producers awarding business to Goober based on its quality of service, proximity to the well site and experience with the specific geological formation. Goober has been in business since 1991.

As of December 31, 2006, Goober has 21 operating drilling rigs, 6 of which were built after April 2006. For these operating rigs, 16 are under contract for 1 to 3 year terms and 3 are "floaters" or rigs that are made available on the spot market and which generally command higher daily rates. In addition, the company has 13 rigs under construction and has committed to purchase an additional two rigs. For these 15 rigs that are not yet in operation, 10 are under contract for 1 to 3 year terms that will commence once the rigs are operational. Goober expects that the rigs currently under construction and the new rigs which have yet to be delivered will be operational by the middle of 2007.

CLC

CLC is a Spanish company that holds the exploration and mineral rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. It was a consolidated subsidiary of the Company from its acquisition in September 1999 until August 2005, at which time the Company sold a 70% interest to Inmet, a Canadian-based global mining company traded on the Toronto stock exchange (Symbol: IMN). Inmet acquired the interest in CLC in exchange for 5,600,000 newly issued Inmet common shares, representing approximately 11.6% of Inmet's current outstanding common shares. Although the Inmet shares have registration rights, they may not be sold until the earlier of August 2009 or the date on which the Company is no longer obligated under the guarantee discussed below. The Inmet shares are reflected on the Company's consolidated balance sheet at their fair value on the date they were received of approximately $78,000,000; at December 31, 2006, the market value of the Inmet shares was $299,800,000. The Company retains a 30% interest in CLC.

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, 2006, approximately $74,200,000 was outstanding under the senior secured credit facility and (euro)21,000,000 was outstanding under the senior secured bridge credit facility. The Company and Inmet have also committed to provide financing to CLC which is currently estimated to be (euro)156,000,000 ($205,000,000 at exchange rates in effect on February 15, 2007), of which the Company's share will be 30% ($26,100,000 of which has been loaned as of December 31, 2006).

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)380,000,000 ($499,300,000 at exchange rates in effect on February 15, 2007), 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 begin commercial production in early 2008 and reach full mine production in early 2009. Cash operating costs per pound of copper produced are expected to average (euro)0.39 per pound ($0.51 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.

Other

At December 31, 2006, the book value of the Company's equity investment in JPOF II, a registered broker-dealer, was $126,200,000. 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, 2006, 2005 and 2004, the Company recorded $26,200,000, $23,600,000 and $16,200,000, 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. Over the seven years the Company has had the investment in JPOF II, the weighted average return on investment has been approximately 20%.

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, 2006, the book value of the Company's equity investment in EagleRock was $60,400,000, which is net of aggregate distributions of $48,200,000 that were received during 2006 and $3,700,000 in 2004. The Company is currently in discussions with EagleRock as to the timing and manner in which the Company's remaining investment will be remitted by EagleRock to the Company. Pre-tax income (losses) of $16,400,000, $(28,900,000) and $29,400,000 for the years ended December 31, 2006, 2005 and 2004, respectively, were recorded from this investment under the equity method of accounting.

The Company has invested an aggregate of $50,000,000 in Wintergreen, a limited partnership that invests in domestic and foreign debt and equity securities. For the years ended December 31, 2006 and 2005, the Company recorded $11,000,000 and $500,000, respectively, of pre-tax income from this investment under the equity method of accounting. At December 31, 2006, the book value of the Company's investment in Wintergreen was $61,500,000.

In January 2006, the Company invested $50,000,000 in Safe Harbor, a limited partnership which principally invests in the securities of Japanese public companies. Pre-tax losses of $7,600,000 were recorded during 2006 from this investment under the equity method of accounting. At December 31, 2006, the book value of the Company's investment in Safe Harbor was $42,400,000.

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. The Company has included INTL in its Corporate segment. In December 2006, the Company redeemed $10,000,000 of its investment and has requested an additional redemption of $40,000,000 during the first quarter of 2007. The redemption in 2007 may result in the Company deconsolidating INTL and classifying its remaining investment as an investment in an associated company. For the years ended December 31, 2006, 2005 and 2004, the Company recorded pre-tax income relating to INTL of $5,100,000, $9,900,000 and $2,200,000, respectively. At December 31, 2006, the book value of the Company's investment in INTL was $92,200,000.

The Company owns approximately 38% 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, 2006, the Company's investment of $18,800,000 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 15, 2007 (determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934): The FINOVA Group Inc. ("FINOVA") (25%), HomeFed (29.9%), International Assets Holding Corporation (17.4%) and Jordan Industries, Inc. ("JII") (10.1%). In addition to the Company's equity interests in Fortescue and Inmet discussed above, the Company also owns a 7.0% equity interest in JZ Equity Partners PLC, a British company traded on the London Stock Exchange.

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;

- o diversion of management's attention from our existing businesses; and

- o 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 15, 2007, Messrs. Cumming and Steinberg and their respective families (excluding certain private charitable foundations) beneficially owned approximately 11.6% and 12.8% of our outstanding common shares, respectively. Accordingly, Messrs. Cumming and Steinberg 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 U.S. 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.

Declines in the U.S. housing market could reduce revenues and profitability of the manufacturing businesses. Revenues at our manufacturing segments benefit from strong new housing starts and the strong home improvement market in the U.S. Declines in the U.S. housing market, resulting from local, regional, national or international economic changes, or from other factors, including increases in mortgage interest rate levels, have negatively impacted the revenues and profits of our manufacturing businesses, which could continue.

We are subject to risks associated with increased volatility in raw material prices and availability of key raw materials. Idaho Timber and Conwed Plastics purchase significant amounts of raw materials from third parties for use in their operations. The price for polypropylene, the principal raw material used by Conwed Plastics, 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, or by the imposition of export tariffs on Canadian imports resulting from the Softwood Lumber Agreement between Canada and the U.S. 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.

From time to time we are subject to litigation, for which we may be unable to accurately assess our level of exposure and which if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations. 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. However, adverse determinations in specific legal matters could have a material impact on the Company's financial statements. See "Item 3, Legal Proceedings" for additional information.

Premier is located in a geographic area subject to catastrophic storms, and it may not be able to purchase sufficient insurance coverage at an acceptable price. Subsequent to Hurricane Katrina, the availability of catastrophic insurance coverage was reduced and premiums increased significantly. If Premier is unable to purchase insurance coverage for catastrophic losses, the Company could suffer a material loss from a hurricane.

Premier, as a debtor-in-possession, must obtain bankruptcy court approval for the conduct of its business and may not be successful in obtaining approval for its plan of reorganization or in obtaining the necessary funds to rebuild the Hard Rock Biloxi. If the bankruptcy court does not approve Premier's plan of reorganization, or otherwise provide Premier with access to insurance proceeds currently under the control of Premier's pre-petition bondholders in a timely manner, Premier will not be able to repair and rebuild the Hard Rock Biloxi or carry out its business plan in a timely manner, which would result in losses for the Company.

Premier could encounter problems during reconstruction that could substantially increase the construction costs or delay the opening of the Hard Rock Biloxi. Reconstruction projects like the Hard Rock Biloxi are subject to significant development and construction risks, which can cause unanticipated cost increases and delays. These include, among others, shortages of materials and skilled labor; adverse weather which damages the project or causes delays; delays in obtaining or inability to obtain necessary permits, licenses and approvals, including alcoholic beverage licensing and gaming commission approval; changes in statutes, regulations, policies and agency interpretations of laws applicable to gaming projects; changes to the plans or specifications for Premier's rebuilding efforts; engineering problems; labor disputes and work stoppages; environmental issues; fire, flooding and other natural disasters; and geological, construction, excavation, regulatory and equipment problems.

Premier has no operating history or history of earnings and does not have any experience developing or operating a gaming facility. Following reconstruction, the Hard Rock Biloxi will be a new business and, accordingly, will be subject to all of the risks inherent in the establishment of a new business enterprise. If Premier is unable to manage these risks successfully, or fail to attract a sufficient number of guests, gaming customers and other visitors to the Hard Rock Biloxi, it would negatively impact its operations.

The right to operate the Hard Rock Biloxi is contingent upon governmental approval. A revocation, suspension, limit or condition of Premier's gaming licenses or registrations would result in a material adverse effect on its business. If Premier's gaming licenses and/or registrations are revoked for any reason, the Mississippi Gaming Commission could require us to close the Hard Rock Biloxi. Failure to maintain such approvals could prevent or delay the completion of reconstruction or opening of the Hard Rock Biloxi, or otherwise affect the design and features of the operation of the Hard Rock Biloxi, all of which could materially and adversely affect financial position and results of operations.

Delays in obtaining governmental authorizations could 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.

The Company's current and future investment in Sangart is subject to certain regulatory risks and costs, as well as risks associated with the operation of a new business without a proven track record. Sangart's clinical trials are expensive and time consuming, and Sangart cannot be certain that the results of its trials will be acceptable to the regulatory authorities or that they won't be required to conduct new or expanded trials. Sangart's activities are subject to extensive government regulation and Sangart cannot generate any revenue without regulatory approval of its products. Even if regulatory approvals are received, Sangart would be a new business and will be subject to all of the risks inherent in establishing a new business, in addition to the risks associated with establishing the appropriate infrastructure necessary to operate and manage the commercial exploitation of Sangart's products.

Sangart's Hemospan product is subject to competition from other products under development. There are other companies developing products for the same market that Sangart is targeting, and if they are successful in bringing their product to market before Sangart it may significantly impair Sangart's ability to compete in the same market segment.

Sangart's success depends on its ability to obtain, maintain and defend patent protection for its products and technologies, preserve trade secrets and operate without infringing the intellectual property rights of others. The patent positions of biopharmaceutical companies, such as Sangart, are generally uncertain and involve complex legal and factual questions. If Sangart's intellectual property positions are challenged, invalidated, circumvented or expire, or if Sangart fails to maintain its third-party intellectual property licenses in good standing, its ability to successfully bring Hemospan to market would be adversely affected. There can be no guarantee that any of Sangart's pending patent applications will result in issued patents, or that any patents issued to Sangart or its licensors will not be challenged, circumvented or invalidated by third parties. If Sangart loses challenges to its intellectual property it could incur monetary liabilities, be required to enter into third-party licenses for the infringed product or technology (if available) or be required to cease using the technology or product in dispute.

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.

We could experience significant increases in operating costs due to competition for qualified personnel in our operating businesses. Our inability to attract and retain skilled personnel would make it difficult to compete and operate efficiently. Many of our operating businesses require skilled management and staff employees; we compete for their services with other companies.

Our various businesses 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, it could temporarily impair our operations or our ability to 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 net operating loss carryforwards ("NOLs") and other tax attributes. At December 31, 2006, we have recognized a deferred tax asset of $991,900,000 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, manufacturing and gaming 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 could be adversely affected.

We may reduce or cease to pay dividends on our common shares. On a split adjusted basis, we paid cash dividends of $0.25 per common share in 2006 and $.125 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.

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 110,800 square feet and 396 acres, respectively).

The Company and its subsidiaries lease numerous manufacturing, warehousing, office and headquarters facilities. The facilities vary in size and have leases expiring at various times, subject, in certain instances, to renewal options. A subsidiary of the Company also leases space in New York, New York for corporate and other activities (approximately 29,800 square feet). 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.

The Company is a defendant in Special Situations Fund III, L.P., et al v. Leucadia National Corporation, et al, a consolidated action involving a petition for appraisal and a class action pending in the Delaware Chancery Court related to our 2005 acquisition of the minority interest in MK Resources Company ("MK Resources"). The pending appraisal petition seeks a judicial determination of the fair value of approximately 3,979,400 shares of MK Resources' common stock as of August 19, 2005, the date of the merger of one of our subsidiaries into MK Resources. The class action complaint seeks compensatory damages in an unspecified amount, costs, disbursements and any further relief that the court may deem just and proper, and in the alternative, seeks rescissory damages, in each case taking into account the $1.27 per share consideration paid to the minority stockholders of MK Resources in the merger. Based on discovery to date, we understand that the plaintiffs believe that the fair value of each share of MK Resources common stock at the date of the merger ranged from $4.75 to $10.16 per share (with respect to a total of approximately 10,500,000 shares), while we believe that the fair value of each MK Resources share at that date was $0.57 per share.

The trial in this case is currently scheduled for March 12-16, 2007. While there can be no assurance that the Company will prevail, the Company believes that the material allegations of the complaints are without merit and intends to defend these actions vigorously. While the Company does not believe it is probable that a loss will be incurred, if the Company is unsuccessful in this matter, an adverse determination could be material.

From time to time in the future the Company may also be named as a defendant in other legal proceedings in the ordinary course of business which, if determined adversely, could result in material liabilities that would have a material adverse effect on our consolidated financial condition or results of operations.

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 15, 2007, 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	66	Chairman of the Board	June 1978
Joseph S. Steinberg	63	President	January 1979
Thomas E. Mara	61	Executive Vice President and Treasurer	May 1980; January 1993
Joseph A. Orlando	51	Vice President and Chief Financial Officer	January 1994; April 1996
Barbara L. Lowenthal	52	Vice President and Comptroller	April 1996
Justin R. Wheeler	34	Vice President	October 2006

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. He is also a member of Premier's Board of Managers since April 2006. Mr. Cumming is also an alternate director of Fortescue should Mr. Steinberg be unavailable to vote on Fortescue board matters.

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. He is also a member of Premier's Board of Managers since April 2006. He has served as a director of Fortescue since August 2006.

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. Wheeler joined the Company in March 2000, and has served in a variety of capacities in the Company's subsidiaries and as Vice President of the Company since October 2006.

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
	2005	
First Quarter	$23.33	$16.20
Second Quarter	20.61	16.46
Third Quarter	22.46	18.90
Fourth Quarter	24.64	20.05
	2006	
First Quarter	$29.93	$23.26
Second Quarter	32.62	27.67
Third Quarter	29.31	25.07
Fourth Quarter	29.35	25.52
	2007	
First Quarter (through February 15, 2007)	$28.75	$26.52

As of February 15, 2007, there were approximately 2,684 record holders of the common shares.

On a split adjusted basis, the Company paid cash dividends of $0.25 per common share in 2006 and $.125 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 2006 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
December 1 to December 31	5,526	$27.81	--	$--
Total	5,526		--	

(1) Consists of common shares received from an employee to exercise stock options. Shares were valued at the market price at the date 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, 2006, the Company is authorized to repurchase 1,452,393 common shares.

Equity Compensation Plan Information

The following table summarizes information regarding the Company's equity compensation plans as of December 31, 2006. All outstanding awards relate to the Company's common shares.

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	6,658,250	$25.87	1,516,150
Equity compensation plans not approved by security holders	--	--	-
Total	6,658,250	$25.87	1,516,150

Stockholder Return Performance Chart

Set forth below is a chart comparing the cumulative total stockholder return on our common shares against the cumulative total return of the Standard & Poor's 500 Stock Index, the Standard & Poor's 500 Telecommunication Services Sector Index (our previous industry index) and the Standard & Poor's 1500 Industrial Conglomerates Index (our new industry index) for the period commencing December 31, 2001 to December 31, 2006. Index data was furnished by Standard & Poor's Compustat Services, Inc. We no longer will use the Standard & Poor's 500 Telecommunication Services Sector Index because we no longer own any significant telecommunications assets and instead will use the S&P 1500 Industrial Conglomerates Index as we believe it is more representative of our current operations. The chart assumes that $100 was invested on December 31, 2001 in each of our common stock, the S&P 500 Index, the S&P Telecommunication Services Sector Index and the S&P 1500 Industrial Conglomerates Index and that all dividends were reinvested.

Total Return To Shareholders
(Includes reinvestment of dividends)

	ANNUAL RETURN PERCENTAGE Years Ending				
Company / Index	Dec02	Dec03	Dec04	Dec05	Dec06
Leucadia National Corp	30.10	24.23	51.53	3.00	19.89
S&P 500 Index	-22.10	28.68	10.88	4.91	15.79
S&P 1500 Industrial Conglomerates	-40.24	34.88	19.15	-3.70	8.69
S&P 500 Telecommunication Services	-34.11	7.08	19.85	-5.63	36.80

		INDEXED RETURNS Years Ending				
Company / Index	Base Period Dec01	Dec02	Dec03	Dec04	Dec05	Dec06
Leucadia National Corp	100	130.10	161.62	244.91	252.26	302.43
S&P 500 Index	100	77.90	100.25	111.15	116.61	135.03
S&P 1500 Industrial Conglomerates	100	59.76	80.60	96.04	92.49	100.52
S&P 500 Telecommunication Services	100	65.89	70.56	84.57	79.81	109.18

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,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
SELECTED INCOME STATEMENT DATA: (a)					
Revenues and other income (b)	$862,672	$689,883	$379,566	$242,614	$235,157
Expenses	728,852	555,448	272,742	248,525	274,301
Income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and equity in income (losses) of associated companies	133,820	134,435	106,824	(5,911)	(39,144)
Income from continuing operations before minority expense of trust preferred securities and equity in income (losses) of associated companies (c)	92,049	1,265,473	127,368	28,456	104,931
Minority expense of trust preferred securities, net of taxes	--	--	–	(2,761)	(5,521)
Equity in income (losses) of associated companies, net of taxes	37,720	(45,133)	76,479	76,947	54,712
Income from continuing operations	129,769	1,220,340	203,847	102,642	154,122
Income (loss) from discontinued operations, including gain on disposal, net of taxes	59,630	415,701	(58,347)	(5,588)	7,501
Net income	189,399	1,636,041	145,500	97,054	161,623

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Per share:					
Basic earnings (loss) per common share:					
Income from continuing operations	$.60	$5.66	$.96	$.56	$.93
Income (loss) from discontinued operations, including gain on disposal	.28	1.93	(.28)	(.03)	.04
Net income	$.88	$7.59	$.68	$.53	$.97
Diluted earnings (loss) per common share:					
Income from continuing operations	$.60	$5.34	$.93	$.55	$.92
Income (loss) from discontinued operations, including gain on disposal	.25	1.80	(.26)	(.03)	.04
Net income	$.85	$7.14	$.67	$.52	$.96

	At Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
SELECTED BALANCE SHEET DATA: (a)					
Cash and investments	$2,657,021	$2,687,846	$2,080,309	$1,403,619	$1,043,471
Total assets	5,303,824	5,260,884	4,800,403	4,397,164	2,541,778
Debt, including current maturities	1,159,461	1,162,382	1,131,922	682,135	233,073
Customer banking deposits	--	--	24,591	145,532	392,904
Shareholders' equity	3,893,275	3,661,914	2,258,653	2,134,161	1,534,525
Book value per common share	$18.00	$16.95	$10.50	$10.05	$8.58
Cash dividends per common share	$.25	$.13	$.13	$.08	$.08

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

(b) Includes net securities gains (losses) of $117,159,000, $208,816,000, $136,564,000, $9,928,000, and $(37,066,000) for the years ended December 31, 2006, 2005, 2004, 2003 and 2002, 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 $8,000,000 for 2006, $27,300,000 for 2004, $24,400,000 for 2003, and $120,000,000 for 2002.

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, 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.

In addition to cash and cash equivalents, the Company also considers investments classified as current assets and investments classified as non-current assets on the face of its consolidated balance sheet as being generally available to meet its liquidity needs. Securities classified as current and non-current investments are not as liquid as cash and cash equivalents, but they are generally easily convertible into cash within a short period of time. As of December 31, 2006, the sum of these amounts aggregated $2,657,000,000. However, since $422,600,000 of this amount is pledged as collateral pursuant to various agreements, represents investments in non-public securities or is held by subsidiaries that are party to agreements which restrict the Company's ability to use the funds for other purposes (including the Inmet shares), the Company does not consider those amounts to be available to meet the Parent's liquidity needs. The $2,234,400,000 that is available is comprised of cash and short-term bonds and notes of the U.S. Government and its agencies, U.S. Government-Sponsored Enterprises and other publicly traded debt and equity securities. The investment income realized from the Parent's 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 ($923,200,000 principal outstanding as of December 31, 2006), of which $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, except as disclosed in this Report, 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 $100,000,000 that matures in 2011 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.

The Company and Jefferies & Company, Inc. ("Jefferies") have entered into an agreement to expand and restructure the Company's equity investment in JPOF II, one of several entities managed by Jefferies that invests capital in Jefferies' high yield trading business. Pursuant to an executed agreement, the Company would increase its investment to $600,000,000 (requiring up to an additional estimated $500,000,000 in cash), Jefferies would increase its investment to the same level as the Company, and this new venture would provide for additional capital investments from passive investors of up to $800,000,000 in the aggregate over time. Jefferies will also receive additional securities in the new venture entitling it to 20% of the profits. Jefferies and the Company would each have the right to nominate two of a total of four directors to the new venture's board, and each would own 50% of the voting securities. The new venture will be a registered broker-dealer engaged in the secondary sales and trading of high yield securities and special situation securities formerly conducted by Jefferies, including bank debt, post-reorganization equity, equity, equity derivatives, credit default swaps and other financial instruments. It will commit capital to the market by making markets in high yield and distressed securities and will invest in and provide research coverage on these types of securities. Commencement of the investment is subject to the receipt of regulatory approvals and certain other matters.

The Company is currently considering raising approximately $500,000,000 in debt financing through a private placement of its senior notes. The senior notes are expected to have substantially similar terms to its existing series of 7% Senior Notes due 2013 other than the interest rate, call features and maturity date, which is currently expected to be ten years from issuance. The net proceeds from the senior notes financing, if completed, would be used in part to fund a portion of the additional investment described above, with the balance to be used for general corporate purposes, which may include working capital, acquisitions, or other investment opportunities. The decision to proceed with the private placement of new senior notes will be subject to market and other conditions and available pricing. The senior notes, if issued, have not and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

In February 2006, Square 711, a 90% owned subsidiary of the Company, completed the sale of 8 acres of unimproved land in Washington, D.C. The Company received net cash proceeds of approximately $75,700,000, and recorded a pre-tax gain of $48,900,000.

In July 2006, the Company sold Symphony to RehabCare Group, Inc., for approximately $107,000,000. After satisfaction of Symphony's outstanding credit agreement by the buyer ($31,700,000 at date of sale) and certain 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 September 2006, the Company sold ATX to Broadview Networks Holdings, Inc. for aggregate cash consideration of approximately $85,700,000, and recorded a pre-tax gain on sale of discontinued operations of $41,600,000.

In the second quarter of 2006, the Company acquired a 30% limited liability company interest in Goober for aggregate consideration of $60,000,000, excluding expenses, and agreed to lend to Goober, on a secured basis, up to $126,000,000 (all of which was loaned at December 31, 2006) to finance new rig equipment purchases and construction costs and to repay existing debt. In January 2007, the loan facility was further amended to increase the interest rate on the facility to LIBOR plus 5%, and to provide Goober with an additional secured credit facility for up to $45,000,000 at an interest rate of LIBOR plus 10%. In addition, the Company increased its equity interest in Goober to 42% for an additional equity investment of $25,000,000. The additional funding was required primarily due to increased raw material and labor costs to construct the new rigs and working capital needs due to delays in rig construction. The Company's investment in Goober is classified as an investment in an associated company.

During 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 the Premier Notes with an outstanding principal amount of $160,000,000. 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 ($11,300,000 is outstanding at December 31, 2006). At acquisition, the Company consolidated Premier as a result of its controlling voting interest.

Premier owns the Hard Rock Hotel & Casino Biloxi, located in Biloxi, Mississippi, which was severely damaged by Hurricane Katrina and which is currently being rebuilt. 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 $160,900,000 with respect to $168,200,000 face amount of coverage; the remaining $12,900,000 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. Premier believes that the funds in the restricted accounts together with permitted equipment financing will be sufficient to rebuild the Hard Rock Biloxi similar to its condition immediately preceding Hurricane Katrina.

On September 19, 2006, Premier and its subsidiary filed voluntary petitions for reorganization under chapter 11 of title 11 of the Bankruptcy Code. Premier filed its petitions in order to seek the Court's assistance in gaining access to Hurricane Katrina-related insurance proceeds which had been denied to Premier by its pre-petition secured bondholders. Premier continues 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. The Company 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 ($125,600,000 as of December 31, 2006, including all loans and equity interests). The Company has also committed to provide up to $180,000,000 to finance Premier's plan of reorganization, which would principally be used to pay-off the Premier Notes. Upon its emergence from bankruptcy proceedings, the Company expects that Premier will be accounted for as a consolidated subsidiary.

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 risk to the existing facilities and to the new casino, which will be constructed over water on concrete pilings that will 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.

Premier's current insurance policy expires in July 2007; Premier expects it will purchase new insurance coverage that will be in effect for the balance of the 2007 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. Premier cannot currently estimate how much insurance will be available to it at an acceptable premium.

The Company invested $408,000,000 in Fortescue's Pilbara iron ore and infrastructure project in Western Australia, including expenses. In exchange for its cash investment, the Company received 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's Cloud Break and Christmas Creek areas only. The note is unsecured and subordinate to the project's senior 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 its aggregate fair value, based on the closing price of Fortescue's common shares on that date. Subsequent to acquisition, the Company's investment in the Fortescue common shares are classified as a non-current available for sale investment and carried at market value as of each balance sheet date. At December 31, 2006, the market value of the Fortescue common shares was $276,300,000.

For accounting purposes, the Company bifurcated its remaining Fortescue 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.

Over the past few years, the Company has invested in various limited partnerships or limited liability companies that are engaged in investing and/or securities transactions activities. These investments include Safe Harbor ($50,000,000 invested in 2006) and Wintergreen (a total of $50,000,000 invested during 2005 and 2006), each of which is classified as an investment in associated companies.

In January 2007, the Company entered into an agreement to acquire a 75% interest in the telecommunications business of Telco Group, Inc. ("Telco") for $120,000,000 in cash, subject to working capital adjustments. Consummation of the transaction, which is subject to customary closing conditions including receipt of regulatory approvals, is expected to occur during the first half of 2007. Telco, which operates under the brand name STi Prepaid and variations thereof, is a provider of international prepaid phone cards, prepaid wireless and other telecommunications services in the U.S.

The Company and certain of its subsidiaries have substantial NOLs and other tax attributes. The amount and availability of the 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. For more information about the NOLs and other tax attributes, see Note 16 of Notes to Consolidated Financial Statements.

As of February 15, 2007, the Company is authorized to repurchase 1,452,393 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, 2006.

Consolidated Statements of Cash Flows

As discussed above, the Company relies on the Parent's available liquidity to meet its short-term and long-term needs, and to make acquisitions of new businesses and investments. Except as otherwise disclosed herein, the Company's operating businesses do not generally require material funds from the Parent to support their operating activities, and the Parent does not depend on positive cash flow from its operating segments to meet its liquidity needs. The components of the Company's operating businesses and investments change frequently as a result of acquisitions or divestitures, the timing of which is impossible to predict but which often have a material impact on the Company's consolidated statements of cash flows in any one period. Further, the timing and amounts of distributions from certain of the Company's investments in partnerships accounted for under the equity method are generally outside the control of the Company. As a result, reported cash flows from operating, investing and financing activities do not generally follow any particular pattern or trend, and reported results in the most recent period should not be expected to recur in any subsequent period.

Net cash provided by operating activities decreased by $229,600,000 in 2006 as compared to the prior year, 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, payment of incentive compensation and increased defined benefit pension plan contributions. In addition, funds provided by operating activities during 2006 reflect a $19,400,000 use of funds by Sangart, a development stage company which became a subsidiary in November 2005. During 2006, cash provided by operating activities reflect the collection of the balance of certain receivables from AT&T Inc. ($198,500,000). The AT&T receivables resulted from a termination agreement entered into between WilTel and its largest customer during 2005; however, these receivables were not included with the assets purchased by Level 3. WilTel's cash flow from operating activities for the 2005 period prior to its sale was $278,500,000. In 2006, distributions from associated companies principally include earnings distributed by EagleRock ($48,200,000) and JPOF II ($23,600,000). In 2005, distributions from associated companies principally resulted from JPOF II ($16,200,000) and the sale of Union Square, two entities in which the Company had non-controlling equity interests. In May 2005, these entities sold their respective interests in an office complex located on Capitol Hill in Washington, D.C.; the Company's share of the net proceeds was $73,200,000. Contributions to the defined benefit pension plans were $50,100,000 in 2006 as compared to $21,800,000 in 2005. The current status of the Company's frozen defined benefit pension plans is more fully discussed below.

Net cash provided by operating activities increased by $252,700,000 in 2005 as compared to 2004, due principally to increased distributions of earnings from associated companies, a decrease in the size of the Company's investment in its trading portfolio and increased cash flow from the Company's operating units, principally WilTel and the manufacturing businesses. The increased cash flow from the Company's manufacturing units reflects the 2005 acquisition of Idaho Timber, and increased revenues at Conwed Plastics resulting from an acquisition and growth in most of its markets. The increased distributions from associated companies principally resulted from the proceeds received from Union Square, which is discussed above. WilTel's cash flow from operating activities (which increased by $67,100,000 in 2005 as compared to 2004) did not increase the liquidity available to the Parent (as defined above), since WilTel's debt agreements prohibited the payment of dividends.

Net cash flows used for investing activities were $186,200,000 in 2006 and $16,700,000 in 2004; net cash flows provided by investing activities were $22,600,000 in 2005. As a result of the sale of WilTel, the Company's use of funds for property, equipment and leasehold improvements declined significantly in 2006; funds used for WilTel's acquisition of property, equipment and leasehold improvements totaled $96,100,000 in 2005 and $73,200,000 in 2004. During 2006, funds provided by the disposal of real estate and other assets include the sales of Square 711 discussed above, and two associated companies. 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. During 2004, funds provided by the disposal of real estate and other assets include the sales of corporate aircraft ($38,800,000) and two Florida residential lot development projects ($56,700,000) that have been substantially completed. Pursuant to the indenture governing the Premier Notes, Premier was required to put insurance proceeds it collected into restricted accounts, which is the principal reason for the net change in restricted cash during 2006. Premier cash flow activity is reflected in the Company's 2006 consolidated statement of cash flows only during the period it was a consolidated subsidiary (April through September 2006).

During the 2006 period, proceeds from the disposal of discontinued operations net of expenses and cash sold principally reflect the sales of Symphony ($62,900,000) and ATX ($74,300,000), net of a payment that resolved WilTel's working capital adjustment ($27,000,000). During 2005, proceeds from the disposal of discontinued operations net of expenses and cash sold principally reflect the sales of WilTel ($357,100,000) and the Waikiki Beach hotel ($95,200,000). During 2006, acquisitions, net of cash acquired principally include Premier ($105,700,000); during 2005, acquisitions, net of cash acquired principally include ATX ($12,500,000), Idaho Timber ($133,500,000) and NSW, LLC U.S. ("NSW"), an acquisition by Conwed Plastics ($26,600,000). During 2004, net cash provided from principal collections on loan receivables and from the sale of substantially all of the Company's remaining consumer loan portfolio aggregated $199,000,000; as discussed below, banking and lending operations have been in run-off for the past few years. Investments in associated companies include Goober ($188,000,000), Safe Harbor ($50,000,000), Wintergreen ($30,000,000), CLC ($12,100,000) and Premier ($9,000,000) in 2006, Wintergreen ($20,000,000) in 2005 and Pershing Square, L.P. ("Pershing") ($50,000,000) in 2004.

Net cash used for financing activities was $5,200,000 in 2006 and $442,700,000 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 2006 and 2005 principally relates to repurchase agreements, which are discussed below. The reduction of long-term debt during 2006 includes the repayment of debt of Square 711 ($32,000,000), which was sold, and the maturity of the Company's 7 7/8% Senior Subordinated Notes ($21,700,000). The reduction of long-term debt during 2005 includes the repayment of $442,500,000 of debt of operations sold (WilTel and Waikiki Beach hotel) and the maturity of the Company's 8 1/4% Senior Subordinated Notes ($19,100,000).

During 2004, net cash provided by financing activities was $220,500,000. Funds were used to retire customer banking deposits of the banking and lending operations as they became due. In 2004, the Company sold $100,000,000 principal amount of its 7% Senior Notes and $350,000,000 principal amount of its 3 3/4% Convertible Senior Subordinated Notes. Proceeds received from the sale of all the Notes can be used by the Company for investing or general corporate purposes. Issuance of common shares for all periods presented principally reflects the exercise of employee stock options and, in 2004, the exercise of warrants to purchase common shares.

Debt due within one year includes $181,800,000 and $92,100,000 as of December 31, 2006 and December 31, 2005, 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 5.3%, mature at various dates through June 2007 and are secured by non-current investments with a carrying value of $182,900,000 at December 31, 2006.

During 2001, a subsidiary of the Company borrowed $53,100,000 secured by certain of its corporate aircraft, of which $41,300,000 is currently outstanding. Capital leases of another subsidiary aggregating $9,400,000 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 require that collateral be provided to the lender; principally as a result of such requirements, the assets of subsidiaries which are subject to limitations on transfer of funds to the Company were approximately $247,500,000 at December 31, 2006. For more information, see Note 12 of Notes to Consolidated Financial Statements.

As shown below, at December 31, 2006, the Company's contractual cash obligations totaled $1,756,719,000.

	Payments Due by Period (in thousands)				
Contractual Cash Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$1,159,461	$184,815	$8,630	$37,025	$928,991
Estimated interest expense on long-term debt	513,945	61,750	120,262	117,525	214,408
Estimated payments related to derivative financial instruments	19,257	5,646	10,421	3,190	--
Planned funding of pension and postretirement obligations	44,074	405	38,562	795	4,312
Operating leases, net of sublease income	19,482	3,658	5,673	3,662	6,489
Asset purchase obligations	500	282	218	--	--
Total Contractual Cash Obligations	$1,756,719	$256,556	$183,766	$162,197	$1,154,200

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, 2006. Estimated payments related to a currency swap agreement are based on the currency rate in effect at December 31, 2006. Amounts related to the Company's consolidated pension liability ($40,400,000) are included in the table primarily during the 1-3 year period; however, the exact timing of the cash payments is uncertain.

At December 31, 2006, the Company had recorded a liability of $40,400,000 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 rates.

During 2006, the Company contributed $50,100,000 to these plans, and expects to make substantial additional contributions to the segregated trust accounts in the future to reduce its plan liabilities and reduce administrative and insurance costs associated with the plans. The tax deductibility of these contributions is not a primary consideration, principally due to the availability of the Company's NOLs to otherwise reduce taxable income. 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, 2006, 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	$54,876	$176,724
Funded status - balance sheet liability at December 31, 2006	7,223	33,134
Deferred losses included in other comprehensive income	19,053	24,294
Discount rate used to determine the projected benefit obligation	4.90%	5.70%

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 2007. Holding all other assumptions constant, a 0.25% change in these discount rates would affect pension expense by $600,000 and the benefit obligation by $9,300,000.

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 $20,200,000 at December 31, 2006 for all plans. A portion of these excess deferred losses will be amortized to expense during 2007, 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.