Off-Balance Sheet Arrangements

At December 31, 2006, the Company's off-balance sheet arrangements consist of guarantees and letters of credit aggregating $61,600,000. Pursuant to an agreement that was entered into before the Company sold CDS Holding Corporation ("CDS") to HomeFed in 2002, the Company agreed to provide project improvement bonds for the San Elijo Hills project. These bonds, which are for the benefit of the City of San Marcos, California and other government agencies, are required prior to the commencement of any development at the project. CDS is responsible for paying all third party fees related to obtaining the bonds. Should the City or others draw on the bonds for any reason, CDS and one of its subsidiaries would be obligated to reimburse the Company for the amount drawn. At December 31, 2006, the amount of outstanding bonds was $18,300,000, $16,100,000 of which expires in 2007, $800,000 in 2008, $100,000 in 2009 and the remainder in 2010. Subsidiaries of the Company have outstanding letters of credit aggregating $12,700,000 at December 31, 2006, principally to secure various obligations. Substantially all of these letters of credit expire before 2009.

As discussed above, the Company has also guaranteed 30% of the amounts outstanding under CLC's $240,000,000 senior secured credit facility and CLC's (euro)69,000,000 senior secured bridge credit facility. At December 31, 2006, $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; as a result, the Company's outstanding guaranty at that date was $22,300,000 and (euro)6,300,000 ($8,300,000 at exchange rates in effect on February 15, 2007), respectively.

Critical Accounting Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates all of these estimates and assumptions. The following areas have been identified as critical accounting estimates because they have the potential to have a material impact on the Company's financial statements, and because they are based on assumptions which are used in the accounting records to reflect, at a specific point in time, events whose ultimate outcome won't be known until a later date. Actual results could differ from these estimates.

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

During 2005, the Company's projections of future taxable income enabled it to conclude that it is more likely than not that it will have future taxable income sufficient to realize a portion of the Company's net deferred tax asset; accordingly, $1,135,100,000 of the deferred tax valuation allowance was reversed as a credit to income tax expense. The Company's conclusion that a portion of the deferred tax asset is more likely than not to be realized is strongly influenced by its historical ability to generate significant amounts of taxable income. The Company's estimate of future taxable income considers all available evidence, both positive and negative, about its current operations and investments, includes an aggregation of individual projections for each material operation and investment, and includes all future years that the Company estimated it would have available net operating losses. The Company believes that its estimate of future taxable income is reasonable but inherently uncertain, and if its current or future operations and investments generate taxable income greater than the projected amounts, further adjustments to reduce the valuation allowance are possible. Conversely, if the Company realizes unforeseen material losses in the future, or its ability to generate future taxable income necessary to realize a portion of the deferred tax asset is materially reduced, additions to the valuation allowance could be recorded. At December 31, 2006, the balance of the deferred valuation allowance was approximately $911,800,000.

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

The Company did not recognize any impairment losses on long-lived assets during 2006; however, during 2005 an impairment loss of $42,400,000 was recorded to reduce the carrying amount of WilTel's former headquarters facility to its estimated fair value in connection with the sale of WilTel to Level 3 (classified with gain on disposal of discontinued operations). WilTel's former headquarters building, including the adjacent parking garage, was not included in the sale to Level 3 and has been retained by the Company. The Company concluded that the change in the manner in which the asset was being used, from a headquarters facility of an operating subsidiary to a property held for investment, was a change in circumstances which indicated that the carrying amount of the facility might not be recoverable.

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

The Company's determination of whether a security is other than temporarily impaired incorporates both quantitative and qualitative information; GAAP requires the exercise of judgment in making this assessment, rather than the application of fixed mathematical criteria. The Company considers a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, the reason for the decline in fair value, changes in fair value subsequent to the balance sheet date, and other factors specific to the individual investment. The Company's assessment involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. The Company recorded impairment charges for securities of $12,900,000, $12,200,000 and $4,600,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Business Combinations - At acquisition, the Company allocates the cost of a business acquisition to the specific tangible and intangible assets acquired and liabilities assumed based upon their relative fair values. Significant judgments and estimates are often made to determine these allocated values, and may include the use of independent appraisals, consider market quotes for similar transactions, employ discounted cash flow techniques or consider other information the Company believes relevant. The finalization of the purchase price allocation will typically take a number of months to complete, and if final values are materially different from initially recorded amounts adjustments are recorded. Any excess of the cost of a business acquisition over the fair values of the net assets and liabilities acquired is recorded as goodwill which is not amortized to expense. Recorded goodwill of a reporting unit is required to be tested for impairment on an annual basis, and between annual testing dates if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its net book value.

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

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

Contingencies - The Company accrues for contingent losses when the contingent loss is probable and the amount of loss can be reasonably estimated. Estimates of the likelihood that a loss will be incurred and of contingent loss amounts normally require significant judgment by management, can be highly subjective and are subject to material change with the passage of time as more information becomes available. As of December 31, 2006, the Company's accrual for contingent losses was not material.

Results of Operations

Manufacturing - Idaho Timber

Revenues and other income for Idaho Timber for the year ended December 31, 2006 and from the date of acquisition (May 2005) through December 31, 2005 were $345,700,000 and $239,000,000, respectively; gross profits were $30,000,000 and $22,000,000, respectively; salaries and incentive compensation expenses were $9,400,000 and $6,300,000, respectively; depreciation and amortization expenses were $4,900,000 and $4,200,000, respectively; and pre-tax income was $12,000,000 and $8,200,000, respectively.

Idaho Timber's revenues weakened during 2006, reflecting lower average selling prices and reduced shipment volume. This decline was principally due to weakening demand resulting from reductions in housing starts and the abundant supply of lumber in the marketplace. In October 2006, the trade dispute between the U.S. and Canada over Canadian lumber imports was resolved and a new Softwood Lumber Agreement became effective that restricts and imposes a tax on Canadian lumber imports. Prior to the effective date of that agreement, imports from Canada increased, which added to the oversupply in the market.

While raw material costs, the largest component of cost of sales (approximately 84% of cost of sales), declined during 2006 due to the continued decline in market conditions and the diminished uncertainty concerning the impact of the Softwood Lumber Agreement, this reduction lagged behind the reduction in selling prices. The difference between Idaho Timber's selling price and raw material cost per thousand board feet (spread) is closely monitored, and the rate of change in pricing and cost is typically not the same. During 2006, spreads compressed negatively impacting gross profit and pre-tax results. With the continued oversupply in the market, Idaho Timber intends to continue to focus on developing new higher margin products, diversifying its supply chain, improving cost control and solidifying customer and supplier relationships, in an effort to maximize gross margins and pre-tax results.

Manufacturing - Conwed Plastics

Pre-tax income for Conwed Plastics was $17,900,000, $14,200,000 and $7,900,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Its manufacturing revenues were $106,300,000, $93,300,000 and $64,100,000, and gross profits were $34,400,000, $28,900,000 and $19,000,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Revenues increased by 14% in 2006, 46% in 2005 and 20% in 2004, each as compared to the prior year.

The increase in revenues in 2006 reflects $5,400,000 of increased revenues from the acquisitions of NSW in February 2005 and Polynet in May 2006, which increased the segment's product offerings and customer base. In addition, 2006 revenues reflect increases in the erosion control, carpet cushion and turf reinforcement markets, partially reduced by a decline in the consumer products market due to lower demand for certain products. These changes result from a variety of factors including the impact of price increases implemented in 2005, increased road construction and using a new distributor for certain products. While the carpet cushion market continued to benefit from the previously strong housing market through the first half of 2006, it experienced a reduction in sales volume during the second half of the year resulting from a slowdown in housing starts.

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

Raw material costs increased by approximately 4% in 2006 as compared to 2005, and 19% in 2005 as compared to 2004; however, the segment was able to increase selling prices in most markets, which, along with increased sales and production volumes, resulted in greater gross margins in each period as compared to the immediately preceding period. The primary raw material in Conwed Plastics' products is a polypropylene resin, which is a byproduct of the oil refining process, whose price tends to fluctuate with the price of oil. There is relatively little direct labor or other raw material costs in the products. In addition to managing resin purchases, Conwed Plastics also has initiatives to reduce and/or reuse scrap, thereby increasing raw material utilization.

In addition, gross margin and pre-tax results for 2006 reflect $1,100,000 of greater amortization expense on intangible assets resulting from acquisitions and depreciation expense. Pre-tax results for 2006 also reflect $1,900,000 of higher salaries and incentive compensation expense than 2005, due principally to greater pre-tax profits and increased headcount.

In 2005, gross margins and pre-tax results reflect $1,300,000 of greater amortization expense on intangible assets resulting from acquisitions as compared to 2004. In addition, pre-tax results for 2005 include higher salaries, incentive compensation expense and sales commissions as compared to 2004, primarily related to NSW.

Domestic Real Estate

Pre-tax income for the domestic real estate segment was $44,000,000, $4,100,000 and $20,700,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Pre-tax results for the domestic real estate segment are largely dependent upon the performance of the segment's operating properties, the current status of the Company's real estate development projects and non-recurring gains or losses recognized when real estate assets are sold. As a result, pre-tax income for this segment for any particular year is not predictable and does not follow any consistent pattern.

Pre-tax income for 2006 principally reflects the sale by Square 711, which resulted in a pre-tax gain of $48,900,000, and the sale of other land parcels in Utah for a pre-tax gain of $11,200,000. In addition, the Company recognized pre-tax profit related to its 95-lot development project in South Walton County, Florida of $3,600,000 and $6,600,000 for the years ended December 31, 2006 and 2005, respectively. Such amounts principally result from the completion of certain required improvements to land previously sold. Pre-tax results for 2006 reflect $8,100,000 of incentive compensation accruals related to the Company's real estate development project in Myrtle Beach, South Carolina.

In 2004, the Company sold 92 lots of its 95-lot development project in South Walton County, Florida for aggregate sales proceeds of approximately $50,000,000, recognized pre-tax profits of $15,800,000 and deferred recognition of pre-tax profits of $10,200,000. In addition, revenues during 2004 reflect the sale of certain unimproved land for cash proceeds of $8,800,000, which resulted in a pre-tax gain of $7,600,000. Pre-tax results for 2004 also reflect due diligence expenses for a real estate development project that the Company decided not to develop.

Medical Product Development

Pre-tax losses (net of minority interest) for Sangart for the year ended December 31, 2006 and from the date of acquisition through December 31, 2005 (Sangart was acquired in November 2005) were $21,100,000 and $1,400,000, respectively. Sangart's losses for 2006 and for the period from acquisition through December 31, 2005 reflect research and development costs of $16,500,000 and $600,000, respectively, and salaries and incentive compensation expenses of $6,400,000 and $1,000,000, respectively.

As more fully discussed above, Sangart is a development stage company that does not have any revenues from product sales. Since 2002, it has been developing its current product candidate, Hemospan, and is currently conducting clinical trials in the U.S. (a Phase II trial) and Europe (two Phase III trials). It does not expect to complete its clinical trials until 2008, and if they are successful it will then seek approval with the appropriate regulatory authorities to market its product. Until such time, if ever, that Sangart obtains regulatory approval for Hemospan, the Company will report losses from this segment. U.S. or foreign regulatory agencies could also require Sangart to perform more clinical trials, which could be both expensive and time consuming. The Company is unable to predict with certainty when, if ever, it will report operating profits for this segment.

When the Company increases its investment in Sangart, which it expects to do in March 2007, the additional investment will be accounted for under the purchase method of accounting. Under the purchase method, the price paid is allocated to Sangart's individual assets and liabilities based on their relative fair values; in Sangart's case, substantially all of the fair value of assets acquired is initially allocated to research and development. However, since GAAP does not permit the recognition of research and development as an asset under the purchase method, any amounts initially allocated to research and development are immediately expensed. These amounts are expected to be material.

Banking and Lending

As stated previously, the Company's banking and lending operations have been in run-off, and during 2005 the Company's banking and lending subsidiary filed a formal plan with the Office of the Comptroller of the Currency to liquidate its operations, sold its remaining customer deposits and surrendered its national bank charter. Pre-tax results for banking and lending operations of $1,800,000, $1,400,000 and $22,000,000 for the years ended December 31, 2006, 2005 and 2004, respectively, have been classified with other operations. During 2004, the Company sold its subprime automobile and collateralized consumer loan portfolios representing approximately 97% of its total outstanding loans (net of unearned finance charges) and certain loan portfolios that had been substantially written-off for aggregate pre-tax gains of $16,300,000, which is reflected in investment and other income.

Corporate and Other Operations

Investment and other income increased in 2006 as compared to 2005 primarily due to greater interest income of $61,600,000, reflecting a larger amount of invested assets and higher interest rates, a $27,500,000 gain from the sales of two associated companies and $7,400,000 from the recovery of bankruptcy claims. Investment and other income in 2005 includes a gain of $10,500,000 on the sale of 70% of the Company's interest in CLC to Inmet.

Investment and other income increased in 2005 as compared to 2004 primarily due to the CLC gain, greater investment income of $24,200,000 reflecting a larger amount of invested assets and higher interest rates, and increased sales at the wineries of $5,000,000. Investment and other income in 2004 reflects a pre-tax gain of $11,300,000 from the sale of two of the Company's older corporate aircraft. Available corporate cash is generally invested on a short-term basis until such time as investment opportunities require an expenditure of funds.

Net securities gains for Corporate and Other Operations aggregated $117,200,000, $208,800,000 and $136,100,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The Company's net securities gains largely reflect realized gains from the sale of publicly traded debt and equity securities that had been classified as Corporate available for sale securities. Included in net securities gains for 2006 is a gain of $37,400,000 from the sale of Level 3 common stock. Included in net securities gains for 2005 is a gain of $146,000,000 from the sale of 375,000 shares of WMIG common stock. Net securities gains for 2006, 2005 and 2004 include provisions of $12,900,000, $12,200,000 and $4,600,000, respectively, to write down the Company's investments in certain available for sale securities. The write-down of the securities resulted from a decline in market value determined to be other than temporary.

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

The increase in interest expense during 2006 as compared to 2005 primarily reflects interest expense relating to Premier prior to its deconsolidation and the fixed rate repurchase agreements. The increase in interest expense during 2005 as compared to 2004 primarily reflects interest expense relating to $100,000,000 principal amount of 7% Senior Notes and $350,000,000 principal amount of 3 3/4% Convertible Senior Subordinated Notes issued in April 2004.

Salaries and incentive compensation expense did not significantly change in 2006 as compared to 2005. As a result of the adoption of SFAS 123R in 2006, the Company recorded $15,200,000 for share-based compensation expense relating to grants made under the Company's senior executive warrant plan and the fixed stock option plan. Salaries and incentive compensation expense for 2006 also reflects decreased bonus expense. Salaries and incentive compensation expense increased by $31,300,000 in 2005 as compared to 2004, principally due to increased bonus expense.

The increase in selling, general and other expenses of $8,800,000 in 2006 as compared to 2005 primarily reflects increased corporate aircraft expenses, higher professional fees and other costs, which largely relate to potential investments and projects and existing investments, and greater employee benefit costs including pension costs relating to WilTel's retained pension plan. In addition, 2005 reflects an impairment loss (described below) for the remaining book value of Olympus Re Holdings, Ltd. ("Olympus") of $3,700,000.

Selling, general and other expenses increased by $14,600,000 in 2005 as compared to 2004, primarily due to higher minority interest expense relating to MK Resources of $4,200,000 (the Company acquired the outstanding minority interest in August 2005), greater foreign exchange losses of $2,700,000, higher professional fees of $4,400,000 that principally relate to due diligence expenses for potential investments and investment management fees, an impairment loss for the remaining book value of Olympus of $3,700,000 and greater employee benefit expenses.

The Company's total comprehensive income in 2004 enabled it to realize certain acquired deferred tax assets which had been fully reserved for at the acquisition of WilTel. The resulting reduction in the valuation allowance for deferred tax assets ($22,300,000 in 2004) was applied to reduce the recorded amount of identifiable intangible assets to zero.

The income tax provision reflects the reversal of tax reserves aggregating $8,000,000 and $27,300,000 for the years ended December 31, 2006 and 2004, respectively, as a result of the favorable resolution of various state and federal income tax contingencies. In addition, in 2004 the tax provision reflects a benefit to record a federal income tax carryback refund of $3,900,000.

As more fully discussed above, during 2005 the Company's revised projections of future taxable income enabled it to conclude that it is more likely than not that it will have future taxable income sufficient to realize a portion of the Company's net deferred tax asset; accordingly, $1,135,100,000 of the deferred tax valuation allowance was reversed as a credit to income tax expense. The Company adjusted the valuation allowance in 2005 since it believes it is more likely than not that it will have future taxable income sufficient to realize that portion of the net deferred tax asset.

Associated Companies

Equity in income (losses) of associated companies includes the following for the years ended December 31, 2006, 2005 and 2004 (in thousands):

	2006	2005	2004
Olympus	$--	$(120,100)	$9,700
EagleRock	16,400	(28,900)	29,400
HomeFed	2,900	5,800	10,000
JPOF II	26,200	23,600	16,200
Union Square	--	72,800	1,300
Pershing	--	--	21,300
Safe Harbor	(7,600)	--	--
Wintergreen	11,000	500	--
Goober	2,000	--	--
CLC	3,800	(1,600)	--
Other	5,400	3,500	3,600
Equity in income (losses) before income taxes	60,100	(44,400)	91,500
Income tax expense	(22,400)	(700)	(15,000)
Equity in income (losses), net of taxes	$37,700	$(45,100)	$76,500

The Company's equity in losses from Olympus for 2005 reflects its share of Olympus losses from Hurricanes Katrina, Rita and Wilma. Effective January 1, 2006, Olympus received new capital which reduced the Company's equity interest to less than 4%; as a result, the Company no longer applies the equity method of accounting. The book value of the Company's investment in Olympus was written down to zero in 2005.

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

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

EagleRock distributed $48,200,000 to the Company in 2006 and $3,700,000 in 2004.

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

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

Discontinued Operations

Healthcare Services

As discussed above, in July 2006 the Company sold Symphony and classified its historical operating results as a discontinued operation. Pre-tax income of Symphony was $200,000, $3,300,000 and $5,100,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Gain on disposal of discontinued operations for 2006 includes a pre-tax gain on the sale of Symphony of $53,300,000 ($33,500,000 after tax).

Telecommunications - ATX

As discussed above, in September 2006 the Company sold ATX and classified its historical operating results as a discontinued operation. Pre-tax losses of ATX were $1,200,000 and $1,900,000 for the years ended December 31, 2006 and 2005, respectively. Gain on disposal of discontinued operations for 2006 includes a pre-tax gain on the sale of ATX of $41,600,000 ($26,100,000 after tax).

WilTel

The Company sold WilTel to Level 3 in December 2005, recognized a pre-tax gain on disposal of $243,800,000 ($243,800,000 after tax) and classified its historical operating results as a discontinued operation. The calculation of the gain on sale included: (1) the cash proceeds received from Level 3 of $460,300,000, which was net of estimated working capital adjustments of $25,500,000; (2) the fair value of the Level 3 common shares of $339,300,000, based on the $2.95 per share closing price of Level 3 common stock immediately prior to closing; (3) the amount of the AT&T cash payments that had not been previously accrued prior to closing ($175,900,000); (4) an impairment charge for WilTel's headquarters building of $42,400,000; and (5) the net book value of the net assets sold and estimated expenses and other costs related to the transaction. WilTel's pre-tax income (loss) from discontinued operations was $116,000,000 and $(56,600,000) for the years ended December 31, 2005 and 2004, respectively.

Gain on disposal of discontinued operations during 2006 includes $2,400,000 of pre-tax gains ($1,500,000 after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel.

Real Estate

In May 2005, the Company sold its 716-room Waikiki Beach hotel and related assets for an aggregate purchase price of $107,000,000, before closing costs and other required payments. The Company recorded a pre-tax gain of $56,600,000 ($56,600,000 after tax), which is reflected in gain on disposal of discontinued operations.

In 2004, the Company sold a commercial real estate property and classified it as a discontinued operation; a pre-tax loss of $600,000 was reflected as loss on disposal of discontinued operations. Pre-tax losses for this property were $6,600,000 in 2004.

Other

In 2006, the Company sold its gas properties and recorded a pre-tax loss on disposal of discontinued operations of $900,000. Income (loss) from discontinued operations for 2006 includes $2,900,000 of pre-tax losses related to these gas properties; amounts for the 2005 and 2004 periods were not material.

In 2006, the Company received $3,000,000 from a former insurance subsidiary which, for many years, has been undergoing liquidation proceedings controlled by state insurance regulators. The Company reflected the amount received as a gain on disposal of discontinued operations. For income tax purposes, the payment is treated as a non-taxable distribution paid by a subsidiary; as a result, no tax expense has been recorded.

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

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

During 2004, the Company recorded $2,200,000 as gain on disposal of discontinued operations (net of minority interest), which represented the estimated fair value of warrants whose vesting criteria became satisfied. These warrants had been received during 2003 as part of the sales proceeds from the discontinued operations of WebLink Wireless, Inc. The gain was not reduced for any federal income tax expense due to WebLink's large net operating loss carryforwards.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes the accounting for and disclosure of uncertainty in income tax positions. FIN 48 defines the criteria that must be met before any part of the benefit of a tax position can be recognized in the financial statements, provides guidance for the measurement of tax benefits recognized and guidance for classification and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company continues to evaluate the impact of adopting FIN 48 on its consolidated financial statements but does not expect it to be material; however, additional footnote disclosures will be required.

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

Cautionary Statement for Forward-Looking Information

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

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

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

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

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

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

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

The Company's investment portfolio is primarily classified as available for sale, and consequently, is recorded on the balance sheet at fair value with unrealized gains and losses reflected in shareholders' equity. Included in the Company's available for sale investment portfolio are fixed income securities, which comprised approximately 57% of the Company's total investment portfolio at December 31, 2006. These fixed income securities are primarily rated "investment grade" or are U.S. governmental agency issued or U.S. Government-Sponsored Enterprises. The estimated weighted average remaining life of these fixed income securities was approximately 2.5 years at December 31, 2006. The Company's fixed income securities, like all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. At December 31, 2005, fixed income securities comprised approximately 69% of the Company's total investment portfolio and had an estimated weighted average remaining life of 1.2 years.

Also included in the Company's available for sale investment portfolio are equity securities, which are recorded on the balance sheet at an aggregate fair value of $736,700,000 (aggregate cost of $584,400,000), and which comprised approximately 31% of the Company's total investment portfolio at December 31, 2006. The majority of this amount consists of two publicly traded securities, the largest of which is the investment in Fortescue common shares, which is carried at fair value of $276,300,000. In addition, the Company's investment portfolio includes its investment in Inmet, which is carried at cost of $78,000,000 at December 31, 2006. Although the Company is restricted from selling the Inmet common shares, the investment is subject to price risk. The market value of this investment is $299,800,000 at December 31, 2006. As discussed more fully above in Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company evaluates its investments for impairment on a quarterly basis.

At December 31, 2006 and 2005, the Company's portfolio of trading securities was not material to the total investment portfolio.

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

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

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

	Expected Maturity Date							
	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value
	(Dollars in thousands)							
Rate Sensitive Assets:								
Available for Sale Fixed Income Securities:								
U.S. Government and agencies	$452,593	$22,302	$7,104	$5,107	$3,686	$9,775	$500,567	$500,567
Weighted Average Interest Rate	4.07%	5.27%	5.76%	5.77%	5.77%	5.79%		
U.S. Government-Sponsored Enterprises	$268,834	$77,565	$45,136	$34,011	$25,695	$74,661	$525,902	$525,902
Weighted Average Interest Rate	4.89%	6.05%	6.37%	6.39%	6.40%	6.39%		
Other Fixed Maturities:								
Rated Investment Grade	$84,394	$1,593	$690	$--	$5,926	$24,388	$116,991	$116,991
Weighted Average Interest Rate	5.51%	4.90%	4.03%	--	0.66%	2.89%		
Rated Less Than Investment Grade/Not Rated	$86,148	$28,518	$29,399	$20,223	$9,608	$39,097	$212,993	$212,993
Weighted Average Interest Rate	9.20%	8.16%	9.52%	9.27%	8.79%	3.32%		
Rate Sensitive Liabilities:								
Fixed Interest Rate Borrowings	$182,701	$3,524	$878	$978	$1,054	$928,991	$1,118,126	$1,279,649
Weighted Average Interest Rate	5.34%	2.66%	11.96%	12.01%	12.15%	6.05%		
Variable Interest Rate Borrowings	$2,114	$2,114	$2,114	$2,114	$32,879	$--	$41,335	$41,335
Weighted Average Interest Rate	8.95%	8.84%	8.94%	9.06%	9.10%	--		
Rate Sensitive Derivative Financial Instruments:								
Euro currency swap	$2,085	$2,085	$2,085	$522	$--	$--	$6,777	$(2,430)
Average Pay Rate	5.89%	5.89%	5.89%	5.89%	--	--		
Average Receive Rate	7.60%	7.60%	7.60%	7.60%	--	--		
Pay Fixed/Receive Variable Interest Rate Swap	$2,114	$2,114	$2,114	$2,114	$32,879	$--	$41,335	$(268)
Average Pay Rate	5.01%	5.01%	5.01%	5.01%	5.01%	--		
Average Receive Rate	4.95%	4.84%	4.94%	5.06%	5.10%	--		
Off-Balance Sheet Items:								
Unused Lines of Credit	$--	$--	$--	$--	$100,000	$--	$100,000	$100,000
Weighted Average Interest Rate	5.95%	5.84%	5.94%	6.06%	6.10%	--		

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

Item 9. Changes in and Disagreements with Accountants on Accounting

and Financial Disclosure.
None.

Item 9A. Controls and Procedures.

Evaluation of disclosure controls and procedures

(a) The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2006. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

Changes in internal control over financial reporting

(b) There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2006, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

o Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the Company;

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company's management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, management concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Item 9B. Other Information.
Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.
The information to be included under the caption "Election of Directors" and "Information Concerning the Board and Board Committees" in the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A of the Exchange Act in connection with the 2007 annual meeting of shareholders of the Company (the "Proxy Statement") is incorporated herein by reference. In addition, reference is made to Item 10 in Part I of this Report.

Item 11. Executive Compensation.
The information to be included under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.
The information to be included under the caption "Present Beneficial Ownership of Common Shares" in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.
The information to be included under the caption "Executive Compensation - Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

Item 14. Independent Accounting Firm Fees.
The information to be included under the caption "Independent Accounting Firm Fees" in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule.

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

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

1999 Stock Option Plan, as amended April 5, 2006 (filed as Annex C to the Company's Proxy Statement dated April 17, 2006 (the "2006 Proxy Statement")).

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

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

Form of Amendment No. 1 to the Amended and Restated Shareholders Agreement dated as of June 30, 2003 (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006 (the "2nd Quarter 2006 10-Q")).

Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 16, 2006 (filed as Annex A to the 2006 Proxy Statement).

Leucadia National Corporation 2006 Senior Executive Warrant Plan (filed as Annex B to the 2006 Proxy Statement).

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

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

(b) Exhibits.

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

3.1	Restated Certificate of Incorporation (filed as Exhibit 5.1 to the Company's Current Report on Form 8-K dated July 14, 1993).*
3.2	Certificate of Amendment of the Certificate of Incorporation dated as of May 14, 2002 (filed as Exhibit 3.2 to the 2003 10-K).*
3.3	Certificate of Amendment of the Certificate of Incorporation dated as of December 23, 2002 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "2002 10-K")).*
3.4	Amended and Restated By-laws as amended through March 9, 2004 (filed as Exhibit 3.4 to the 2003 10-K).*
3.5	Certificate of Amendment of the Certificate of Incorporation dated as of May 13, 2004 (filed as Exhibit 3.5 to the Company's 2004 10-K).*
3.6	Certificate of Amendment of the Certificate of Incorporation dated as of May 17, 2005 (filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the "2005 10-K")).*
4.1	The Company undertakes to furnish the Securities and Exchange Commission, upon written request, a copy of all instruments with respect to long-term debt not filed herewith.
10.1	1999 Stock Option Plan, as amended April 5, 2006 (filed as Annex A to the 2006 Proxy Statement).*
10.2	Form of Grant Letter for the 1999 Stock Option Plan (filed as Exhibit 10.4 to the Company's 2004 10-K).*
10.3	Amended and Restated Shareholders Agreement dated as of June 30, 2003 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.5 to the 2003 10-K).*
10.4	Debtors' Modified Second Amended Joint Plan of Reorganization under chapter 11 of the Bankruptcy Code, dated as of April 13, 2005, of ATX Communications, Inc. (filed as Exhibit 99.1 to ATX Communication's Current Report on Form 8-K dated April 20, 2005).*
10.5	Services Agreement, dated as of January 1, 2004, between the Company and Ian M. Cumming (filed as Exhibit 10.37 to the 2005 10-K).*
10.6	Services Agreement, dated as of January 1, 2004, between the Company and Joseph S. Steinberg (filed as Exhibit 10.38 to the 2005 10-K).*
10.7	Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 16, 2006 (filed as Annex A to the 2006 Proxy Statement).*
10.8	Employment Agreement made as of June 30, 2005 by and between the Company and Ian M. Cumming (filed as Exhibit 99.1 to the July 13, 2005 8-K).*
10.9	Employment Agreement made as of June 30, 2005 by and between the Company and Joseph S. Steinberg (filed as Exhibit 99.2 to the July 13, 2005 8-K).*

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

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

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

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

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

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

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

10.17 Second Amended and Restated Security Agreement, dated as of April 23, 2001, as amended and restated as of October 15, 2002, and as further amended and restated as of September 24, 2004, among WilTel, WilTel Communications, LLC, and the additional grantors party thereto in favor of Credit Suisse First Boston, acting through its Cayman Islands branch, as administrative agent, as first lien administrative agent and as second lien administrative agent (filed as Exhibit 99.2 to the Company's September 24, 2002 8-K).*

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

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

10.20 Information Concerning Executive Compensation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 11, 2007).*

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

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

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

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

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

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

10.27 Share Purchase Agreement, dated May 2, 2005, between Inmet Mining Corporation, the Company and MK Resources Company (filed as Exhibit 2 to Amendment No. 10 to the Schedule 13D dated May 2, 2005 of the Company with respect to MK Resources Company (the "MK 13D")).*

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

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

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

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

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

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

10.34 Form of Unit Purchase Agreement, dated as of April 6, 2006, by and among GAR, LLC, the Company, AA Capital Equity Fund, L.P., AA Capital Biloxi Co-Investment Fund, L.P. and HRHC Holdings, LLC (filed as Exhibit 10.1 to the 2nd Quarter 2006 10-Q).*

10.35 Form of Loan Agreement, dated as of April 6, 2006, by and among Goober Drilling, LLC, the Subsidiaries of Goober Drilling, LLC from time to time signatory thereto and the Company (filed as Exhibit 10.2 to the 2nd Quarter 2006 10-Q).*

10.36 Form of First Amendment to Loan Agreement, dated as of June 15, 2006, between Goober Drilling, LLC, the Subsidiaries of Goober Drilling, LLC from time to time signatory thereto and the Company (filed as Exhibit 10.3 to the 2nd Quarter 2006 10-Q).*

10.37 Form of First Amended and Restated Limited Liability Company Agreement of Goober Drilling, LLC, dated as of June 15, 2006, by and among Goober Holdings, LLC, Baldwin Enterprises, Inc., the Persons that become Members from time to time, John Special, Chris McCutchen, Jim Eden, Mike Brown and Goober Drilling Corporation (filed as Exhibit 10.4 to the 2nd Quarter 2006 10-Q).*

10.38 Form of Purchase and Sale Agreement, dated as of May 3, 2006, by and among LUK-Symphony Management, LLC, Symphony Health Services, LLC and RehabCare Group, Inc. (filed as Exhibit 10.5 to the 2nd Quarter 2006 10-Q).*

10.39 Form of Amendment No. 1, dated as of May 16, 2006, to the Amended and Restated Shareholders Agreement dated as of June 30, 2003, by and among Ian M. Cumming, Joseph S. Steinberg and the Company (filed as Exhibit 10.6 to the 2nd Quarter 2006 10-Q).*

10.40 Form of Credit Agreement, dated as of June 28, 2006, by and among the Company, the various financial institutions and other Persons from time to time party thereto and JPMorgan Chase Bank, National Association (filed as Exhibit 10.7 to the 2nd Quarter 2006 10-Q).*

10.41 Form of Subscription Agreement, dated as of July 15, 2006, by and among FMG Chichester Pty Ltd, the Company, and Fortescue Metals Group Ltd (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006 (the "3rd Quarter 2006 10-Q")).*

10.42 Form of Amending Agreement, dated as of August 18, 2006, by and among FMG Chichester Pty Ltd, the Company and Fortescue Metals Group Ltd (filed as Exhibit 10.2 to the 3rd Quarter 2006 10-Q).*

10.43 Compensation Information Concerning Non-Employee Directors (filed under item 1.01 of the Company's Current Report on Form 8-K dated May 22, 2006).*

10.44 Leucadia National Corporation 2006 Senior Executive Warrant Plan (filed as Annex B to the 2006 Proxy Statement).*

21	Subsidiaries of the registrant.
23.1	Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement on Form S-8 (No. 333-51494).
23.2	Consent of PricewaterhouseCoopers, with respect to the inclusion in this Annual Report on Form 10-K the financial statements of Olympus Re Holdings, Ltd. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 333-51494).**
23.3	Consent of independent auditors from BDO Seidman, LLP with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of EagleRock Capital Partners (QP), LP and EagleRock Master Fund, LP and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 333-51494).**
23.4	Independent Auditors' Consent from KPMG LLP, with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of Jefferies Partners Opportunity Fund II, LLC and with respect to the incorporation by reference into the Company's Registration Statements on Form S-8 (No. 333-51494).**
31.1	Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

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

(c) Financial statement schedules.

(1) Olympus Re Holdings, Ltd. consolidated financial statements as of December 31, 2005 and for the years ended December 31, 2005 and 2004.**

(2) EagleRock Capital Partners (QP), LP financial statements as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 and EagleRock Master Fund, LP financial statements as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004.**

(3) Jefferies Partners Opportunity Fund II, LLC financial statements as of December 31, 2006 and 2005, and for the years ended December 31, 2006, 2005 and 2004.**

* Incorporated by reference.

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

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

SIGNATURES

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

LEUCADIA NATIONAL CORPORATION

February 28, 2007

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller

Pursuant to the requirements of the Securities Exchange Act of 1934, this

report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the date set forth above.

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

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Leucadia National Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1)(2) present fairly, in all material respects, the financial position of Leucadia National Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(1)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 and Note 13 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in "Management's Report on Internal Control Over Financial Reporting" appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 27, 2007

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005
(Dollars in thousands, except par value)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$287,199	$386,957
Investments	903,973	1,323,562
Trade, notes and other receivables, net	69,822	377,216
Prepaids and other current assets	105,215	140,880
Total current assets	1,366,209	2,228,615
Non-current investments	1,465,849	977,327
Notes and other receivables, net	24,999	22,747
Intangible assets, net and goodwill	59,437	85,083
Deferred tax asset, net	978,415	1,094,017
Other assets	401,689	240,601
Property, equipment and leasehold improvements, net	234,216	237,021
Investments in associated companies	773,010	375,473
Total	$5,303,824	$5,260,884
LIABILITIES		
Current liabilities:		
Trade payables and expense accruals	$127,739	$230,636
Other current liabilities	5,688	52,925
Debt due within one year	184,815	175,664
Income taxes payable	8,411	15,171
Total current liabilities	326,653	474,396
Other non-current liabilities	90,268	121,893
Long-term debt	974,646	986,718
Total liabilities	1,391,567	1,583,007
Commitments and contingencies		
Minority interest	18,982	15,963
SHAREHOLDERS' EQUITY		
Common shares, par value $1 per share, authorized 300,000,000 shares; 216,351,466 and 216,058,016 shares issued and outstanding, after deducting 56,881,489 and 56,874,929 shares held in treasury	216,351	216,058
Additional paid-in capital	520,892	501,914
Accumulated other comprehensive loss	(4,726)	(81,502)
Retained earnings	3,160,758	3,025,444
Total shareholders' equity	3,893,275	3,661,914
Total	$5,303,824	$5,260,884

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2006, 2005 and 2004 (In thousands, except per share amounts)

	2006	2005	2004
REVENUES AND OTHER INCOME:			
Manufacturing	$450,835	$332,253	$64,055
Investment and other income	294,678	148,814	178,947
Net securities gains	117,159	208,816	136,564
	862,672	689,883	379,566
EXPENSES:			
Manufacturing cost of sales	386,466	281,451	45,055
Interest	79,392	65,523	60,557
Salaries and incentive compensation	89,501	71,884	34,811
Depreciation and amortization	22,105	18,070	18,959
Selling, general and other expenses	151,388	118,520	113,360
	728,852	555,448	272,742
Income from continuing operations before income taxes and equity in income (losses) of associated companies	133,820	134,435	106,824
Income tax (benefit) provision:			
Current	(4,902)	4,062	(27,786)
Deferred	46,673	(1,135,100)	7,242
	41,771	(1,131,038)	(20,544)
Income from continuing operations before equity in income (losses) of associated companies	92,049	1,265,473	127,368
Equity in income (losses) of associated companies, net of taxes	37,720	(45,133)	76,479
Income from continuing operations	129,769	1,220,340	203,847
Income (loss) from discontinued operations, net of taxes	(3,960)	115,329	(60,160)
Gain on disposal of discontinued operations, net of taxes	63,590	300,372	1,813
Net income	$189,399	$1,636,041	$145,500
Basic earnings (loss) per common share:			
Income from continuing operations	$.60	$5.66	$.96
Income (loss) from discontinued operations	(.02)	.54	(.29)
Gain on disposal of discontinued operations	.30	1.39	.01
Net income	$.88	$7.59	$.68
Diluted earnings (loss) per common share:			
Income from continuing operations	$.60	$5.34	$.93
Income (loss) from discontinued operations	(.02)	.50	(.27)
Gain on disposal of discontinued operations	.27	1.30	.01
Net income	$.85	$7.14	$.67

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2006, 2005 and 2004 (In thousands)

	2006	2005	2004
Net cash flows from operating activities:			
Net income	$189,399	$1,636,041	$145,500
Adjustments to reconcile net income to net cash provided by operations:			
Deferred income tax provision (benefit)	99,990	(1,135,100)	7,242
Depreciation and amortization of property, equipment and leasehold improvements	35,884	186,428	232,600
Other amortization	(11,884)	3,068	3,316
Share-based compensation	15,164	--	--
Excess tax benefit from exercise of stock options	(456)	--	--
Provision for doubtful accounts	1,089	6,181	(5,366)
Net securities gains	(117,159)	(212,299)	(142,936)
Equity in (income) losses of associated companies	(60,056)	44,403	(91,546)
Distributions from associated companies	75,725	90,280	23,878
Net gains related to real estate, property and equipment, loan receivables and other assets	(109,107)	(29,386)	(60,866)
Gain on disposal of discontinued operations	(99,456)	(300,372)	(1,813)
Investments classified as trading, net	4,469	18,022	(68,612)
Net change in:			
Trade, notes and other receivables	183,263	20,850	19,578
Prepaids and other assets	5,776	(29,978)	11,491
Trade payables and expense accruals	(73,342)	54,344	19,654
Other liabilities	(47,230)	(36,427)	(52,250)
Deferred revenue	--	10,553	9,945
Income taxes payable	(6,628)	(2,537)	16,890
Other	6,081	(2,961)	1,732
Net cash provided by operating activities	91,522	321,110	68,437
Net cash flows from investing activities:			
Acquisition of property, equipment and leasehold improvements	(39,021)	(136,260)	(97,412)
Acquisition of and capital expenditures for real estate investments	(71,505)	(26,053)	(23,022)
Proceeds from disposals of real estate, property and equipment, and other assets	188,836	33,722	123,302
Proceeds from disposal of discontinued operations, net of expenses and cash of operations sold	120,228	459,094	22,311
Acquisitions, net of cash acquired	(105,282)	(170,516)	--
Collection of Premier Entertainment Biloxi, LLC's insurance proceeds	109,383	--	--
Net change in restricted cash	(90,959)	--	--
Principal collections on loan receivables	--	1,591	41,862
Proceeds from sale of loan receivables	--	--	157,134
Advances on notes and other receivables	(31,518)	(100)	(400)
Collections on notes and other receivables	29,823	1,721	27,789
Investments in associated companies	(313,152)	(34,466)	(69,398)
Capital distributions from associated companies	4,845	2,644	5,632
Investment in Fortescue Metals Group Ltd	(408,030)	--	--
Purchases of investments (other than short-term)	(3,661,421)	(3,350,651)	(2,534,404)
Proceeds from maturities of investments	1,149,123	1,262,577	869,707
Proceeds from sales of investments	2,933,601	1,979,288	1,460,181
Other	(1,127)	--	--
Net cash provided by (used for) investing activities	(186,176)	22,591	(16,718)

(continued)

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, continued For the years ended December 31, 2006, 2005 and 2004 (In thousands)

	2006	2005	2004
Net cash flows from financing activities:			
Net change in customer banking deposits	$--	$(24,565)	$(120,516)
Issuance of long-term debt, net of issuance costs	96,676	82,753	438,393
Reduction of long-term debt	(66,223)	(477,360)	(92,454)
Issuance of common shares	3,838	3,689	22,006
Purchase of common shares for treasury	(187)	(167)	--
Excess tax benefit from exercise of stock options	456	--	--
Dividends paid	(54,085)	(27,008)	(26,901)
Other	14,313	--	--
Net cash provided by (used for) financing activities	(5,212)	(442,658)	220,528
Effect of foreign exchange rate changes on cash	108	(1,034)	311
Net increase (decrease) in cash and cash equivalents	(99,758)	(99,991)	272,558
Cash and cash equivalents at January 1,	386,957	486,948	214,390
Cash and cash equivalents at December 31,	$287,199	$386,957	$486,948
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$82,072	$96,958	$89,707
Income tax payments (refunds), net	$6,707	$3,486	$(26,024)
Non-cash investing activities:			
Common stock issued for acquisition of MK Resources Company	$--	$8,346	$--

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

LEUCADIA NATIONAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2006, 2005 and 2004 (In thousands, except par value and per share amounts)

	Common Shares $1 Par Value	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance, January 1, 2004	$212,471	$471,627	$152,251	$1,297,812	$2,134,161
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $0			(8,592)		(8,592)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0			6,807		6,807
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0			(355)		(355)
Net change in minimum pension liability, net of taxes of $0			(13,973)		(13,973)
Net income				145,500	145,500
Comprehensive income					129,387
Exercise of warrants to purchase common shares	2,400	16,760			19,160
Exercise of options to purchase common shares	330	2,516			2,846
Dividends ($.13 per common share)				(26,901)	(26,901)
Balance, December 31, 2004	215,201	490,903	136,138	1,416,411	2,258,653
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $0			(175,577)		(175,577)
Net change in unrealized foreign exchange gain (loss), net of taxes of $0			(17,199)		(17,199)
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $0			2,747		2,747
Net change in minimum pension liability, net of taxes of $0			(27,611)		(27,611)
Net income				1,636,041	1,636,041
Comprehensive income					1,418,401
Issuance of common shares on acquisition of minority interest in MK Resources Company	432	7,914			8,346
Exercise of options to purchase common shares	432	3,257			3,689
Purchase of common shares for treasury	(7)	(160)			(167)
Dividends ($.13 per common share)				(27,008)	(27,008)
Balance, December 31, 2005	216,058	501,914	(81,502)	3,025,444	3,661,914
Comprehensive income:					
Net change in unrealized gain (loss) on investments, net of taxes of $34,149			60,187		60,187
Net change in unrealized foreign exchange gain (loss), net of taxes of $2,137			3,768		3,768
Net change in unrealized gain (loss) on derivative instruments, net of taxes of $128			(224)		(224)
Net change in minimum pension liability, net of taxes of $6,958			12,263		12,263
Net income				189,399	189,399
Comprehensive income					265,393
Share-based compensation expense		15,164			15,164
Adjustment to initially apply SFAS 158, net of taxes of $444			782		782
Exercise of options to purchase common shares, including excess tax benefit	300	3,994			4,294
Purchase of common shares for treasury	(7)	(180)			(187)
Dividends ($.25 per common share)				(54,085)	(54,085)
Balance, December 31, 2006	$216,351	$520,892	$(4,726)	$3,160,758	$3,893,275

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

1. Nature of Operations:
The Company is a diversified holding company engaged in a variety of businesses, including manufacturing, 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 continuously evaluates the retention and disposition of its existing operations and investments and frequently investigates the acquisition of new businesses. Changes in the mix of the Company's owned businesses and investments should be expected.

The manufacturing operations are conducted through Idaho Timber, LLC ("Idaho Timber") and Conwed Plastics, LLC ("Conwed Plastics"). 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 operates eleven facilities located throughout the United States.

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. Conwed Plastics manufacturing segment has three domestic manufacturing facilities, and it owns and operates a manufacturing and sales facility in Belgium.

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

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

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

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

Certain amounts for prior periods have also been reclassified to be consistent with the 2006 presentation, and to reflect as discontinued operations Symphony Health Services, LLC ("Symphony"), which was sold in July 2006, and ATX Communications, Inc. ("ATX"), which was sold in September 2006. For more information concerning the sales and the Company's other discontinued operations, see Note 5.

2. Significant Accounting Policies:

(a) Critical Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires the Company to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates all of these estimates and assumptions. The following areas have been identified as critical accounting estimates because they have the potential to have a material impact on the Company's financial statements, and because they are based on assumptions which are used in the accounting records to reflect, at a specific point in time, events whose ultimate outcome won't be known until a later date. Actual results could differ from these estimates.

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

During 2005, the Company's projections of future taxable income enabled it to conclude that it is more likely than not that it will have future taxable income sufficient to realize a portion of the Company's net deferred tax asset; accordingly, $1,135,100,000 of the deferred tax valuation allowance was reversed as a credit to income tax expense. The Company's conclusion that a portion of the deferred tax asset is more likely than not to be realized is strongly influenced by its historical ability to generate significant amounts of taxable income. The Company's estimate of future taxable income considers all available evidence, both positive and negative, about its current operations and investments, includes an aggregation of individual projections for each material operation and investment, and includes all future years that the Company estimated it would have available net operating losses. The Company believes that its estimate of future taxable income is reasonable but inherently uncertain, and if its current or future operations and investments generate taxable income greater than the projected amounts, further adjustments to reduce the valuation allowance are possible. Conversely, if the Company realizes unforeseen material losses in the future, or its ability to generate future taxable income necessary to realize a portion of the deferred tax asset is materially reduced, additions to the valuation allowance could be recorded. At December 31, 2006, the balance of the deferred valuation allowance was approximately $911,800,000.

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

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

Impairment of Securities - Investments with an impairment in value considered to be other than temporary are written down to estimated fair value. The write-downs are included in net securities gains in the consolidated statements of operations. The Company evaluates its investments for impairment on a quarterly basis. The Company's determination of whether a security is other than temporarily impaired incorporates both quantitative and qualitative information; GAAP requires the exercise of judgment in making this assessment, rather than the application of fixed mathematical criteria. The Company considers a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, the reason for the decline in fair value, changes in fair value subsequent to the balance sheet date, and other factors specific to the individual investment. The Company's assessment involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. The Company recorded impairment charges for securities of $12,900,000, $12,200,000 and $4,600,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Business Combinations - At acquisition, the Company allocates the cost of a business acquisition to the specific tangible and intangible assets acquired and liabilities assumed based upon their relative fair values. Significant judgments and estimates are often made to determine these allocated values, and may include the use of independent appraisals, consider market quotes for similar transactions, employ discounted cash flow techniques or consider other information the Company believes relevant. The finalization of the purchase price allocation will typically take a number of months to complete, and if final values are materially different from initially recorded amounts adjustments are recorded. Any excess of the cost of a business acquisition over the fair values of the net assets and liabilities acquired is recorded as goodwill which is not amortized to expense. Recorded goodwill of a reporting unit is required to be tested for impairment on an annual basis, and between annual testing dates if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its net book value.

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

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

Contingencies - The Company accrues for contingent losses when the contingent loss is probable and the amount of loss can be reasonably estimated. Estimates of the likelihood that a loss will be incurred and of contingent loss amounts normally require significant judgment by management, can be highly subjective and are subject to material change with the passage of time as more information becomes available. As of December 31, 2006, the Company's accrual for contingent losses was not material.

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

2. Significant Accounting Policies, continued:
Associated companies are investments in equity interests that are accounted for on the equity method of accounting. These include investments in corporations that the Company does not control but has the ability to exercise significant influence, investments in limited partnerships in which the Company's interest is more than minor and its investment in Premier Entertainment Biloxi, LLC ("Premier"), as discussed more fully below.

(c) Cash Equivalents: The Company considers short-term investments, which have maturities of less than three months at the time of acquisition, to be cash equivalents. Cash and cash equivalents include short-term investments of $158,100,000 and $295,600,000 at December 31, 2006 and 2005, respectively.

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

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

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

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

(g) Cost of Sales: Manufacturing inventories are stated at the lower of cost or market, with cost determined under the first-in-first-out method. Manufacturing cost of sales principally includes product and manufacturing costs, inbound and outbound shipping costs and handling costs.

(h) Research and Development Costs: Research and development costs are expensed as incurred.

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

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

2. Significant Accounting Policies, continued:

Amounts recorded as income in investment and other income as a result of accounting for its derivative financial instruments were $1,200,000 and $1,700,000 for the years ended December 31, 2006 and 2005, respectively, and not material for 2004. Net unrealized losses on derivative instruments were $1,200,000 and $1,000,000 at December 31, 2006 and 2005, respectively.

(k) Translation of Foreign Currency: Foreign currency denominated investments and financial statements are translated into U.S. dollars at current exchange rates, except that revenues and expenses are translated at average exchange rates during each reporting period; resulting translation adjustments are reported as a component of shareholders' equity. Net foreign exchange transaction losses were $2,700,000 for each of 2006 and 2005, and not material for 2004. Net unrealized foreign exchange translation gains (losses) were $900,000, $(2,900,000) and $14,300,000 at December 31, 2006, 2005 and 2004, respectively.

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

(m) Recently Issued Accounting Standards: In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes the accounting for and disclosure of uncertainty in income tax positions. FIN 48 defines the criteria that must be met before any part of the benefit of a tax position can be recognized in the financial statements, provides guidance for the measurement of tax benefits recognized and guidance for classification and disclosure. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company continues to evaluate the impact of adopting FIN 48 on its consolidated financial statements but does not expect it to be material; however, additional footnote disclosures will be required.

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

3. Acquisitions:

Premier

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.

3. Acquisitions, continued:

Premier owns the Hard Rock Hotel & Casino Biloxi ("Hard Rock 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.

On September 19, 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"). 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 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. 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.

Summarized financial information for Premier as of December 31, 2006 is as follows (in thousands):

Assets:	
Current assets	$8,693
Non-current assets (a)	323,898
Total assets	$332,591
Liabilities:	
Current liabilities (b)	$206,963
Non-current liabilities	8
Total liabilities	206,971
Shareholders' equity	125,620
Total liabilities and shareholders' equity	$332,591

(a) Includes $11,900,000 of intangible assets, $175,400,000 of net property and equipment and $134,200,000 of restricted cash, substantially all of which is held by the indenture trustee of the Premier Notes. (b) Includes bonds and notes payable of $174,700,000.

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.

3. Acquisitions, continued:

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.

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

In February 2005, Conwed Plastics acquired the assets of NSW for a purchase price of approximately $26,600,000; based upon its allocation of the purchase price the Company recorded an aggregate of $10,200,000 of intangible assets and $8,200,000 of goodwill. NSW has a manufacturing and distribution facility in Roanoke, Virginia, which manufactures a variety of products including produce and packaging nets, header label bags, case liners and heavy weight nets for drainage and erosion control purposes. For more information concerning intangible assets and goodwill, see Note 8.

Idaho Timber

In May 2005, the Company acquired Idaho Timber for total cash consideration of $133,600,000, including working capital adjustments and expenses, and has consolidated Idaho Timber from the date of acquisition. Based upon its allocation of the purchase price, the Company recorded Idaho Timber intangible assets of $45,100,000.

INTL

In July 2004, the Company invested $50,000,000 in INTL Consilium Emerging Market Absolute Return Fund, LLC ("INTL"), a limited liability company that is invested in a master fund which primarily invests in emerging markets debt and equity securities. INTL and the master fund are managed and controlled by an investment manager who has full discretion over investment and operating decisions. In accordance with FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", INTL is a variable interest entity and the Company is currently the primary beneficiary; as a result, the Company accounts for its investment in INTL as a consolidated subsidiary. In October 2004, the Company invested an additional $25,000,000 in INTL. 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. At December 31, 2006, INTL had total assets of $95,300,000 which are primarily reflected as investments in the Company's consolidated balance sheet, and its liabilities were not material.

The creditors of INTL have recourse only to the assets of INTL and do not have recourse to any other assets of the Company. The Company can generally withdraw its capital account interest upon 90 days notice, subject to the manager's ability to liquidate security positions in an orderly manner. The Company recorded $5,100,000, $9,900,000 and $2,200,000 of pre-tax income relating to INTL for the years ended December 31, 2006, 2005 and 2004, respectively.

4. Investments in Associated Companies:

The Company has investments in several Associated Companies. The amounts reflected as equity in income (losses) of associated companies in the consolidated statements of operations are net of income tax provisions of $22,400,000, $700,000 and $15,000,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Included in consolidated retained earnings at December 31, 2006 is approximately $65,600,000 of undistributed earnings of the associated companies.

Goober Drilling, LLC ("Goober")

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. Goober is a land based contract oil and gas drilling company based in Stillwater, Oklahoma that provides land based drilling services to exploration and production companies in the Mid-Continent Region of the U.S., primarily in Oklahoma and Texas. 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. For the year ended December 31, 2006, the Company recorded $2,000,000 of pre-tax income from this investment under the equity method of accounting.

The Company's investment in Goober exceeds the Company's share of its underlying net assets by approximately $36,000,000 at December 31, 2006. Substantially all of this excess is being amortized over a three to fifteen year period.

Cobre Las Cruces, S.A. ("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 Mining Corporation ("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. The Inmet shares were recorded at their fair value of approximately $78,000,000, and the Company recorded a pre-tax gain on the sale of $10,500,000, which is reflected in the caption investment and other income. For more information on the Inmet shares, see Note 6. 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). For the years ended December 31, 2006 and 2005, the Company recorded pre-tax income (losses) of $3,800,000 and $(1,600,000), respectively, from this investment under the equity method of accounting.

4. Investments in Associated Companies, continued:
HomeFed Corporation ("HomeFed")

During 2002, the Company sold one of its real estate subsidiaries, CDS Holding Corporation ("CDS"), to HomeFed for a purchase price of $25,000,000, consisting of $1,000,000 in cash and 2,474,226 shares of HomeFed's common stock, which represented approximately 30% of HomeFed's outstanding common stock. For the years ended December 31, 2006, 2005 and 2004, the Company recorded $2,900,000, $5,800,000 and $10,000,000, respectively, of pre-tax income from this investment under the equity method of accounting. HomeFed is engaged, directly and through subsidiaries, in the investment in and development of residential real estate projects in the State of California. HomeFed is a public company traded on the NASD OTC Bulletin Board (Symbol: HOFD).

As a result of a 1998 distribution to all of the Company's shareholders, approximately 7.3% and 8.2% of HomeFed is owned by the Company's Chairman and President, respectively. Both are also directors of HomeFed and the Company's President serves as HomeFed's Chairman.

Jefferies Partners Opportunity Fund II, LLC ("JPOF II")

During 2000, the Company invested $100,000,000 in the equity of JPOF II, a limited liability company, which is a registered broker-dealer. JPOF II is managed by Jefferies & Company, Inc. ("Jefferies"), 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. These earnings were distributed by JPOF II as dividends shortly after the end of each year.

Wintergreen Partners Fund, L.P. ("Wintergreen")

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.

EagleRock Capital Partners (QP), LP ("EagleRock")

During 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.

Safe Harbor Domestic Partners L.P. ("Safe Harbor")

In January 2006, the Company invested $50,000,000 in Safe Harbor, a limited partnership which will principally invest in the securities of Japanese public companies. For the year ended December 31, 2006, the Company recorded $7,600,000 of pre-tax losses from this investment under the equity method of accounting.

4. Investments in Associated Companies, continued:
Union Square

Union Square, two entities in which the Company had non-controlling equity interests, sold their respective interests in an office complex located on Capitol Hill in Washington, D.C. during 2005. Including repayment of its mortgage loans at closing, the Company's share of the net proceeds was $73,200,000, and the Company recognized a pre-tax gain of $72,300,000 for the year ended December 31, 2005.

Olympus Re Holdings, Ltd. ("Olympus")

During 2001, the Company invested $127,500,000 for a 25% common stock interest in Olympus, a newly formed Bermuda reinsurance company primarily engaged in the property excess, marine and aviation reinsurance business. In 2003, the Company sold a portion of its common shares of Olympus back to Olympus for total proceeds of $79,500,000 as part of an issuer tender offer available to all of its shareholders.

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

Pershing Square, L.P. ("Pershing")

In January 2004, the Company invested $50,000,000 in Pershing, a limited partnership that is authorized to engage in a variety of investing activities. The Company redeemed its interest as of December 31, 2004, and the total amount due from Pershing of $71,300,000 was paid during the first quarter of 2005.

The following table provides summarized data with respect to the Associated Companies accounted for on the equity method of accounting included in results of operations for the three years ended December 31, 2006. (Amounts are in thousands.)

	2006	2005
Assets	$3,553,900	$2,750,800
Liabilities	1,980,500	1,873,300
Net assets	$1,573,400	$877,500
The Company's portion of the reported net assets	$770,800	$379,100

	2006	2005	2004
Total revenues	$640,400	$984,400	$916,900
Income (loss) from continuing operations before extraordinary items	$214,600	$(484,200)	$223,200
Net income (loss)	$214,600	$(484,200)	$223,200
The Company's equity in net income (loss)	$60,100	$(44,400)	$91,500

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

5. Discontinued Operations:
Symphony

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 ($33,500,000 after tax).

The Company has not classified Symphony's assets and liabilities as discontinued operations because the balances are not material. Summarized information for Symphony's assets and liabilities at December 31, 2005 is as follows (in thousands):

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

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

ATX

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 ($26,100,000 after tax).

The Company has not classified ATX's assets and liabilities as discontinued operations because the balances are not material. Summarized information for ATX's assets and liabilities at December 31, 2005 is as follows (in thousands):

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

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

5. Discontinued Operations, continued:
WilTel Communications Group, LLC ("WilTel")

In December 2005, the Company sold WilTel to Level 3 Communications, Inc. ("Level 3") for aggregate cash consideration of $460,300,000 (net of estimated working capital adjustments of approximately $25,500,000), and 115,000,000 newly issued shares of Level 3 common stock. In connection with the sale, the Company retained certain assets and liabilities of WilTel that were not purchased by Level 3. The retained assets include (i) WilTel's headquarters building (including the adjacent parking garage) located in Tulsa, Oklahoma, (ii) cash and cash equivalents in excess of $100,000,000, (iii) corporate aircraft and related capital lease obligations, and (iv) marketable securities. In addition, the Company retained all of WilTel's right to receive certain cash payments from AT&T Inc. (formerly SBC Communications Inc.) totaling $236,000,000, of which $37,500,000 was received prior to closing and the balance was received during 2006. Prior to the closing, WilTel repaid its long-term debt obligations using its funds, together with $220,000,000 of funds advanced by the Company. The retained liabilities also include WilTel's defined benefit pension plan and supplemental retirement plan obligation and certain other employee related liabilities. The agreement with Level 3 requires that all parties make the appropriate filings to treat the purchase of WilTel as a purchase of assets for federal, state and local income and franchise tax purposes. As a result, WilTel's net operating loss carryforwards ("NOLs"), as well as any tax losses generated by the sale, remained with the Company. For more information on the Company's NOLs, see Note 16.

The Company recorded a pre-tax gain on disposal of WilTel of $243,800,000 ($243,800,000 after tax). The calculation of the gain on sale included: (1) the cash proceeds received from Level 3, net of estimated working capital adjustments; (2) the fair value of the Level 3 common shares of $339,300,000, based on the $2.95 per share closing price of Level 3 common stock immediately prior to closing; (3) the amount of the AT&T cash payments that had not been previously accrued prior to closing ($175,900,000); (4) an impairment charge for WilTel's headquarters building described below; and (5) the net book value of the net assets sold and estimated expenses and other costs related to the transaction.

The Company concluded that the change in the use of WilTel's former headquarters facility to a property held for investment was a change in circumstances which indicated that the carrying amount of the facility might not be recoverable. On the closing date of the sale to Level 3, the carrying amount of the facility was $96,500,000; based on the assumptions discussed below the Company concluded that the carrying amount was not recoverable, and an impairment loss of $42,400,000 was recorded reducing the gain on disposal of discontinued operations.

The facility is a fifteen story, 740,000 square foot office building located in downtown Tulsa, Oklahoma for which construction was substantially completed in 2001, with a total of approximately 640,000 rentable square feet. Approximately 236,000 square feet of the rentable space is leased to various tenants under primarily short-term leases that expire at the end of 2008, subject to renewal options. The building is considered to be Class A office space, and the Company believes that the best value for the building would be obtained by selling the building to an owner/occupant. The facility is being marketed for sale at a gross selling price of $80,000,000, including furniture, fixtures and equipment.

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

5. Discontinued Operations, continued:
For the year ended December 31, 2006, gain on disposal of discontinued operations includes $2,400,000 of pre-tax gains ($1,500,000 after tax) principally for the resolution of certain sale-related contingencies and obligations and working capital adjustments related to WilTel.

Real Estate

In May 2005, the Company sold its 716-room Waikiki Beach hotel and related assets for an aggregate purchase price of $107,000,000, before closing costs and other required payments. After satisfaction of mortgage indebtedness on the hotel of $22,100,000 at closing, the Company received net cash proceeds of approximately $73,000,000, and recorded a pre-tax gain of $56,600,000 ($56,600,000 after tax) reflected in discontinued operations for the year ended December 31, 2005. Historical operating results for the hotel were not material.

In October 2004, the Company sold a commercial real estate property and classified it as a discontinued operation. During the second quarter of 2004, the Company recorded a non-cash charge of approximately $7,100,000 to reduce the carrying amount of this property to its estimated fair value. The Company recorded an additional pre-tax loss of $600,000 when the sale closed, resulting principally from mortgage prepayment penalties incurred upon satisfaction of the property's mortgage.

Other

Gain on disposal of discontinued operations for 2006 includes a pre-tax loss of $900,000 from the sale of the Company's gas properties during the third quarter. Income (loss) from discontinued operations for 2006 includes $2,900,000 of pre-tax losses related to these gas properties; amounts for the 2005 and 2004 periods were not material.

In 2006, the Company received $3,000,000 from a former insurance subsidiary which, for many years, has been undergoing liquidation proceedings controlled by state insurance regulators. The Company reflected the amount received as a gain on disposal of discontinued operations. For income tax purposes, the payment is treated as a non-taxable distribution paid by a subsidiary; as a result, no tax expense has been recorded.

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

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

During 2004, the Company recorded $2,200,000 as gain on disposal of discontinued operations (net of minority interest), which represented the estimated fair value of warrants whose vesting criteria became satisfied. These warrants had been received during 2003 as part of the sales proceeds from the discontinued operations of WebLink Wireless, Inc. The gain was not reduced for any federal income tax expense due to WebLink's large net operating loss carryforwards.

A summary of the results of discontinued operations is as follows for the three year period ended December 31, 2006 (in thousands):

5. Discontinued Operations, continued:

	2006	2005	2004
Revenues and other income:			
Telecommunications revenues	$118,987	$1,855,130	$1,582,948
Healthcare revenues	110,370	239,046	257,262
Investment and other income	2,790	116,006	42,404
Net securities gains	--	3,483	6,372
	232,147	2,213,665	1,888,986
Expenses:			
Telecommunications cost of sales	72,231	1,290,409	1,129,248
Healthcare cost of sales	95,628	203,149	216,333
Interest	1,321	30,389	36,612
Salaries	26,889	180,348	153,069
Depreciation and amortization	10,018	171,395	208,495
Selling, general and other expenses	29,888	222,679	205,037
	235,975	2,098,369	1,948,794
Income (loss) from discontinued operations before income taxes	(3,828)	115,296	(59,808)
Income tax provision (benefit)	132	(33)	352
Income (loss) from discontinued operations, net of taxes	$(3,960)	$115,329	$(60,160)

6. Investments:

A summary of investments classified as current assets at December 31, 2006 and 2005 is as follows (in thousands):

	2006		2005	
	Amortized Cost	Carrying Value and Estimated Fair Value	Amortized Cost	Carrying Value and Estimated Fair Value
Investments available for sale	$803,034	$809,927	$1,206,973	$1,206,195
Trading securities	79,526	80,321	103,978	105,541
Other investments, including accrued interest income	13,725	13,725	11,826	11,826
Total current investments	$896,285	$903,973	$1,322,777	$1,323,562