LEUCADIA NATIONAL CORP
Form 10-K405/A
February 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2000

or

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to ___________

Commission file number: 1-5721

LEUCADIA NATIONAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

NEW YORK	13-2615557
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

315 PARK AVENUE SOUTH
NEW YORK, NEW YORK 10010
(212) 460-1900

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
COMMON SHARES, PAR VALUE $1 PER SHARE	NEW YORK STOCK EXCHANGE PACIFIC STOCK EXCHANGE
7-3/4% SENIOR NOTES DUE AUGUST 15, 2013	NEW YORK STOCK EXCHANGE
8-1/4% SENIOR SUBORDINATED NOTES DUE JUNE 15, 2005	NEW YORK STOCK EXCHANGE
7-7/8% SENIOR SUBORDINATED NOTES DUE OCTOBER 15, 2006	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:
NONE.

(Title of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [x].

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at March 19, 2001 (computed by reference to the last reported closing sale price of the Common Stock on the New York Stock Exchange on such date): $1,141,411,973.

On March 19, 2001, the registrant had outstanding 55,296,728 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2001 annual meeting of shareholders of the registrant are incorporated by reference into Part III of this Report.

==

NY2:\1123718\01_32#01!.DOC\76830.0001

EXPLANATORY NOTE

This Report on Form 10-K/A amends and restates in their entirety the following Items of the Annual Report on Form 10-K of Leucadia National Corporation (the "Company") for the fiscal year ended December 31, 2000. Prior to the filing of this Report on Form 10-K/A, the Company filed Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2001, June 30, 2001 and September 30, 2001, as well as Current Reports on Form 8-K filed January 24, 2001, February 27, 2001, March 1, 2001, August 30, 2001, November 5, 2001 and February 8, 2002. All of these reports should be considered in connection with this Form 10-K/A.

PART I

Item 1. Business.

THE COMPANY

The Company is a diversified financial services holding company engaged through its subsidiaries in a variety of businesses, including commercial and personal lines of property and casualty insurance, banking and lending, manufacturing, winery operations, real estate activities and precious metals mining. The Company concentrates on return on investment and cash flow to build long-term shareholder value, rather than emphasizing volume or market share. Additionally, the Company continuously evaluates the retention and disposition of its existing operations and investigates possible acquisitions of new businesses in order to maximize shareholder value.

Shareholders' equity has grown from a deficit of $7,700,000 at December 31, 1978 (prior to the acquisition of a controlling interest in the Company by the Company's Chairman and President), to a positive shareholders' equity of $1,204,200,000 at December 31, 2000, equal to a book value per common share of the Company (a "Common Share") of negative $.11 at December 31, 1978 and $21.78 at December 31, 2000. The December 31, 2000 shareholders' equity and book value per share amounts have been reduced by the $811,900,000 cash dividend (the "Dividend") paid in 1999.

In February 2001, the Company, Berkshire Hathaway Inc., and Berkadia LLC, an entity jointly owned by the Company and Berkshire Hathaway, announced a commitment to lend $6,000,000,000 on a senior secured basis to FINOVA Capital Corporation, the principal operating subsidiary of The FINOVA Group Inc. ("FINOVA"), to facilitate a chapter 11 restructuring of the outstanding debt of FINOVA and its principal subsidiaries. FINOVA will pay certain fees to Berkadia in connection with this commitment, including a $60,000,000 commitment fee that was paid at the time of execution. The commitment is subject to, among other things, Berkadia's satisfaction with the restructuring plan for the FINOVA companies, and bankruptcy court and necessary creditor approvals. In connection with the commitment, the Company entered into a ten-year management agreement with FINOVA. For additional information concerning this possible transaction and the management agreement, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

In October 2000, the Company agreed to invest $75,000,000 in a new issue of convertible preference shares of White Mountains Insurance Group, Ltd. ("WMIG"), that is expected to represent approximately 4% of WMIG on an as converted basis. This investment is subject to the closing of an acquisition by WMIG of CGU Corporation, the U.S. property and casualty operations of CGNU plc, which, although subject to certain contingencies, currently is expected to occur during 2001. WMIG is a Bermuda-domiciled financial services holding company, principally engaged through its subsidiaries and affiliates in property and casualty insurance and reinsurance.

Primarily during 2000, the Company invested an aggregate of $89,000,000 in the common stock of Fidelity National Financial, Inc. ("FNF"), a publicly traded title insurance holding company. The Company sold its investment in FNF common stock for $179,900,000, resulting in a pre-tax gain of $90,900,000 primarily in the fourth quarter of 2000.

In January 2000, the Company sold its 10% equity interest in Jordan Telecommunication Products, Inc. ("JTP") for $27,300,000. The Company recorded a pre-tax gain of $24,800,000 in the year ended December 31, 2000. Further consideration of approximately $7,500,000 may be received in the future upon the

favorable resolution of certain contingencies.

During 2000, the Company invested $100,000,000 in the equity of a limited liability company, Jefferies Partners Opportunity Fund II, LLC ("JPOF II"), that is a registered broker-dealer. JPOF II is managed and controlled by Jefferies & Company, Inc., a full service investment bank to middle market companies. JPOF II invests in high yield securities, special situation investments and distressed securities and provides trading services to its customers and clients. For the year ended December 31, 2000, the Company recorded $17,300,000 of pre-tax income from this investment under the equity method of accounting.

At December 31, 1999, the Company had outstanding promissory notes from Conseco, Inc. in the principal amount of $250,000,000. During the third quarter of 2000, the entire principal amount and accrued interest then outstanding on these notes was repaid. In addition, the Company received $7,500,000 directly from Conseco, which constituted a prepayment penalty due under the terms of these notes.

In June 2000, the Company replaced its $100,000,000 unsecured bank credit facility with a new unsecured bank credit facility of $152,500,000, which bears interest based on the Eurocurrency Rate or the prime rate and matures in June 2003. At December 31, 2000, no amounts were outstanding under this bank credit facility.

The Company's insurance operations consist of commercial and personal property and casualty insurance primarily conducted through Empire Insurance Company ("Empire"), Allcity Insurance Company ("Allcity") and Centurion Insurance Company ("Centurion"). The Company's insurance operations have a diversified investment portfolio of securities, of which 71% are issued or guaranteed by the U.S. Treasury or by U.S. governmental agencies or are rated "investment grade" by Moody's Investors Service Inc. ("Moody's") and/or Standard & Poor's Corporation ("S&P").

The Company's banking and lending operations principally consist of making instalment loans to niche markets primarily funded by customer banking deposits insured by the Federal Deposit Insurance Corporation (the "FDIC"). The Company's principal lending activities consist of providing collateralized personal automobile loans to individuals with poor credit histories.

The Company's manufacturing operations manufacture and market lightweight plastic netting used for a variety of purposes including, among other things, construction, agriculture, packaging, carpet padding, filtration and consumer products.

The Company's foreign real estate operations are conducted through Compagnie Fonciere FIDEI ("Fidei"), a French company whose bonds are listed on the Paris Stock Exchange. The Company's domestic real estate operations consist of office buildings, residential land development projects and other unimproved land, all in various stages of development and available for sale.

The Company's winery operations consist of its 90% interest in Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon. These wineries produce and sell super-ultra-premium wines.

The Company's precious metals mining operations consist of its 72.9% interest in MK Gold Company ("MK Gold").

As used herein, the term "Company" refers to Leucadia National

Corporation, a New York corporation organized in 1968, and its subsidiaries, except as the context otherwise may require.

FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company's reportable segments consist of its operating units, which offer different products and services and are managed separately. These reportable segments are: property and casualty insurance, banking and lending, foreign real estate, manufacturing and other operations. Property and casualty insurance operations have historically provided commercial and personal lines of insurance in the New York metropolitan area. Banking and lending operations principally make collateralized personal automobile instalment loans to individuals who have difficulty obtaining credit, at interest rates above those charged to individuals with good credit histories. Such loans are primarily funded by deposits insured by the FDIC. Foreign real estate consists of the operations of Fidei in France. Manufacturing operations manufacture and market proprietary plastic netting used for a variety of purposes. Other operations primarily consist of domestic real estate activities, winery operations and precious metals mining operations. Associated companies primarily include equity interests in entities that the Company does not control and that are accounted for on the equity method of accounting. The information in the following table for Corporate assets primarily consists of investments, notes receivable from the sale of certain businesses and cash and cash equivalents. Corporate revenues listed below primarily consist of investment income and securities gains and losses on Corporate assets. Corporate assets, revenues, overhead expenses and interest expense are not allocated to the operating units. In addition to the Company's foreign real estate operations, the Company has an interest, through MK Gold, in exploration and mining rights in Spain. The Company does not have any other material foreign operations and investments.

Certain information concerning the Company's segments for 2000, 1999 and 1998 is presented in the following table.

	2000	1999	19
		(In millions)	
REVENUES:			
Property and Casualty Insurance	$144.5	$185.3	$2
Banking and Lending	108.8	59.0	
Foreign Real Estate	49.2	65.0	
Manufacturing	65.1	64.0	
Other Operations (a)	127.1	238.4	
Total revenue for reportable segments	494.7	611.7	4
Equity in Associated Companies	29.3	(2.9)	
Corporate (b)	191.5	97.8	
Total consolidated revenues	$715.5	$706.6	$5

	2000	1999
		(In millions
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY EXPENSE OF TRUST PREFERRED SECURITIES AND EXTRAORDINARY GAIN (LOSS):		
Property and Casualty Insurance	$ (59.4)	$ (22.4)
Banking and Lending	11.0	12.7
Foreign Real Estate	22.9	31.8
Manufacturing	11.3	11.9
Other Operations (a)	63.4	198.9
Total income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary gain (loss) for reportable segments	49.2	232.9
Equity in Associated Companies	29.3	(2.9)
Corporate (b)	114.8	13.5
Total consolidated income (loss) from continuing operations before income taxes, minority expense of trust preferred securities and extraordinary gain (loss)	$ 193.3	$ 243.5
IDENTIFIABLE ASSETS EMPLOYED:		
Property and Casualty Insurance	$ 643.4	$ 803.9
Banking and Lending	664.1	467.1
Foreign Real Estate	254.7	276.7
Manufacturing	63.4	42.9
Other Operations	380.1	416.5
Total assets of reportable segments	2,005.7	2,007.1
Investments in Associated Companies	192.5	74.0
Net Assets of Discontinued Operations	-	-
Corporate	945.4	989.1
Total consolidated assets	$3,143.6	$3,070.2

(a) For 1999, includes pre-tax gains on sale of Caja de Ahorro y Seguro S.A. ("Caja"), The Sperry & Hutchinson Company, Inc. and its Russian joint venture with PepsiCo, Inc. ("PIB"), as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

(b) For 2000, includes pre-tax securities gains on sale of FNF and JTP, and for 1998, includes pre-tax securities losses relating to the writedown of investments in Russian and Polish securities, as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

At December 31, 2000, the Company and its consolidated subsidiaries had 1,383 full-time employees.

PROPERTY AND CASUALTY INSURANCE

General

The Company's principal property and casualty insurance operations are conducted through the Empire Group, which consists of Empire, Allcity and Centurion. During the past several years, the Empire Group has experienced poor underwriting results and adverse reserve development in all of its lines of business. The Empire Group has responded to these developments by raising premium rates and reducing the volume of unprofitable business, while at the same time attempting to reduce its overhead.

Effective January 1, 2000, all assigned risk policy renewal obligations were assigned to another insurance company. In 1999, a determination was made not to accept any applications for new private passenger automobile business from certain agents with the highest loss ratios. During the fourth quarter of 2000, this determination was extended to include the entire agency force. Existing policies of private passenger automobile insurance will be either sold, non-renewed or cancelled in accordance with New York insurance law. If this book of business is not sold, it is expected that the Empire Group will continue to issue renewal policies over the next several years as required by applicable insurance law. The Empire Group also announced that all statutory automobile policies (public livery vehicles) would be non-renewed effective March 1, 2001 due to poor underwriting results.

On March 1, 2001, the Empire Group announced that, effective immediately, it would no longer issue any new (as compared to renewal) insurance policies in any lines of business and that it filed plans of orderly withdrawal with the New York Insurance Department as required. Existing commercial lines policies will be non-renewed or canceled in accordance with New York insurance law or replaced by Tower Insurance Company of New York or Tower Risk Management (collectively, "Tower") under an agreement for the sale of the Empire Group's renewal rights (the "Tower Agreement"). Under the Tower Agreement, Tower will buy the renewal rights for substantially all of the Empire Group's remaining lines of business, excluding private passenger automobile and commercial automobile/garage, for a fee based on the direct written premium actually renewed by Tower. The amount of the fee is not expected to be material. The Empire Group will continue to be responsible for the remaining term of its existing policies and all claims incurred prior to the expiration of these policies. For commercial lines, the Empire Group will thereafter have no renewal obligations for those policies. Under New York insurance law, the Empire Group is obligated to offer renewals of homeowners, dwelling fire, personal insurance coverage and personal umbrella for a three-year policy period; however, the Tower Agreement provides that Tower must offer replacements for these policies. The closing of the transaction is subject to the approval of the New York Insurance Department.

Certain of the lines of business included in the agreement with Tower historically had acceptable loss ratios. However, despite repeated attempts, the Empire Group has not been able to reduce its expenses sufficiently to be profitable with its reduced volume of business. This has been due in part to information systems and a personnel infrastructure built to service multiple lines of property and casualty business, where the costs are more fixed than variable in nature, and a high cost agency distribution channel. An additional investment of both capital and management would have been required to attempt to reduce the Empire Group's cost structure to a level commensurate with its book of business. In weighing the potential returns against the risks inherent in that strategy, the Empire Group determined not to make the investment.

The Empire Group is currently exploring its options for the future. Assuming the Tower Agreement is consummated, the Empire Group will only have

renewal obligations for remaining personal lines insurance (primarily automobile) not replaced by Tower, the remaining policy term of all existing policies and a claim run-off operation. The Empire Group may commence new property and casualty insurance operations if a new business model with an acceptable expense structure can be developed, enter into a joint venture with another property and casualty insurance operation, explore entering the claim services business or commence a liquidation. There may be other options that the Company will explore, but no assurance can be given at this time as to what the ultimate plan will be.

6

As of March 3, 2001, the Empire Group was rated "B+" (very good) by A.M. Best Company ("Best") and rated "BB-" (marginal) by S&P. Should the Empire Group decide to commence new property and casualty insurance operations or enter into an insurance joint venture, its existing ratings may affect its ability to pursue its plans. As with all ratings, Best and S&P ratings are subject to change at any time.

For the years ended December 31, 2000, 1999 and 1998, net earned premiums for the Empire Group were $108,500,000, $145,200,000 and $228,600,000, respectively. During the year ended December 31, 2000, 4% of net earned premiums of the Empire Group were derived from assigned risk business, 22% from commercial automobile lines, 39% from other commercial lines and 35% from personal lines. Substantially all of the Empire Group's policies are written in New York for a one-year period. The Empire Group is licensed in New York to write most lines of insurance that may be written by a property and casualty insurer. The Empire Group is also licensed to write insurance in Connecticut, Massachusetts, Missouri, New Hampshire and New Jersey.

On a quarterly basis, the Empire Group reviews and adjusts its estimated loss reserves for any changes in trends and actual loss experience. Included in the Empire Group's results for 2000 was $53,000,000 related to losses and loss adjustment expenses ("LAE") from prior accident years. The Empire Group will continue to evaluate the adequacy of its loss reserves and record future adjustments to its loss reserves as appropriate.

Set forth below is certain statistical information for the Empire Group prepared in accordance with generally accepted accounting principles ("GAAP") and statutory accounting principles ("SAP"). The Loss Ratio is the ratio of net incurred losses and loss adjustment expenses to net premiums earned. The Expense Ratio is the ratio of underwriting expenses (policy acquisition costs, commissions, and a portion of administrative, general and other expenses attributable to underwriting operations) to net premiums written, if determined in accordance with SAP, or to net premiums earned, if determined in accordance with GAAP. A Combined Ratio below 100% indicates an underwriting profit and a Combined Ratio above 100% indicates an underwriting loss. The Combined Ratio does not include the effect of investment income.

	Year Ended December 31,		
	2000	1999	1998
Loss Ratio:			
GAAP	138.8%	98.5%	102.6%
SAP	138.8%	98.5%	102.6%
Industry (SAP) (a)	N/A	78.8%	76.5%
Expense Ratio:			
GAAP	48.4%	39.9%	26.7%

SAP	50.6%	44.8%	31.4%
Industry (SAP) (a)	N/A	29.3%	29.5%
Combined Ratio (b):			
GAAP	187.2%	138.4%	129.3%
SAP	189.4%	143.3%	134.0%
Industry (SAP) (a)	N/A	108.1%	106.0%

(a) Source: Best's Aggregates & Averages, Property/Casualty, 2000 Edition. Industry Combined Ratios may not be fully comparable as a result of, among other things, differences in geographical concentration and in the mix of property and casualty insurance products.

(b) For 1998, the difference in the accounting treatment for curtailment gains relating to defined benefit pension plans was the principal reason for the difference between the GAAP Combined Ratio and the SAP Combined Ratio. Additionally for all three years, the difference relates to the accounting

for certain costs which are treated differently under SAP and GAAP. For further information about the Empire Group's Combined Ratios, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

Losses and Loss Adjustment Expenses

Liabilities for unpaid losses, which are not discounted (except for certain workers' compensation liabilities), and LAE are determined using case-basis evaluations, statistical analyses and estimates for salvage and subrogation recoverable and represent estimates of the ultimate claim costs of all unpaid losses and LAE. Liabilities include a provision for losses that have occurred but have not yet been reported. These estimates are subject to the effect of trends in future claim severity and frequency experience. Adjustments to such estimates are made from time to time due to changes in such trends as well as changes in actual loss experience. These adjustments are reflected in current earnings.

The Empire Group relies upon standard actuarial ultimate loss projection techniques to obtain estimates of liabilities for losses and LAE. These projections include the extrapolation of both losses paid and incurred by business line and accident year and implicitly consider the impact of inflation and claims settlement patterns upon ultimate claim costs based upon historical patterns. In addition, methods based upon average loss costs, reported claim counts and pure premiums are reviewed in order to obtain a range of estimates for setting the reserve levels. For further input, changes in operations in pertinent areas including underwriting standards, product mix, claims management and legal climate are periodically reviewed.

In the following table, the liability for losses and LAE of the Empire Group is reconciled for each of the three years ended December 31, 2000. Included therein are current year data and prior year development.

RECONCILIATION OF LIABILITY FOR LOSSES AND
LOSS ADJUSTMENT EXPENSES

	2000	1999
		(In thousan
Net SAP liability for losses and LAE at beginning of year	$381,550	$469,318
Provision for losses and LAE for claims occurring in the current year	97,089	124,172
Increase in estimated losses and LAE for claims occurring in prior years	52,977	18,255
Total incurred losses and LAE	150,066	142,427
Losses and LAE payments for claims occurring during:		
Current year	31,023	41,955
Prior years	177,607	188,240
	208,630	230,195
Net SAP liability for losses and LAE at end of year	322,986	381,550
Reinsurance recoverable	42,972	61,492
Liability for losses and LAE at end of year as reported in financial statements (GAAP)	$365,958	$443,042

8

The following table presents the development of balance sheet liabilities from 1990 through 2000 for the Empire Group. The liability line at the top of the table indicates the estimated liability for unpaid losses and LAE recorded as of the dates indicated. The middle section of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. As more information becomes available and claims are settled, the estimated liabilities are adjusted upward or downward with the effect of decreasing or increasing net income at the time of adjustment. The lower section of the table shows the cumulative amount paid with respect to the previously recorded liability as of the end of each succeeding year.

The "cumulative deficiency" represents the aggregate change in the estimates over all prior years. For example, the initial 1990 liability estimate indicated on the table of $251,401,000 has been re-estimated during the course of the succeeding ten years, resulting in a re-estimated liability at December 31, 2000 of $282,476,000 or a deficiency of $31,075,000. If the re-estimated liability were less than the liability initially established, a cumulative redundancy would be indicated.

In evaluating this information, it should be noted that each amount shown for "cumulative deficiency" includes the effects of all changes in amounts for prior periods. For example, the amount of the deficiency related to losses settled in 1994, but incurred in 1990, will be included in the cumulative deficiency amount for 1990, 1991, 1992 and 1993. This table is not intended to and does not present accident or policy year loss and LAE development data.

Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it would not be appropriate to extrapolate future redundancies or deficiencies based on this table.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT

	Year Ended December 31,						
	1990	1991	1992	1993	1994	1995	1996
	(In thousands)						
Liability for Unpaid Losses and Loss Adjustment Expenses	$ 251,401	$ 280,679	$ 322,516	$ 353,917	$ 406,695	$ 476,692	$ 481,138
Liability Re-estimated as of:							
One Year Later	$ 249,492	$ 280,020	$ 321,954	$ 344,156	$ 441,165	$ 504,875	$ 508,165
Two Years Later	245,141	277,866	324,262	374,158	467,659	537,372	546,724
Three Years Later	243,849	284,052	345,576	394,418	500,286	577,266	599,015
Four Years Later	247,314	296,484	361,903	415,251	534,014	609,425	617,755
Five Years Later	255,045	306,094	377,097	442,696	556,072	613,371	
Six Years Later	260,031	316,887	395,291	459,573	555,215		
Seven Years Later	265,525	330,866	406,188	458,872			
Eight Years Later	277,626	337,660	405,068				
Nine Years Later	281,995	336,883					
Ten Years Later	282,476						
Cumulative Deficiency	$ (31,075)	$(56,204)	$(82,552)	$(104,955)	$(148,520)	$(136,679)	$(136,617)
Cumulative Amount of Liability Paid Through:							
One Year Later	$ 78,954	$ 89,559	$ 113,226	$ 116,986	$ 152,904	$ 202,334	$ 189,308
Two Years Later	126,908	150,043	182,250	199,214	270,020	318,693	314,755
Three Years Later	167,330	197,848	239,092	272,513	353,649	407,833	410,631
Four Years Later	196,099	233,244	285,880	326,637	415,919	472,384	490,591
Five Years Later	216,749	259,946	320,044	363,873	456,410	521,689	
Six Years Later	231,892	279,682	341,636	390,027	488,197		
Seven Years Later	242,275	293,860	357,735	410,323			
Eight Years Later	253,104	304,610	370,559				
Nine Years Later	260,340	312,924					
Ten Years Later	266,193						

Net Liability - End of Year	$ 353,917	$ 406,695	$ 476,692	$ 481,138
Reinsurance	37,912	44,747	40,730	51,181
Gross Liability - End of Year	$ 391,829	$ 451,442	$ 517,422	$ 532,319
Net Re-estimated Liability - Latest	$ 458,872	$ 555,215	$ 613,371	$ 617,755
Re-estimated Reinsurance - Latest	71,030	72,657	71,479	77,151
Gross Re-estimated Liability - Latest	$ 529,902	$ 627,872	$ 684,850	$ 694,906
Gross Cumulative Deficiency	$(138,073)	$(176,430)	$(167,428)	$(162,587)

Table continued....

	Year Ended December 31,			
	1997	1998	1999	2000
	(In thousands)			
Liability for Unpaid Losses and Loss Adjustment Expenses	$ 487,116	$ 469,318	$ 381,550	$ 322,986
Liability Re-estimated as of:				
One Year Later	$ 529,406	$ 487,573	$ 434,527	$ -
Two Years Later	546,643	544,219		
Three Years Later	591,078			
Four Years Later				
Five Years Later				
Six Years Later				
Seven Years Later				
Eight Years Later				
Nine Years Later				
Ten Years Later				
Cumulative Deficiency	$(103,962)	$ (74,901)	$ (52,977)	$ -
Cumulative Amount of Liability Paid Through:				
One Year Later	$ 186,831	$ 188,240	$ 177,607	$ -
Two Years Later	313,040	327,322		
Three Years Later	422,053			
Four Years Later				
Five Years Later				
Six Years Later				
Seven Years Later				
Eight Years Later				
Nine Years Later				

Ten Years Later				
Net Liability - End of Year	$ 487,116	$ 469,318	$ 381,550	$ 322,986
Reinsurance	58,592	72,956	61,492	42,972
Gross Liability - End of Year	$ 545,708	$ 542,274	$ 443,042	$ 365,958
Net Re-estimated Liability - Latest	$ 591,078	$ 544,219	$ 434,527	
Re-estimated Reinsurance - Latest	63,269	78,954	58,916	
Gross Re-estimated Liability - Latest	$ 654,347	$ 623,173	$ 493,443	
Gross Cumulative Deficiency	$(108,639)	$ (80,899)	$ (50,401)	

As reflected in the above table, the Empire Group's reported loss and loss adjustment expense reserves as of the end of each calendar year were subsequently determined to be deficient. This adverse development first became apparent to the Empire Group during the 1995 calendar year, when an increase to prior years' reserves was recorded for the first time. In each subsequent calendar year, the Empire Group's recalculation of the reserve balances for prior periods continued to result in higher reserve estimates. These higher reserve estimates were reflected in the Empire Group's annual financial statements upon determination.

During the period from 1991 through 2000, the Empire Group recorded in its Statements of Operations total net adverse reserve development of $190,311,000, as disclosed in the Reconciliation of Liability for Losses and LAE table for such years. This adverse development was experienced in substantially all of the Empire Group's lines of insurance; however, the amount of reserve increases and the periods in which the reserves were recorded were not the same for all lines of insurance. On a calendar year basis, the aggregate $190,311,000 adverse reserve development was recorded, as set forth in the table below:

Calendar year recorded	Redundancy/ (Deficiency) (in thousands)
1991	$ 1,909
1992	659
1993	562
1994	9,761
1995	(34,470)
1996	(28,183)
1997	(27,027)
1998	(42,290)
1999	(18,255)
2000	(52,977)

Prior year reserve development recorded 1991 to 2000	$(190,311)

This reserve development is reflected in the ten-year Analysis of Loss and Loss Adjustment Expense Development table above; however, because the deficiency line in the table is calculated on a cumulative basis, the $190,311,000 of actual adverse reserve development experienced by the Company is reported as deficiencies in multiple years in the table. An examination of the adverse loss reserve development recorded during 2000 will illustrate this point. During 2000 the Empire Group recorded $52,977,000 of adverse loss reserve development related to claims incurred in years prior to 2000. This amount is reflected in the 1999 column of the table as a cumulative deficiency. However, since this adverse loss reserve development related to claims incurred and whose settlement cost was originally estimated in various periods prior to 2000, the cumulative deficiency line in years prior to 2000 includes this adverse loss reserve development as follows: 1999: $52,977,000; 1998: $56,646,000; 1997: $44,435,000; 1996: $18,740,000; and 1995: $3,946,000 (amounts prior to 1995 were insignificant). Because the cumulative deficiencies reflected in the ten-year Analysis of Loss and Loss Adjustment Expense Development table above add up to a much greater number than the actual adverse development recorded by the Empire Group, an understanding of the Empire Group's reserve deficiencies during 1990-1999 can only be obtained from an analysis of the adverse reserve development actually recorded by the Empire Group in its financial statements in each year in the period, beginning in 1995 (the first year in which adverse reserve development was recorded).

11

The information below identifies certain of the more significant trends and events that the Empire Group has experienced in recent years, resulting in the Empire Group's recognition of the adverse loss reserve development in 1995 and each subsequent calendar year. As described below, the reserve development recorded by the Empire Group was caused by many factors, including initial loss ratio estimates used by the Empire Group that were subsequently found to be too low as a result of actual loss experience, as well as factors external to the Empire Group that weren't known at the time business was written. In addition, the long period of time it takes to settle third-party liability claims in the New York City marketplace further complicates the reserve estimation process. Frequently, these claims are not received immediately after the accident occurs, and in fact, a claimant can wait until just before the expiration of the statute of limitations (three years from the date of the accident) to make a claim. Once received, a claim may take several years until the claim reaches final resolution in the New York City courts.

1995

In 1995, of the $34,470,000 of adverse loss reserve development recorded by the Empire Group, $23,000,000 was in the private passenger automobile line of insurance. In 1994, the Empire Group acquired a large block of assigned risk private passenger automobile business that nearly doubled the volume previously written by the Empire Group. In 1995, losses began to develop in this line of insurance that indicated a higher ultimate loss ratio than the Empire Group had experienced on similar blocks of assigned risk business from earlier periods, which experience formed the basis of the Empire Group's original loss estimate. As a result, the Empire Group increased its estimate for loss reserves for the assigned risk business acquired in 1994 and earlier years.

1996, 1997 and 1998

For the years ended December 31, 1996, 1997, and 1998, the Empire Group recorded adverse loss reserve development of $28,183,000, $27,027,000 and $42,290,000, respectively. For 1996, 1997 and 1998, these amounts included $20,000,000, $7,000,000 and $14,000,000, respectively, in the commercial automobile liability line, and $8,000,000, $11,000,000 and $14,000,000, respectively, in the commercial package liability line. Beginning in 1992, the Empire Group entered into new market segments of the voluntary commercial business for automobile and general liability lines, including specialty programs for sanitation trucks, gas stations, fuel oil deliveries and limousines. Initially, the Empire Group's loss ratio estimate for these new market segments was based upon its experience with similar lines of business and standard actuarial ultimate loss projection techniques, which consider expected loss ratios.

During 1996, claims began to develop unfavorably and the Empire Group used such claim development to revise the assumptions that had formed the basis of its actuarial studies; as a consequence reserves were increased. The increase in ultimate loss estimates did not become apparent prior to 1996, primarily due to the long period of time it takes to settle claims in these new sub-lines of business. The Empire Group further increased its loss estimates and increased reserves for these market segments in 1997 and 1998 as well. Except for the three-year period from 1996 to 1998, there has been no other material development for these market segments first entered into in 1992.

In addition, during 1998 the Empire Group's claim examiners began recording increases in the expected settlement costs for 1997 accident year claims in other sub-lines of the commercial automobile line of insurance in larger amounts than previously expected. As a result, the 1997 accident year loss ratio for the commercial automobile line is now currently estimated to be 130%, which is 30 points higher than the current estimate for the 1996 accident year and 50 points higher than the current estimate for the 1995 accident year. Such a large change in the loss experience for this book of business from prior experience was not expected.

1999 and 2000

In 1999 and 2000, the Empire Group recorded adverse loss reserve development of $18,255,000 and $52,977,000, respectively, of which $17,000,000 and $20,200,000, respectively, related to Personal Injury Protection ("PIP") coverage in all of its automobile lines of insurance. The majority of the 1999 development resulted from increased claim cost estimates for the 1998 accident year. It was during 1999 that the Empire Group first began to experience greater severity (the amount paid to a claimant) in automobile liability claims, which

were subsequently determined to be PIP related. Also during 1999, the Empire Group started to see the lengthening of the time from the date of loss to the date a claim was first reported. This change in loss development patterns resulted in more claims being reported at later dates, which further increased the Empire Group's loss estimates. In 1999, the Empire Group incorporated this developing trend into its ultimate loss estimate for PIP related claims and increased its loss reserves accordingly.

During the latter half of 2000, and in particular, the fourth quarter, the Empire Group experienced further unfavorable development in PIP claims. This development occurred in all accident years from 1996 through 1999, with further deterioration in the 1998 accident year being the most significant component.

The Empire Group observed this unfavorable development with respect to both the frequency and severity of claims. The Empire Group incorporated the results of this activity with that of developing industry trends into its actuarial valuation for its PIP coverage and increased its loss reserve estimate.

In the past, the Empire Group has written various commercial package and homeowner policies that offer liability protection to the insured, and has exposure to third party liability claims in these lines of insurance. During 2000, the Empire Group experienced newly reported and reopened liability claims with increased severity for accident years 1998 and prior. As a result, the Empire Group recognized $15,000,000 of loss reserve development for those accident years. One of the primary reasons for the reopened claims was that the increase in severity made certain types of liability claims that previously had lower settlement values more attractive litigation candidates for plaintiff's attorneys.

Throughout 2000, the Empire Group outsourced a significant portion of its claim handling responsibilities to outside third party claim administrators. While the Empire Group anticipates that these administrators will be able to settle these claims for smaller amounts than the Empire Group was achieving, the loss adjustment expense reserve needed to be increased to recognize the fees due to the administrators. Such fees are higher on a per claim basis than the Empire Group's cost to handle claims in-house. Accordingly, in 2000 the adverse loss reserve development recorded by the Empire Group included an increase to the loss adjustment expense reserve of $11,000,000. The Empire Group has not recognized any reserve reduction for the potentially lower settlement amounts that may be achieved by the third party administrators.

For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere herein.

Investments

Investment activities represent a significant part of the Company's insurance related revenues and profitability. Investments are managed by the Company's investment advisors under the direction of, and upon consultation with, the Company's investment committees.

The Company's insurance subsidiaries have a diversified investment portfolio of securities, a substantial portion of which is rated "investment grade" by Moody's and/or S&P or issued or guaranteed by the U.S. Treasury or by governmental agencies. The Company's insurance subsidiaries do not generally invest in less than "investment grade" or "non-rated" securities, real estate or mortgages, although from time to time they may make such investments.

13

The composition of the Company's insurance subsidiaries' investment portfolio as of December 31, 2000 and 1999 was as follows:

	2000	1999
	(Dollars in thousands)	
Bonds and notes:		
U.S. Government and agencies	44%	60%
Rated investment grade	27	15
Non rated - other	-	2
Rated less than investment grade	5	3
Equity securities, primarily preferred	15	15

Other	9	5
Total	100%	100%
Estimated average yield to maturity of bonds and notes (a)	6.6%	6.8%
Estimated average remaining life of bonds and notes (a)	2.4 yrs.	2.7 yrs.
Carrying value of investment portfolio	$421,114	$584,906
Market value of investment portfolio	$421,252	$584,788

(a) Excludes trading securities, which are not significant.

Reinsurance

The Empire Group's maximum retained limit for all lines of business was $300,000 for 2000 and 1999. The Empire Group's maximum retained limit for 1998 was $500,000 for workers' compensation and $300,000 for other property and casualty lines. Additionally, the Empire Group has entered into a property catastrophe excess of loss treaty to protect against certain losses. The Empire Group's retention of lower level losses in this treaty is $7,500,000 for 2001 and was $7,500,000 for 2000, 1999 and 1998.

Although reinsurance does not legally discharge an insurer from its primary liability for the full amount of the policy liability, it does make the assuming reinsurer liable to the insurer to the extent of the reinsurance ceded. The Company's reinsurance generally has been placed with certain of the largest reinsurance companies, including (with their respective Best ratings) General Reinsurance Corporation (A++) and Zurich Reinsurance (NA), Inc. (A+). The Company believes its reinsurers to be financially capable of meeting their respective obligations. However, to the extent that any reinsuring company is unable to meet its obligations, the Company's insurance subsidiaries would be liable for the reinsured risks. The Company has established reserves, which the Company believes are adequate, for any nonrecoverable reinsurance.

Competition

The insurance industry is a highly competitive industry, in which many of the Company's competitors have substantially greater financial resources, larger sales forces, more widespread agency and broker relationships, endorsements from affinity groups and more diversified lines of insurance coverage. Additionally, federal administrative, legislative and judicial activity has resulted in changes to federal banking laws that increase the ability of national banks to offer insurance products.

14

The Company believes that property and casualty insurers generally compete on the basis of price, customer service, consumer recognition, product design, product mix and financial stability. The industry has historically been cyclical in nature, with periods of less intense price competition generating significant profits, followed by periods of increased price competition resulting in reduced profitability or loss. The current cycle of intense price competition has continued for a longer period than in the past, suggesting that the significant infusion of capital into the industry in recent years, coupled with larger investment returns has been, and may continue to be, a depressing influence on policy rates. The profitability of the property and casualty insurance industry is affected by many factors, including rate competition, severity and frequency of claims (including catastrophe losses), interest rates,

state regulation, court decisions and judicial climate, all of which are outside the Company's control.

Government Regulation

Insurance companies are subject to detailed regulation and supervision in the states in which they transact business. Such regulation pertains to matters such as approving policy forms and various premium rates, minimum reserves and loss ratio requirements, the type and amount of investments, minimum capital and surplus requirements, granting and revoking licenses to transact business, levels of operations and regulating trade practices. Insurance companies are required to file detailed annual reports with the supervisory agencies in each of the states in which they do business, and are subject to examination by such agencies at any time. Increased regulation of insurance companies at the state level and new regulation at the federal level is possible, although the Company cannot predict the nature or extent of any such regulation or what impact it would have on the Company's operations.

The National Association of Insurance Commissioners ("NAIC") has adopted model laws incorporating the concept of a "risk based capital" ("RBC") requirement for insurance companies. Generally, the RBC formula is designed to measure the adequacy of an insurer's statutory capital in relation to the risks inherent in its business. The RBC formula is used by the states as an early warning tool to identify weakly capitalized companies for the purpose of initiating regulatory action. Although New York State has not adopted the RBC requirements for property and casualty insurance companies, New York does require that property and casualty insurers file the RBC information with the New York Department of Insurance. The NAIC also has adopted various ratios for insurance companies which, in addition to the RBC ratio, are designed to serve as a tool to assist state regulators in screening and analyzing the financial condition of insurance companies operating in their respective states. The Company's insurance operations had certain NAIC ratios outside of the acceptable range of results for the year ended December 31, 2000. Although no assurance can be given, the Company believes that it is unlikely that material adverse regulatory action will be taken.

The Company's insurance subsidiaries are members of state insurance funds which provide certain protection to policyholders of insolvent insurers doing business in those states. Due to insolvencies of certain insurers, the Company's insurance subsidiaries have been assessed certain amounts which have not been material and are likely to be assessed additional amounts by state insurance funds. The Company believes that it has provided for all anticipated assessments and that any additional assessments will not have a material adverse effect on the Company's financial condition or results of operations.

BANKING AND LENDING

The Company's banking and lending operations principally are conducted through American Investment Bank, N.A. ("AIB"), a national bank subsidiary, and American Investment Financial ("AIF"), an industrial loan corporation. AIB and AIF take money market and other non-demand deposits that are eligible for insurance provided by the FDIC. AIB and AIF had deposits of $526,200,000 and $329,300,000 at December 31, 2000 and 1999, respectively. AIB and AIF currently have several deposit-taking and lending facilities in the Salt Lake City area, which have generated approximately one-half of their deposit balances. The

remainder of the Company's deposits were generated by various brokers. Deposits are primarily used to fund consumer instalment loans.

The Company's consolidated banking and lending operations had outstanding loans (net of unearned finance charges) of $515,800,000 and $339,800,000 at December 31, 2000 and 1999, respectively. At December 31, 2000, 80% were loans to individuals generally collateralized by automobiles; 16% were loans to consumers, substantially all of which were collateralized by real or personal property; 1% were unsecured loans to executives and professionals, generally with good credit histories; and 3% were loans to small businesses.

Collateralized personal automobile instalment loans are primarily made through automobile dealerships to individuals who have difficulty obtaining credit, at interest rates above those charged to individuals with good credit histories. These loans are made to consumers principally to purchase used, moderately priced automobiles. In 2000, the average initial loan balance was $12,150 and provided the Company with a yield of 21.4%. The contractual maturity for automobile loans originated in 2000 was 58 months, with an anticipated average life of 26 months. The Company currently generates automobile loans in 31 states through non-exclusive relationships with dealers, with no individual state or dealership representing a significant portion of the Company's loan volume. In determining which individuals qualify for these loans, the Company takes into account a number of highly selective criteria with respect to the individual, as well as the collateral, to attempt to minimize the number of defaults. The Company closely monitors these loans and takes prompt possession of the collateral in the event of a default. For the three year period ended December 31, 2000, the Company generated $489,300,000 of these loans ($271,900,000 during 2000). Such amounts exclude purchased portfolios of $1,000,000 in 2000, $67,900,000 in 1999 and $36,900,000 in 1998. The Company intends to continue to acquire additional portfolios of loans that meet the Company's underwriting standards if they can be purchased on attractive terms. Such purchases would enable the Company to spread its existing infrastructure and overhead costs over a larger asset base.

It is the Company's policy to charge to income an allowance for losses which, based upon management's analysis of numerous factors, including current economic trends, aging of the loan portfolio and historical loss experience, is deemed adequate to cover reasonably expected losses on outstanding loans. At December 31, 2000, the allowance for loan losses for the Company's entire loan portfolio was $27,400,000 or 5.3% of the net outstanding loans, compared to $17,000,000 or 5.0% of net outstanding loans at December 31, 1999.

The Company's policy is to charge-off an account when the automobile securing the delinquent loan is repossessed, which generally occurs when the loan is 60 days delinquent. Otherwise, the Company charges off the account due to the customer's bankruptcy and in no event later than the month in which it becomes 120 days delinquent. The charge-off represents the difference between the net realizable value of the automobile and the amount of the delinquent loan, including accrued interest. During 2000, and particularly in the latter half of the year, the Company experienced an increase in loan losses. This increase primarily is attributable to the subprime automobile portfolio purchased in 1999 from Tranex Credit Corp. ("Tranex"), for which the actual collection experience was less than expected, a larger amount of loans outstanding, including the Tranex purchased portfolio, that are reaching the age of peak losses, generally twelve to eighteen months after origination, and an increase in loan originations. In addition, the Company believes that a weaker economy has contributed to its loan losses. In an effort to reduce losses, the Company plans to exit certain states and dealer relationships with historically higher losses. Because these actions will reduce the volume of new loans generated, the Company has closed its underwriting activities in Indianapolis and consolidated underwriting in Salt Lake City.

Certain information with respect to the Company's banking and lending segment is as follows for the years ended December 31, 2000, 1999 and 1998

(dollars in thousands):

	2000	1999	1998
Average loans outstanding	$ 423,030	$ 238,561	$ 148,713
Interest income earned on loans	$ 87,865	$ 49,891	$ 29,717
Average loan yield	20.8%	20.9%	20.0%
Average deposits outstanding	$ 422,607	$ 239,786	$ 195,601
Interest expense on non-demand deposits	$ 26,421	$ 12,688	$ 11,202
Average rate on non-demand deposits	6.3%	5.3%	5.7%
Net yield on interest-bearing assets	13.1%	13.4%	9.7%

Investments held by the banking and lending segment are primarily comprised of short-term bonds and notes of the United States Government and its agencies.

The Company's banking and lending operations compete with banks, savings and loan associations, credit unions, credit card issuers and consumer finance companies, many of which are able to offer financial services on very competitive terms. Additionally, substantial national financial services networks have been formed by major brokerage firms, insurance companies, retailers and bank holding companies. Some competitors have substantial local market positions; others are part of large, diversified organizations.

The Company's principal banking and lending operations are subject to detailed supervision by state authorities, as well as federal regulation pursuant to the Federal Consumer Credit Protection Act, the Truth in Lending Act, the Equal Credit Opportunity Act, the Right to Financial Privacy Act, the Community Reinvestment Act, the Fair Credit Reporting Act and regulations promulgated by the Federal Trade Commission. The Company's banking operations are subject to federal and state regulation and supervision by, among others, the Office of the Comptroller of the Currency (the "OCC"), the FDIC and the State of Utah. AIB's primary federal regulator is the OCC, while the primary federal regulator for AIF is the FDIC.

The Competitive Equality Banking Act of 1987 ("CEBA") places certain restrictions on the operations of AIB and restricts further acquisitions of banks and savings institutions by the Company. CEBA does not restrict AIF as currently operated.

FOREIGN REAL ESTATE

Through its French subsidiary, Fidei, the Company owns foreign commercial real estate properties with a book value of $43,600,000 at December 31, 2000. After considering Fidei's other assets and non-recourse liabilities, the Company's net investment in this segment was $46,000,000 at December 31, 2000. During 2000, Fidei sold 38 properties resulting in pre-tax gains of $27,100,000; at December 31, 2000, a total of 53 properties aggregating approximately

1,300,000 square feet remain. The Company expects to complete the sale of Fidei's real estate holdings by the end of 2001. The Company currently is seeking new investments for Fidei or, in the alternative, may sell Fidei.

17

MANUFACTURING

Through its plastics division, the Company manufactures and markets proprietary lightweight plastic netting used for a variety of purposes including, among other things, construction, agriculture, packaging, carpet padding, filtration and consumer products. The plastics division is a market leader in netting products used in carpet cushion, turf reinforcement, erosion control, nonwoven reinforcement and crop protection. The plastics division markets its products both domestically and internationally, with approximately 15% of its 2000 sales exported to Europe, Latin America, Japan and Australia. New product development focuses on niches where the division's proprietary technology and expertise can lead to sustainable competitive economic advantages. For the years ended December 31, 2000, 1999 and 1998, the plastics division's revenues were $65,000,000, $64,000,000 and $56,600,000, respectively.

In order to meet existing and projected product demand, the plastics division is constructing a manufacturing facility in Belgium, which is expected to be operational in the third quarter of 2001. The Belgium facility will service customers in the European and Asian markets, which are currently being supplied by the Company's domestic manufacturing facilities. The Company expects that the Belgium facility and equipment will require a capital investment of approximately $18,500,000. When fully operational, the facility is expected to increase the division's capacity by approximately 20%.

During 1999, when the Company decided to construct the Belgium facility, and through the first half of 2000, the plastics division operated near capacity. During the second half of 2000, the plastics division began to experience a slowdown in business and currently has excess capacity. The Belgium facility will allow the plastics division to service new customers as well as provide improved service to existing customers in Europe and Asia. In addition, the available manufacturing capacity will provide adequate machine time for product development as well as servicing seasonal peaks. However, the ability to fully utilize the Belgium facility will depend upon developing new products as well as expanding sales geographically.

The plastics division is subject to domestic and international competition, generally on the basis of price, service and quality. Additionally, certain products are dependent on cyclical industries, including the construction industry. The Company holds patents on certain improvements to the basic manufacturing processes and on applications thereof. The Company believes that the expiration of these patents, individually or in the aggregate, is unlikely to have a material effect on the plastics division.

OTHER OPERATIONS

The Company has a 90% interest in two wineries, Pine Ridge Winery in Napa Valley, California and Archery Summit in the Willamette Valley of Oregon. Pine Ridge, which was acquired in 1991, has been conducting operations since 1981, while Archery Summit was started by the Company in 1993. These wineries produce and sell super-ultra-premium wines. During 2000, the wineries sold approximately 79,300 9-liter equivalent cases of wine generating revenues of $15,300,000. Since acquisition, the Company's investment in winery operations has grown, principally to fund the Company's acquisition of land for vineyard development and to increase production capacity and storage facilities at both of the wineries. It can take up to five years for a new vineyard property to reach full

production and, depending upon the varietal produced, up to an additional two years before the wine can be sold. The Company expects all of its vineyards will be in substantially full production for the 2001 harvest, and with normal farming yields should result in total production of approximately 100,000 9-liter equivalent cases of wine. At December 31, 2000, the Company's combined investment in these wineries was $54,300,000. During 2000, in response to certain inquiries, the Company engaged an investment banker to consider possible offers for the purchase of the wineries. While the Company received many expressions of interest and some offers to purchase the wineries, the Company has determined that the prices offered were not adequate and it does not intend to sell the wineries at this time.

18

At December 31, 2000, the Company's domestic real estate investments had a book value of $166,500,000. Such real estate consists of office buildings, residential land development projects and other unimproved land, all in various stages of development and available for sale. The Company's largest domestic real estate investment is a project located in San Diego County, California that will be a master-planned community of approximately 3,400 homes and apartments as well as commercial properties expected to be completed over the next nine years. The Company expects to earn a preferred return of 15% on its investment in this project (approximately $59,000,000 remains to be paid as of December 31, 2000); any amounts generated above this preferred return will primarily benefit the project's development manager, HomeFed Corporation, a Delaware corporation ("HomeFed") that was distributed to the Company's shareholders in 1999. Also included in the Company's domestic real estate is an investment in three shopping centers on Long Island, New York, one shopping center in upstate New York, and one shopping center in Louisiana. During 2000, the Company foreclosed on all of the New York properties and recognized a pre-tax gain of $10,700,000; the Company is in the process of foreclosing on the property in Louisiana. During 2000, the Company received proceeds of $94,300,000 from an office complex located on Capital Hill in Washington, D.C. Such amount was funded by a non-recourse loan from a third-party lender and, when combined with amounts previously received from the property, fully repaid the Company's investment plus a 17-1/2% preferred return.

The Company has a 72.9% interest in MK Gold, a company that is traded on the NASD OTC Bulletin Board. MK Gold owns Cobre Las Cruces, S.A., a Spanish company that holds the exploration and mining rights to the Las Cruces copper deposit in the Pyrite Belt of Spain. A feasibility study indicates the existence of proven and probable reserves of 15.8 million metric tonnes grading 5.94% copper that are overlain by a gold-bearing gossan (which has not been evaluated) and by 150 meters of unconsolidated overburden. This reserve calculation was based upon the analysis of 280 drill holes totaling over 82,000 meters. This feasibility study estimates the capital cost will be approximately $290,000,000 to bring the mine into production. Mining will be subject to permitting (currently underway), obtaining both debt and equity financing for the project, engineering and construction. A mining concession application, accompanied by the feasibility study and environmental impact studies, was submitted to the applicable Spanish and Andalusian governmental agencies during the first quarter of 2001.

OTHER INVESTMENTS

The Company owns equity interests representing more than 5% of the outstanding capital stock of each of the following domestic public companies at March 19, 2001: GFSI Holdings, Inc. ("GFSI") (6.4%), Jordan Industries, Inc. ("JII") (10.1%) and PhoneTel Technologies, Inc. (7.1%).

A subsidiary of the Company is an owner in The Jordan Company LLC and

Jordan/Zalaznick Capital Company. These entities each specialize in structuring leveraged buyouts in which the owners are given the opportunity to become equity participants. Since 1982, the Company has invested an aggregate of $91,100,000 in these entities and related companies and, through December 31, 2000, has received $149,000,000 relating to the disposition of investments and management and other fees. At December 31, 2000, through these entities, the Company had interests in JII, GFSI, JZ Equity Partners PLC (a British company traded on the London Stock Exchange in which the Company holds a 6.5% equity interest) and a total of 41 other companies. These investments are carried in the Company's consolidated financial statements at $59,200,000, of which $52,400,000 relates to public companies carried at market value. In January 2000, the Company sold its 10% equity interest in one of these entities, JTP, for proceeds of $27,300,000.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The purpose of this section is to discuss and analyze the Company's consolidated financial condition, liquidity and capital resources and results of operations. This analysis should be read in conjunction with the consolidated financial statements and related notes which appear elsewhere in this Report.

LIQUIDITY AND CAPITAL RESOURCES

Parent Company Liquidity

Leucadia National Corporation (the "Parent") is a holding company whose assets principally consist of the stock of its several direct subsidiaries, cash and other liquid investments. The Parent continuously evaluates the retention and disposition of its existing operations and investigates possible acquisitions of new businesses in order to maximize shareholder value. Accordingly, while the Parent does not have any material arrangement, commitment or understanding with respect thereto (except as disclosed in this Report), further acquisitions, divestitures, investments and changes in capital structure are possible. Its principal sources of funds are its available cash resources, bank borrowings, public and private capital market transactions, repayment of subsidiary advances, funds distributed from its subsidiaries as tax sharing payments, management and other fees, and borrowings and dividends from its regulated and non-regulated subsidiaries. It has no substantial recurring cash requirements other than payment of interest and principal on its debt, tax payments and corporate overhead expenses. As of December 31, 2000, the Company's readily available cash, cash equivalents and marketable securities, excluding those amounts held by its regulated subsidiaries, totaled $643,400,000. Additional sources of liquidity as of December 31, 2000 include $156,800,000 of marketable securities collateralizing letters of credit and $183,100,000 of cash, cash equivalents and marketable securities held by Fidei.

Primarily during 2000, the Company invested an aggregate of $89,000,000 in the common stock of FNF, a publicly traded title insurance holding company. The Company sold its investment in FNF common stock for $179,900,000, resulting in a pre-tax gain of $90,900,000 in 2000.

In January 2000, the Company sold its 10% equity interest in JTP for $27,300,000, and recorded a pre-tax gain of $24,800,000. Further consideration of approximately $7,500,000 may be received in the future upon the favorable resolution of certain contingencies.

At December 31, 1999, the Company had outstanding promissory notes of Conseco, Inc. in the principal amount of $250,000,000. During the third quarter of 2000, the entire principal amount and accrued interest then outstanding on these notes was repaid. In addition, the Company received $7,500,000 directly from Conseco which constituted a prepayment penalty due under the terms of these notes.

Except for the Euro denominated debt of Fidei, which is non-recourse to the Company, the Parent maintains the principal borrowings for the Company and its non-banking subsidiaries and has provided working capital to certain of its subsidiaries. These borrowings have primarily been made from banks through the Company's credit agreement facility and through public financings.

In June 2000, the Company replaced its $100,000,000 unsecured bank credit facility with a new unsecured bank credit facility of $152,500,000, which bears interest based on the Eurocurrency Rate or the prime rate and matures in June 2003. As of December 31, 2000, no amounts were outstanding under this bank credit facility.

During 2000, the Company invested $100,000,000 in the equity of JPOF II, a limited liability company that is a registered broker-dealer. JPOF II is managed and controlled by Jefferies & Company, Inc. JPOF II invests in high yield securities, special situation investments and distressed securities and provides trading services to its customers and clients. Generally, the Company

may not redeem its interest in JPOF II during 2001. For the year ended December 31, 2000, the Company recorded $17,300,000 of pre-tax income from this investment under the equity method of accounting.

In October 2000, the Company agreed to invest $75,000,000 in a new issue of convertible preference shares of WMIG, which is expected to represent approximately 4% of WMIG on an as converted basis. This investment is subject to the closing of an acquisition by WMIG of CGU Corporation, the U.S. property and casualty operations of CGNU plc, which, although subject to certain contingencies, currently is expected to occur during 2001.

During 2000, the Company repurchased 1,505,000 Common Shares for an aggregate cost of $32,100,000. As of March 19, 2001, the Company is authorized to repurchase an additional 4,495,000 Common Shares. Such purchases may be made from time to time in the open market, through block trades or otherwise. Depending on market conditions and other factors, such purchases may be commenced or suspended at any time without prior notice.

At December 31, 2000, a maximum of $20,900,000 was available to the Parent as dividends from its regulated subsidiaries without regulatory approval. Additional amounts may be available to the Parent in the form of loans or cash advances from regulated subsidiaries, although no amounts were outstanding at December 31, 2000 or borrowed to date in 2001. There are no restrictions on distributions from non-regulated subsidiaries. The Parent also receives tax sharing payments from subsidiaries included in its consolidated income tax return, including certain regulated subsidiaries. Because of the tax loss carryforwards available to the Parent and certain subsidiaries, together with current interest deductions and corporate expenses, the amount paid by the Parent for income taxes has been substantially less than tax sharing payments

received from its subsidiaries. Payments from regulated subsidiaries for dividends, tax sharing payments and other services totaled $8,300,000 for the year ended December 31, 2000.

In February 2001, the Company, Berkshire Hathaway Inc., and Berkadia LLC, an entity jointly owned by the Company and Berkshire Hathaway, announced a commitment to lend $6,000,000,000 on a senior secured basis to FINOVA Capital Corporation, the principal operating subsidiary of FINOVA, to facilitate a chapter 11 restructuring of the outstanding debt of FINOVA and its principal subsidiaries. Under the commitment, Berkadia's funding obligations to FINOVA Capital have been guaranteed, 90% by Berkshire Hathaway and 10% by the Company (with the Company's guarantee being secondarily guaranteed by Berkshire Hathaway). The parties intend to finance this commitment; such financing is expected to be similarly guaranteed. The commitment, which expires on August 31, 2001, or earlier if certain events occur or conditions are not satisfied, provides that Berkadia will receive $6,000,000,000 principal amount of newly issued five year senior notes of FINOVA Capital, secured by substantially all of the assets of FINOVA and its subsidiaries (the "Secured Note"). The notes will also be guaranteed on a secured basis by FINOVA and substantially all of the subsidiaries of FINOVA and FINOVA Capital. Berkadia's obligation to make the loan is subject to a number of conditions, including Berkadia's satisfaction with the chapter 11 reorganization plan of the FINOVA companies, including bankruptcy court and necessary creditor approvals, the issuance to the Company and Berkshire Hathaway of newly issued common stock of FINOVA totaling 51% of the stock of FINOVA to be outstanding on a fully diluted basis, and Berkadia being able to designate a majority of the Board of Directors of FINOVA.

Upon execution of the commitment, FINOVA Capital paid Berkadia a non-refundable commitment fee of $60,000,000 and has agreed to pay a funding fee of $60,000,000 upon funding (or a termination fee of $60,000,000 if the commitment is not funded except in certain limited circumstances). In addition, FINOVA Capital has agreed to reimburse Berkadia, Berkshire Hathaway and the Company for all fees and expenses incurred in connection with Berkadia's financing of its funding obligation under the commitment.

In connection with the commitment, the Company entered into a ten-year management agreement with FINOVA pursuant to which the Company agreed to provide general management services, including services with respect to the formulation

21

of a restructuring plan. For these services, the Company will receive an annual fee of $8,000,000, the first of which was paid when the agreement was signed.

Under the agreement governing Berkadia, the Company and Berkshire Hathaway have agreed to equally share the commitment fee, funding or termination fee and all management fees. An annual facility fee to be paid by FINOVA Capital, equal to .25% of the outstanding amount of the loan, will be shared 70% to Berkshire Hathaway and 30% to the Company, and all income related to the Secured Note will be shared 90% to Berkshire Hathaway and 10% to the Company. All decisions with respect to the management of Berkadia will require the mutual consent of the Company and Berkshire Hathaway, except for decisions related to the commitment, the financing of the commitment or the Secured Note, which are in the sole control of Berkshire Hathaway.

As indicated above, the completion of the loan is subject to a number of conditions and there can be no assurance that it ultimately will be consummated.

Based on discussions with commercial and investment bankers, the Company believes that it has the ability to raise additional funds under acceptable conditions for use in its existing businesses or for appropriate investment

opportunities. Since 1993, the Company's senior debt obligations have been rated as investment grade by S&P and Duff & Phelps Inc. Ratings issued by bond rating agencies are subject to change at any time.

Consolidated Liquidity

In 2000 and 1999, net cash was used for operations principally as a result of a decrease in premiums written and the payment of claims at the Empire Group. As discussed above, it is currently anticipated that the premiums of the Empire Group will continue to decline while the Empire Group runs off its claims liabilities. The Empire Group will continue to sell its investment portfolio and collect its reinsurance receivables to generate the cash that will be required to settle its loss and loss adjustment expense reserves. At December 31, 2000, these assets totaled $479,400,000 as compared to the Empire Group's loss and loss adjustment expense reserves of $366,000,000. The Empire Group expects to settle approximately 80% of these liabilities within the next 3 years. Additionally, the Empire Group has not experienced any material default in the payment of reinsurance claims due from its reinsurance providers.

The investment portfolio of the Company's insurance subsidiaries principally consists of fixed maturity investments; the balance of their portfolio consists largely of preferred securities. Of the fixed maturity securities, the majority consists of those rated "investment grade" or U.S. governmental agency issued or guaranteed obligations, although limited investments in "non-rated" or rated less than investment grade securities have been made from time to time.

The Company provides collateralized automobile loans to individuals with poor credit histories. The Company's investment in automobile loans was $410,300,000 and $277,100,000 at December 31, 2000 and 1999, respectively. These loans are primarily funded by deposits generated by the Company's deposit-taking facilities and by brokers. Deposits raised in 2000 totaled $228,000,000 and had an average maturity of 12 months and a weighted average interest rate of 6.6%.

In the past, the Company has at times funded the construction and/or expansion of its manufacturing facilities with industrial revenue bonds. At December 31, 2000, the Company has $9,800,000 principal amount outstanding for such financing. The Company expects to finance the construction of the plastics division's Belgium facility, estimated to aggregate $18,500,000, with available cash resources.

As of December 31, 2000, the principal amount of Fidei's Euro denominated outstanding debt, all of which is non-recourse to the Company, was $184,000,000 (195,200,000 Euros). Inasmuch as Fidei's Euro denominated cash, cash equivalents

and marketable securities approximate its Euro denominated debt, there is currently no need to acquire a currency hedge for Fidei's debt.

The Company and certain of its subsidiaries have or have had tax loss carryforwards and other tax attributes, the amount and availability of which are subject to certain qualifications, limitations and uncertainties. In order to reduce the possibility that certain changes in ownership could impose limitations on the use of the tax loss carryforwards, the Company's certificate of incorporation contains provisions which generally restrict the ability of a person or entity from accumulating at least five percent of the Common Shares and the ability of persons or entities now owning at least five percent of the Common Shares from acquiring additional Common Shares.

RESULTS OF OPERATIONS

Property and Casualty Insurance

For the year ended December 31, 2000, the Company's insurance segment contributed 20% of total revenues from continuing operations and, at December 31, 2000, constituted 20% of total assets Historically, the Company's property and casualty insurance operations have provided commercial and personal lines of insurance in the New York metropolitan area.

The Company's insurance segment pre-tax losses were $59,400,000, $22,400,000 and $7,900,000 for the years ended December 31, 2000, 1999 and 1998, respectively. These amounts were negatively impacted by adverse reserve development of prior years' reserves of $52,977,000, $18,255,000 and $42,290,000 for 2000, 1999 and 1998, respectively. The more significant trends and events that the Company has experienced in recent years, which resulted in the recognition of the adverse loss reserve development, are identified below following the Company's combined ratios.

Net earned premium revenues of the Empire Group were $108,500,000, $145,200,000 and $228,600,000 for the years ended December 31, 2000, 1999 and 1998, respectively. While earned premiums declined in almost all lines of business during 2000 and 1999, the most significant reductions during 2000 were in assigned risk automobile ($14,700,000) and voluntary private passenger automobile ($14,700,000), and during 1999 were in assigned risk automobile ($24,100,000), voluntary private passenger automobile ($26,900,000) and commercial package policies ($11,600,000). Effective January 1, 2000, all policy renewal obligations for assigned risk contracts were assigned to another insurance company. However, the Empire Group remains liable for the claim settlement costs for assigned risk claims that occurred during the policy term. The decline in voluntary private passenger automobile resulted from tighter underwriting standards, increased competition and the Empire Group's decision in 1999 to no longer accept new policies from those agents who historically have had poor underwriting results. The Empire Group's termination of certain unprofitable agents also adversely affected premium volume in other lines of business.

During the fourth quarter of 2000, the Empire Group announced that it would no longer accept any new private passenger automobile policies from any agents. Existing policies of private passenger automobile insurance will be either sold, non-renewed or cancelled in accordance with New York insurance law. If this book of business is not sold, it is expected that the Empire Group will continue to issue renewal policies over the next several years as required by applicable insurance law. The Empire Group also announced that all statutory automobile policies (public livery vehicles) would be non-renewed effective March 1, 2001, due to poor underwriting results.

On March 1, 2001, the Empire Group announced that, effective immediately, it would no longer issue any new (as compared to renewal) insurance policies and that it has filed plans of orderly withdrawal with the New York Insurance Department as required. Existing commercial lines policies will be non-renewed or canceled in accordance with New York insurance law or replaced by Tower. The Empire Group will continue to be responsible for the remaining term of its existing policies and all claims incurred prior to the expiration of these

policies. For commercial lines, the Empire Group will thereafter have no renewal obligations for those policies. Under New York insurance law, the Empire Group is obligated to offer renewals of homeowners, dwelling fire, personal insurance coverage and personal umbrella for a three-year policy period; however, the Tower Agreement provides that Tower must offer replacements for these policies.

The closing of the transaction is subject to the approval of the New York Insurance Department.

During the remaining term of the Empire Group's policies that will be sold or non-renewed at the expiration of the policy term, and for other policies which may have to be renewed under New York insurance law, the Empire Group's estimate of losses for those policies will be based on its accumulated loss experience in those lines of insurance as well as industry trends. The Empire Group's accident year loss ratios for certain of these policies, in particular private passenger automobile, will be high reflecting the poor loss experience and adverse reserve development that the Empire Group has experienced in the past.

The Empire Group is currently exploring its options for the future. Assuming the Tower Agreement is consummated, the Empire Group will only have renewal obligations for remaining personal lines insurance (primarily automobile) not replaced by Tower, the remaining policy term of all existing policies and a claim run-off operation. The Empire Group may commence new property and casualty insurance operations if a new business model with an acceptable expense structure can be developed, enter into a joint venture with another property and casualty insurance operation, explore entering the claim services business or commence a liquidation. There may be other options that the Company will explore, but no assurance can be given at this time as to what the ultimate plan will be.

The Empire Group's combined ratios as determined under GAAP and SAP were as follows:

	Year Ended December 31,		
	2000	1999	1998
GAAP	187.2%	138.4%	129.3%
SAP	189.4%	143.3%	134.0%

The Empire Group's combined ratios increased in 2000 primarily due to unfavorable loss reserve development from prior accident years, increased loss adjustment expenses for newly outsourced claims and adverse development in loss adjustment expenses. In addition, these ratios increased due to reduced service fees, higher 2000 accident year loss ratios, higher severance costs and overhead costs which, although lower, have not declined commensurate with the reduced premium volume. The Empire Group's combined ratios increased in 1999 primarily due to the reduction in premium volume at a rate greater than the reduction in net underwriting and other costs. In addition, in 1999, the expense ratios were adversely affected by the reduction in service fees, increased expenditures related to the installation of new information systems, providing Internet access to agents and severance costs.

During 2000, the Empire Group recorded adverse loss reserve development of $52,977,000, principally in the 1996 through 1999 accident years. This development was attributable to an increase in the severity of personal injury protection claims ("PIP") and an increase in the frequency of liability claims in the private passenger automobile line ($9,200,000), an increase in the frequency of liability claims in the commercial automobile line ($6,200,000), an increase in the frequency and severity of PIP claims in the assigned risk automobile line ($4,800,000) and an increase in the severity of certain liability claims in the commercial package policies lines of business ($15,000,000). The increases in severity and frequency of claims in automobile lines of business, particularly with respect to PIP claims, are consistent with emerging industry trends in the New York City marketplace. In addition, the

Empire Group increased its estimate for loss adjustment expenses by $11,000,000 as a result of the decision to outsource a significant amount of claim handling functions in 2000. Claim files for workers' compensation, automobile no-fault

and automobile and other liability claims were outsourced at a cost greater than the reserves previously recorded to handle the claims internally. The Empire Group has outsourced almost two-thirds of its claims. Currently, the Empire Group is primarily handling complex claims, first party claims and certain automobile liability and general liability claims internally. Complex claims generally consist of those that have potentially large settlement exposure and are not expected to settle quickly. The Empire Group has also increased its reserve estimate for claims handled internally.

During 1999, the Empire Group recorded adverse loss reserve development of $18,255,000, principally due to an increase in severity of 1998 accident year losses in the assigned risk automobile and voluntary private passenger automobile lines, and 1996 accident year losses in certain classes of the commercial automobile line. As a result, the Empire Group increased its reserves by $7,500,000 for assigned risk automobile, $5,000,000 for voluntary private passenger automobile and $4,500,000 for commercial automobile lines.

During 1998, the Empire Group recorded adverse loss reserve development of $42,290,000. In 1998, the Empire Group reviewed the adequacy of the reserves carried for its open claims' files, focusing on workers' compensation, commercial auto and other commercial liability lines of business. As part of the review, substantially all open workers' compensation claim files were reviewed for every accident year up to and including 1998. Additionally, during 1998, the Empire Group reorganized the commercial auto claims department. As part of this realignment, more complex claims files were reviewed by the most experienced claims examiners and assumptions regarding average claims severity and probable ultimate losses were revised. Accordingly, prior years reserves were increased by $13,000,000 for workers' compensation, $14,000,000 for commercial automobile and $14,000,000 for other commercial liability lines of business.

During the period between 1984 and 1995, the Empire Group entered into certain retrospectively rated reinsurance contracts covering substantially all lines of business, except workers' compensation. Under these contracts, the Empire Group paid the reinsurer provisional premiums that are subject to adjustment based on subsequent loss development. Ceded premiums accrued under these contracts reduce both net written and earned premiums during the period the retrospective reinsurance premiums are accrued. If additional unfavorable loss development emerges in future periods, the Empire Group may be required to accrue additional retrospective reinsurance premiums.

Net earned premiums revenues of the Empire Group were reduced for retrospective reinsurance premiums by $4,500,000, $4,600,000, and $2,000,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

For all lines of property and casualty insurance business, the Company employs a variety of standard actuarial ultimate loss projection techniques, statistical analyses and case-basis evaluations to estimate its liability for unpaid losses. The actuarial projections include an extrapolation of both losses paid and incurred by business line and accident year and implicitly consider the impact of inflation and claims settlement patterns upon ultimate claim costs based upon historical patterns. These estimates are performed quarterly and consider any changes in trends and actual loss experience. Any resulting change in the estimate of the liability for unpaid losses, including those discussed above, is reflected in current year earnings during the quarter the change in estimate is identified.

The reserving process relies on the basic assumption that past experience is an appropriate basis for predicting future events. The probable effects of current developments, trends and other relevant matters are also considered. Since the establishment of loss reserves is affected by many factors, some of which are outside the Company's control or are affected by future conditions, reserving for property and casualty claims is a complex and uncertain process requiring the use of informed estimates and judgments. As additional experience and other data become available and are reviewed, the Company's estimates and judgments may be revised. While the effect of any such changes in estimates

could be material to future results of operations, the Company does not expect such changes to have a material effect on its liquidity or financial condition.

In management's judgment, information currently available has been appropriately considered in estimating the Company's loss reserves. The Company will continue to evaluate the adequacy of its loss reserves on a quarterly basis, incorporating any future changes in trends and actual loss experience, and record adjustments to its loss reserves as appropriate.

Banking and Lending

Finance revenues, which reflect the level and mix of consumer instalment loans, increased in each of the last two years due to greater average loans outstanding. Average loans outstanding were $423,200,000, $238,600,000 and $148,700,000 for 2000, 1999 and 1998, respectively. The increase in 2000 was primarily due to the acquisition in 1999 of Tranex and increased new loan originations. Pre-tax results declined in 2000 as compared to 1999 primarily due to an increase in the provision for loan losses, higher interest expense due to increased customer banking deposits and higher interest rates thereon, and higher salaries expense.

The higher loan losses were principally caused by the poor performance of the subprime automobile portfolio purchased from Tranex, for which the actual collection experience was less than expected, a larger amount of loans outstanding, including the Tranex purchased portfolio, that are reaching the age of peak losses, generally twelve to eighteen months after origination, and the increased loan originations. The Company also believes that a weaker economy has contributed to its loan losses.

For 1999, although finance revenues increased due to greater average loans outstanding, pre-tax results declined primarily due to an increase in the provision for loan losses for the larger volume of loans outstanding. In addition, 1998 results reflected the pre-tax gain of $6,500,000 from the sale of substantially all of the Company's executive and professional loan portfolio. The increase in average loans outstanding was primarily due to the purchase of a subprime automobile portfolio in December 1998, the Tranex acquisition in 1999 and increased new loan originations.

Manufacturing

For 2000, revenues for the plastics division modestly increased to $65,000,000 as compared to $64,000,000 for 1999. Gross profit and pre-tax income for the plastics division declined slightly in 2000 primarily due to higher raw material costs. In 1999, revenues of the plastics division increased 13% over 1998. In addition, despite rising raw material prices, the gross profit increased 16% to $24,900,000.

Other

Investment and other income declined in 2000 as compared to 1999 primarily due to gains recognized in 1999 from the sale of Caja, The Sperry and Hutchinson Company, Inc., PIB and an equity interest in an associated company aggregating $177,700,000. Investment and other income also decreased in 2000 due to a reduction in investment income ($11,500,000), resulting primarily from the payment of the Dividend and debt repurchases in 1999 and decreased rent income (due to a smaller base of remaining real estate properties) and decreased gains from sales of real estate properties related to Fidei ($18,500,000). This decrease was partially offset by increased gains from sales and foreclosures of various domestic real estate properties ($50,800,000), the prepayment penalty related to the Conseco notes ($7,500,000) and revenues relating to MK Gold ($12,300,000), which the Company began consolidating in the fourth quarter of 1999. During 2000, Fidei sold 38 real estate properties; 53 properties remain at December 31, 2000, all of which are currently being marketed for sale.

26

Investment and other income in 1999 included the aforementioned gains on sale of Caja ($120,800,000), The Sperry and Hutchinson Company, Inc. ($18,700,000) and PIB ($29,500,000), and the gain on sale of an equity interest in an associated company ($8,700,000). Investment and other income also increased in 1999 due to increased rent income and gains from sales of real estate properties, of which $49,800,000 related to Fidei. Such increases were partially offset by a reduction in investment income resulting primarily from payment of the $811,900,000 dividend in 1999 and debt repurchases in 1999, a reduction in investments held by the Empire Group and the gain in 1998 on the sale of the executive and professional loan portfolio.

Payment of the Dividend required the Company to make an offer to purchase all of its 8-1/4% Notes and its 7-7/8% Notes at a purchase price of 101% of principal, plus accrued and unpaid interest thereon. Pursuant to such offers, in 1999, the Company repurchased $80,900,000 principal amount of the 8-1/4% Notes and $113,300,000 principal amount of the 7-7/8% Notes for $198,000,000, including accrued interest. The Company recorded an extraordinary loss, net of income tax benefit, of $2,600,000 on this early extinguishment of debt.

Net securities gains (losses) for 2000 include pre-tax security gains related to the Company's investments in FNF ($90,900,000) and JTP ($24,800,000), as described above. During 1998, due to declines in values that were deemed other than temporary, the Company recorded a pre-tax writedown of $75,000,000 related to its investments in Russian and Polish debt and equity securities. Such writedowns are reflected in the caption "Net securities gains (losses)." At December 31, 2000, the remaining book value of the Company's investments in these securities was $1,200,000.

Equity in income (losses) of associated companies increased in 2000 primarily due to income of $17,300,000 related to JPOF II, described above. Equity in income (losses) of associated companies declined in 1999 as compared to 1998, primarily due to income of $30,800,000 recorded in 1998 from an investment partnership that was subsequently liquidated.

Interest expense for 2000 reflects increased customer banking deposits and higher interest rates thereon, partially offset by a reduction in interest expense related to debt repurchases in 1999. The increase in interest expense in 1999 as compared to 1998 primarily relates to Fidei's outstanding debt, partially offset by the Company's debt repurchases in 1999.

Salaries expense in 2000 reflects an increase in employees, primarily at the banking and lending segment.

The increase in selling, general and other expenses in 2000 principally reflects higher provisions for loan losses, as described above, and expenses related to MK Gold. The increase in selling, general and other expenses in 1999 as compared to 1998 principally relates to expenses incurred by Fidei, higher provisions for loan losses, expenses incurred in connection with the Dividend and the recognition in 1998 of net curtailment gains relating to the Company's pension plan.

Income taxes for 1999 reflect a benefit of $40,100,000 from the utilization of capital loss carryforwards, of which $33,300,000 was previously included in the valuation allowance. Income taxes for 1999 also reflect a benefit of $3,400,000 for the favorable resolution of certain federal income tax contingencies. Income taxes for 1998 reflect a benefit of $39,000,000 for a change in the Company's estimated 1997 federal tax liability and the favorable resolution of certain contingencies.

The number of shares used to calculate basic earnings (loss) per share was 55,529,000, 59,338,000 and 63,409,000 for 2000, 1999 and 1998, respectively. The number of shares used to calculate diluted earnings (loss) per share was 55,598,000, 59,352,000 and 63,510,000 for 2000, 1999 and 1998, respectively.

Cautionary Statement for Forward-Looking Information

Statements included in this Report may contain forward-looking statements. Such forward-looking statements are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements may relate, but are not limited, to projections of revenues, income or loss, capital expenditures, fluctuations in insurance reserves, plans for growth and future operations, competition and regulation as well as assumptions relating to the foregoing. 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. The factors that could cause actual results to differ materially from those suggested by any such statements include, but are not limited to, those discussed or identified from time to time in the Company's public filings, including general economic and market conditions, changes in foreign and domestic laws, regulations and taxes, changes in competition and pricing environments, regional or general changes in asset valuation, the occurrence of significant natural disasters, the inability to reinsure certain risks economically, the adequacy of loss reserves, prevailing interest rate levels, weather related conditions that may affect the Company's operations, consummation of the Tower Agreement, adverse selection through renewals of the Empire Group's policies, the Company's ability to develop an alternate business model for the Empire Group, adverse environmental developments in Spain that could delay or preclude the issuance of permits necessary to develop the Company's Spanish mining rights, changes in the commercial real estate market in France, the success of ultimate negotiations with the FINOVA companies and their creditors, approval of a FINOVA chapter 11 plan having materially different terms than those set forth in the commitment letter of Berkadia LLC filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, and changes in the composition of the Company's assets and liabilities through acquisitions or divestitures. 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.

SIGNATURE

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 12, 2002

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller