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LEUCADIA NATIONAL CORP
Form 10-K/A
March 24, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2005

or

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

Commission file number: 1-5721

LEUCADIA NATIONAL CORPORATION
(Exact Name of Registrant as Specified in its Charter)

NEW YORK

13-2615557

(State or Other Jurisdiction
of Incorporation or Organization)

(I.R.S. Employer
Identification No.)

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

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

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

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

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

NONE.
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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filing requirements for the past 90 days. Yes 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 .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Aggregate market value of the voting stock of the registrant held by non-affiliates of the registrant at June 30, 2005 (computed by reference to the last reported closing sale price of the Common Shares on the New York Stock Exchange on such date): \$3,130,796,000.

On February 23, 2006, the registrant had outstanding 108,072,508 Common Shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in connection with the 2006 annual meeting of shareholders of the registrant are incorporated by reference into Part III of this Report.

EXPLANATORY NOTE

This report on Form 10-K/A amends and restates in its entirety Item 15 of the Annual Report on Form 10-K, as amended, of Leucadia National Corporation (the "Company") for the fiscal year ended December 31, 2005 to reflect that the financial statements referred to in Item 15(c)(1), (2), (3) and (5) have been filed herewith pursuant to Item 3-09(b) of Regulation S-X:

PART IV

Item 15. Exhibits and Financial Statement Schedule.

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

Report of Independent Registered Public Accounting Firm.....
Financial Statements:
Consolidated Balance Sheets at December 31, 2005 and 2004.....
Consolidated Statements of Operations for the years ended December 31, 2005,
2004 and 2003.....
Consolidated Statements of Cash Flows for the years ended December 31, 2005,
2004 and 2003.....
Consolidated Statements of Changes in Shareholders' Equity for the years ended
December 31, 2005, 2004 and 2003.....
Notes to Consolidated Financial Statements.....

Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts.....

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

1999 Stock Option Plan (filed as Annex A to the Company's Proxy Statement dated April 9, 1999 (the "1999 Proxy Statement")).

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

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

Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 17, 2005 (filed as Annex A to the Company's Proxy Statement dated April 22, 2005 (the "2005 Proxy Statement")).

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

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

- (b) Exhibits.
- We will furnish any exhibit upon request made to our Corporate Secretary, 315 Park Avenue South, New York, NY 10010. We charge \$.50 per page to cover expenses of copying and mailing.
- 3.1 Restated Certificate of Incorporation (filed as Exhibit 5.1 to the Company's Current Report on Form 8-K dated July 14, 1993).*
- 3.2 Certificate of Amendment of the Certificate of Incorporation dated as of May 14, 2002 (filed as Exhibit 3.2 to the 2003 10-K).*
- 3.3 Certificate of Amendment of the Certificate of Incorporation dated as of December 23, 2002 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "2002 10-K")).*
- 3.4 Amended and Restated By-laws as amended through March 9, 2004 (filed as Exhibit 3.4 to the 2003 10-K).*
- 3.5 Certificate of Amendment of the Certificate of Incorporation dated as of May 13, 2004 (filed as Exhibit 3.5 to the Company's 2004 10-K).*
- 3.6 Certificate of Amendment of the Certificate of Incorporation dated as of May 17, 2005 (filed as Exhibit 3.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, as amended (the "2005 10-K")).*
- 4.1 The Company undertakes to furnish the Securities and Exchange Commission, upon written request, a copy of all instruments with respect to long-term debt not filed herewith.
- 10.1 1999 Stock Option Plan (filed as Annex A to the 1999 Proxy Statement).*
- 10.2 Form of Grant Letter for the 1999 Stock Option Plan (filed as Exhibit 10.4 to the Company's 2004 10-K).*
- 10.3 Amended and Restated Shareholders Agreement dated as of June 30, 2003 among the Company, Ian M. Cumming and Joseph S. Steinberg (filed as Exhibit 10.5 to the 2003 10-K).*
- 10.4 Form of Amended and Restated Revolving Credit Agreement (the "Revolving Credit Agreement") dated as of March 11, 2003 between the Company, Fleet National Bank as Administrative Agent, The Chase Manhattan Bank, as Syndication Agent, and the Banks signatory thereto, with Fleet Boston Robertson Stephens, Inc., as Arranger (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003).*
- 10.5 Amendment, dated as of March 31, 2004, to the Revolving Credit Agreement (filed as Exhibit 10.7 to the Company's 2004 10-K).*

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10.6 Amendment, dated as of June 29, 2004, to the Revolving Credit Agreement (filed as Exhibit 10.8 to the Company's 2004 10-K).*

10.7 Leucadia National Corporation 2003 Senior Executive Annual Incentive Bonus Plan, as amended May 17, 2005 (filed as Annex A to the 2005 Proxy Statement).*

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10.8 Employment Agreement made as of June 30, 2005 by and between the Company and Ian M. Cumming (filed as Exhibit 99.1 to the Company's July 13, 2005 8-K).*

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

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

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

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

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

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

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

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- 10.16 First Amendment to Third Amended and Restated Credit And Guaranty Agreement, dated September 2, 2005, by and among WilTel Communications, LLC, WilTel Communications Group LLC, the Subsidiary Guarantors (as defined), and the First Lien Administrative Agent, the Second Lien Administrative Agent and the Administrative Agent for the Lenders (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K dated September 2, 2005).*
- 10.17 Second Amended and Restated Security Agreement, dated as of April 23, 2001, as amended and restated as of October 15, 2002, and as further amended and restated as of September 24, 2004, among WilTel, WilTel Communications, LLC, and the additional grantors party thereto in favor of Credit Suisse First Boston, acting through its Cayman Islands branch, as administrative agent, as first lien administrative agent and as second lien administrative agent (filed as Exhibit 99.2 to the Company's September 24, 2002 8-K).*
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- 10.18 Exhibit 1 to the Agreement and Plan of Reorganization between the Company and TLC Associates, dated February 23, 1989 (filed as Exhibit 3 to Amendment No. 12 to the Schedule 13D dated December 29, 2004 of Ian M. Cumming and Joseph S. Steinberg with respect to the Company).*
- 10.19 Letter Agreement, dated February 3, 2005, between the Company and Jefferies & Company, Inc. (filed as Exhibit 10.55 to the Company's 2004 10-K).*
- 10.20 Information Concerning Executive Compensation (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 9, 2006).*
- 10.21 Compensation of Non-Employee Directors (filed as Exhibit 10.21 to the Company's 2005 10-K).*
- 10.22 Hotel Purchase Agreement, dated as of April 6, 2005, by and between HWB 2507 Kalakaua, LLC and Gaylord Entertainment Co. (filed as Exhibit 10.2. to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (the "1st Quarter 2005 10-Q")).*
- 10.23 Stock Purchase Agreement, dated as of May 2, 2005, by and among the Company and the individuals named therein (filed as Exhibit 10.4 to the Company's 1st Quarter 2005 10-Q).*
- 10.24 Purchase Agreement, dated as of October 30, 2005, among the Company, Baldwin Enterprises, Inc., Level 3 Communications, LLC and Level 3 Communications, Inc. ("Level 3") (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 30, 2005).*
- 10.25 Registration Rights and Transfer Restriction Agreement, dated as of December 23, 2005, by and among Level 3, the Company and Baldwin Enterprises, Inc. (filed as Exhibit 10.2 to Level 3's Current Report on Form 8-K dated December 23, 2005).*

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- 10.26 Purchase and Sale Agreement ("Square 711 Purchase and Sale Agreement"), dated as of November 14, 2005, between Square 711 Developer, LLC and Walton Acquisition Holdings V, L.L.C., a Delaware limited liability company (filed as Exhibit 10.26 to the Company's 2005 10-K).*
- 10.27 First Amendment to Square 711 Purchase and Sale Agreement, dated as of December 14, 2005 (filed as Exhibit 10.27 to the Company's 2005 10-K).*
- 10.28 Share Purchase Agreement, dated May 2, 2005, between Inmet Mining Corporation, the Company and MK Resources Company (filed as Exhibit 2 to Amendment No. 10 to the Schedule 13D dated May 2, 2005 of the Company with respect to MK Resources Company (the "MK 13D")).*
- 10.29 Agreement and Plan of Merger, dated as of May 2, 2005, among the Company, Marigold Acquisition Corp. and MK Resources Company (filed as Exhibit 3 to the MK 13D).*
- 10.30 Voting Agreement, dated as of May 2, 2005, between the Company and Inmet Mining Corporation (filed as Exhibit 4 to the MK 13D).*
- 10.31 Letter Agreement, dated March 30, 2005 between SBC Services, Inc. ("SBC Services") and WilTel Communications, LLC ("WCLLC") (filed as Exhibit 10.1 to the Company's 1st Quarter 2005 10-Q).*
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- 10.32 Letter Agreement, dated April 27, 2005 between SBC Services and WCLLC (filed as Exhibit 10.3 to the Company's 1st Quarter 2005 10-Q).*
- 10.33 Letter Agreement, dated May 25, 2005 between SBC Services and WCLLC (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005).*
- 10.34 Master Services Agreement dated June 15, 2005 among WilTel Communications Group ("WCGLLC"), WilTel Local Network, LLC, SBC Services. and SBC Communications Inc. ("SBC") (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K/A dated June 15, 2005 (the "June 15, 2005 8-K/A")).*
- 10.35 Termination, Mutual Release and Settlement Agreement dated June 15, 2005 among the Company, WCGLLC, WCLLC, SBC, SBC Operations, Inc. and SBC Long Distance, LLC (filed as Exhibit 99.2 to the Company's June 15, 2005 8-K/A).*
- 10.36 Debtors' Modified Second Amended Joint Plan of Reorganization under chapter 11 of the Bankruptcy Code, dated as of April 13, 2005, of ATX Communications, Inc. (filed as Exhibit 99.1 to ATX Communication's Current Report on Form 8-K dated April 20, 2005).*
- 10.37 Services Agreement, dated as of January 1, 2004, between the Company and Ian M. Cumming (filed as Exhibit 10.37 to the Company's 2005 10-K).*
- 10.38 Services Agreement, dated as of January 1, 2004, between the

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- Company and Joseph S. Steinberg (filed as Exhibit 10.38 to the Company's 2005 10-K).*
- 21 Subsidiaries of the registrant (filed as Exhibit 21 to the Company's 2005 10-K).*
- 23.1 Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement on Form S-8 (File No. 2-84303), Form S-8 and S-3 (File No. 33-6054), Form S-8 and S-3 (File No. 33-26434), Form S-8 and S-3 (File No. 33-30277), Form S-8 (File No. 33-61682), Form S-8 (File No. 33-61718), Form S-8 (File No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.1 to the Company's 2005 10-K).*
- 23.2 Consent of Ernst & Young LLP with respect to the inclusion in this Annual Report on Form 10-K/A of the financial statements of Berkadia LLC and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102).
- 23.3 Consent of PricewaterhouseCoopers, with respect to the inclusion in this Annual Report on Form 10-K/A the financial statements of Olympus Re Holdings, Ltd. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102).
- 23.4 Consent of independent auditors from BDO Seidman, LLP with respect to the inclusion in this Annual Report on Form 10-K/A of the financial statements of EagleRock Capital Partners (QP), LP and EagleRock Master Fund, LP and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102).
- 23.5 Consent of independent auditors from Ernst & Young LLP with respect to the inclusion in this Annual Report on Form 10-K of the financial statements of WilTel Communications Group, Inc. and with respect to the incorporation by reference in the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.5 to the Company's 2005 10-K).*
- 23.6 Independent Registered Public Accountants' Consent from KPMG LLP, with respect to the inclusion in this Annual Report on

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Form 10-K/A of their report on the financial statements of Jefferies Partners Opportunity Fund II, LLC and with respect to the incorporation by reference of such report into the Company's Registration Statements on Form S-8 (No. 2-84303), Form S-8 and S-3 (No. 33-6054), Form S-8 and S-3 (No. 33-26434), Form S-8 and S-3 (No. 33-30277), Form S-8 (No. 33-61682), Form S-8 (No. 33-61718), Form S-8 (No. 333-51494) and Form S-3 (File No. 333-118102).

- 23.7 Consent of PricewaterhouseCoopers LLP with respect to the incorporation by reference into the Company's Registration Statement on Form S-8 (File No. 2-84303), Form S-8 and S-3 (File No. 33-6054), Form S-8 and S-3 (File No. 33-26434), Form S-8 and S-3 (File No. 33-30277), Form S-8 (File No. 33-61682), Form S-8 (File No. 33-61718), Form S-8 (File No. 333-51494) and Form S-3 (File No. 333-118102) (filed as Exhibit 23.7 to the Company's 2005 10-K).*
- 31.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 32.2 Certification of President pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 32.3 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

(c) Financial statement schedules.

- (1) Berkadia LLC financial statements for the years ended December 31, 2004 and 2003.
- (2) Olympus Re Holdings, Ltd. consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003.
- (3) EagleRock Capital Partners (QP), LP financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 and EagleRock Master Fund, LP financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003.
- (4) WilTel Communications Group, Inc. consolidated financial statements as of November 5, 2003 (Successor Company), and for the periods from January 1, 2003 through November 5, 2003, and November 1, 2002 through December 31, 2002 (Successor Company) and the periods January 1,

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2002 through October 31, 2002 (Predecessor Company)
(previously filed as financial statement schedule to the
Company's 2005 10-K).*

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

* Incorporated by reference.

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

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SIGNATURES

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

LEUCADIA NATIONAL CORPORATION

March 24, 2006

By: /s/ Barbara L. Lowenthal

Barbara L. Lowenthal
Vice President and Comptroller

FINANCIAL STATEMENTS

Berkadia LLC (a joint venture between Berkshire Hathaway Inc. and Leucadia National Corporation)
Year ended December 31, 2004 (unaudited) and December 31, 2003

Berkadia LLC

Financial Statements

Years ended December 31, 2004 (unaudited) and 2003

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Report of Independent Auditors

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The Members of Berkadia LLC

We have audited the accompanying statements of operations and changes in members' equity and cash flows of Berkadia LLC (the "Company") for the year ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and changes in members' equity and cash flows of Berkadia LLC for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Phoenix, Arizona
February 20, 2004

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Berkadia LLC

Statements of Operations and Changes in Members' Equity (Deficit)

	YEAR ENDED DECEMBER 31,	
	2004 (UNAUDITED)	2003 (AUDITED)
	(In thousands)	
REVENUE		
Interest income and amortization of loan discount	\$ 2,428	\$ 198,790
Total revenue	2,428	198,790
EXPENSES		
Interest expense	215	18,394
Total expenses	215	18,394
Net income	2,213	180,396
Members' equity (deficit), beginning of period	847	(147,035)
Distributions to members	(3,060)	(32,514)
Members' equity (deficit), end of period	\$ -	\$ 847

=====

See accompanying notes.

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Berkadia LLC

Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2004 (UNAUDITED)	2003 (AUDITED)

	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 2,213	\$ 180,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of loan discount	(975)	(149,522)
Net change in:		
Receivables	2,392	3,763
Payables	(570)	(2,123)
	-----	-----
Net cash provided by operating activities	3,060	32,514
INVESTING ACTIVITIES		
Loan repayment from FINOVA	525,000	1,650,000
	-----	-----
Net cash provided by investing activities	525,000	1,650,000
FINANCING ACTIVITIES		
Repayment of long-term debt	(525,000)	(1,650,000)
Distributions to members	(3,060)	(32,514)
	-----	-----
Net cash used in financing activities	(528,060)	(1,682,514)
	-----	-----
Net increase (decrease) in cash	-	-
Cash and cash equivalents at beginning of period	-	-
	-----	-----
Cash and cash equivalents at end of period	\$ -	\$ -
	=====	=====

See accompanying notes.

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Berkadia LLC

Notes to Financial Statements

December 31, 2004 (unaudited) and 2003

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1. FORMATION AND NATURE OF OPERATIONS

Berkadia LLC (the "Company" or "Berkadia") was formed on February 26, 2001 as a joint venture between Berkshire Hathaway Inc. ("Berkshire") and Leucadia National Corporation ("Leucadia"). Berkshire and Leucadia through their respective wholly owned affiliates hold the interests in the Company and are referred to as the "Members".

The principal business purpose of the Company was to lend up to \$6,000,000,000 on a senior secured basis to FINOVA Capital Corporation ("FINOVA Capital"), 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. On August 10, 2001, the bankruptcy court confirmed the Chapter 11 reorganization plan for the FINOVA companies (the "Plan"). On August 21, 2001, the effective date of the Plan, the Company loaned \$5,600,000,000 par amount on a senior secured basis to FINOVA Capital (the "Berkadia Loan"). Concurrent with the loan, the Company received 61,020,581 newly issued shares of common stock of FINOVA (the "Shares"), representing 50 percent of the outstanding stock of FINOVA.

The Berkadia Loan was fully repaid in February 2004. As a result, the Company has discharged all of its obligations and distributed all remaining cash to its members. The Company does not currently conduct any business activities.

The Berkadia Loan was collateralized by substantially all of the assets of FINOVA and its subsidiaries and guaranteed by FINOVA and substantially all of the subsidiaries of FINOVA. The Company borrowed the entire amount required to finance the Berkadia Loan from a consortium of lenders led by Fleet Bank (the "Fleet Loan"). The Fleet Loan was guaranteed, 90 percent by Berkshire Hathaway and 10 percent by Leucadia (with Leucadia's guarantee being secondarily guaranteed by Berkshire), and was also secured by the Company's pledge of the Berkadia Loan.

The Company was paid a \$60,000,000 commitment fee by FINOVA Capital upon execution of the loan commitment in February 2001, and a \$60,000,000 fee upon funding of the Berkadia Loan on August 21, 2001. Under the operating agreement governing the Company, Berkshire and Leucadia share equally in the commitment fee, funding fee and any proceeds realized from the Shares. Interest on the Berkadia Loan, after payment of interest on the Fleet Loan, is allocated 90 percent to Berkshire and 10 percent to Leucadia.

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Berkadia LLC

Notes to Financial Statements (continued)

1. FORMATION AND NATURE OF OPERATIONS (CONTINUED)

The Members have not contributed any equity capital to the Company, and the Company does not currently anticipate that any capital contributions will be required in the future. Decisions concerning the management of the business and affairs of the Company generally require the consent of all Members. However, Berkshire makes any and all decisions with respect to the Berkadia Loan in its sole and absolute discretion.

Upon FINOVA's emergence from bankruptcy in 2001, each of Berkshire and Leucadia designated two persons to serve on FINOVA's reconstituted board of directors. From and after the effective date of the Plan, the Company, Berkshire and

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Leucadia are not entitled to designate FINOVA board members.

During 2002, several structural changes to the Company were executed, which were intended to simplify the ownership structure of the Company and to provide a debt-free vehicle for the Berkadia members to use to pursue other investments. These changes did not alter the ownership interests in the Company, ultimately held by Berkshire and Leucadia, and resulted in no gains or losses or other changes to member's accumulated deficit. Among the changes, the Company effectively distributed all of its right, title and interest in and to the Shares to an entity formed by the Members (Berkadia Equity Holdings LLC). As a result, the Company no longer has any other financial interest in FINOVA.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of Estimates in Preparing Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Investment in FINOVA Shares: Berkadia accounted for its investment in the Shares under the equity method. Under the equity method, Berkadia recognized its proportionate share of FINOVA's net income or loss. For the period August 21 through September 30, 2001, FINOVA incurred significant operating losses primarily as a result of the September 11 terrorist attack. Berkadia's share of such losses far exceeded the cost allocated to the Shares, which was based upon the relative fair values of the Shares and the Berkadia Loan as of August 21, 2001. The application of the equity method was suspended once the carrying amount of Shares was reduced to zero. As a result of the structural changes to the Company in 2002 discussed in Note 1, Berkadia possesses no financial interests in the Shares.

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Berkadia LLC

Notes to Financial Statements (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income taxes: The Company does not file an income tax return. Each Member is responsible for the tax liability, if any, deriving from the taxable income allocated to such Member. Accordingly, no provision for income taxes has been reflected in these financial statements.

3. BERKADIA LOAN

While it was outstanding, the Berkadia Loan was carried net of unamortized discount related to the commitment fee, the funding fee and the amount of the Berkadia Loan allocated to Berkadia's investment in the Shares. The discount was accreted into investment income over the life of the Berkadia Loan through the effective interest method. The Berkadia Loan was fully repaid in February 2004.

While it was outstanding the Berkadia Loan bore interest payable monthly, at the Eurodollar Rate plus 2.25 percent. For the year ended December 31, 2003, the weighted-average interest rate was 3.55 percent.

On August 21, 2001, the Company transferred \$5,540,000,000 in cash to FINOVA

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Capital, representing the \$5,600,000,000 loan reduced by the funding fee of \$60,000,000. As indicated above, in exchange for these funds, the Company received a \$5,600,000,000 note from FINOVA Capital and the Shares. The Company allocated the \$5,540,000,000 cash transferred, reduced further by the \$60,000,000 commitment fee received in February 2001, between its investment in the Berkadia Loan and the Shares, based upon the respective relative fair values of the Berkadia Loan and the Shares. As a result, the Berkadia Loan was recorded at an initial value of \$5,291,200,000, which is net of a discount related to the commitment and funding fees of \$120,000,000 and the cost allocated to the Shares of \$188,800,000.

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Berkadia LLC

Notes to Financial Statements (continued)

3. BERKADIA LOAN (CONTINUED)

The terms of the Berkadia Loan permitted FINOVA to retain a reserve of cash and cash equivalents in an amount not to exceed the sum of (a) 125 percent of the projected operating expenses for the next fiscal quarter, (b) unfunded customer commitments expected to be funded over the next two fiscal quarters, (c) taxes payable during the next fiscal quarter, (d) interest, loan fees and other amounts due on the Berkadia Loan during the next fiscal quarter, (e) an amount equal to all payments of principal, interest or fees relating to other permitted indebtedness that will, by their terms, become due and payable in cash during the next fiscal quarter, and (f) such other reserves as are necessary in FINOVA's good faith judgment and as approved in advance by the Company for the operations of FINOVA. Any amount in excess of the cash reserve is paid to the Company to reduce the principal amount of the loan on a quarterly basis.

During 2002, the Company gave its consent to FINOVA to use up to \$300 million of cash to repurchase certain subordinated notes rather than make mandatory prepayments of the Berkadia Loan. In consideration for its consent, FINOVA and the Company agreed that they would share equally in the net interest savings resulting from any repurchase. As a result of repurchases made by FINOVA during 2003, the Company recognized approximately \$6.8 million in interest income related to the net interest savings.

For the year ended December 31, 2003, the Company received \$1.650 billion in loan repayments from FINOVA. On February 9, 2004, FINOVA prepaid the entire remaining outstanding balance of the Berkadia Loan.

4. FLEET LOAN

While it was outstanding, the Fleet Loan bore interest payable monthly, at a rate generally equal to the cost of funds for the lenders' conduit facilities plus 0.25 percent. The lenders' cost of funds rate was substantially equal to the Eurodollar Rate that was used to determine the interest rate on the Berkadia Loan. For the year ended December 31, 2003, the weighted-average interest rate was 1.54 percent. All unpaid principal and accrued interest was prepaid by Berkadia in February 2004.

5. MEMBERS' CAPITAL

For the years ended December 31, 2004 and 2003, the Company distributed substantially all of its available cash to its Members, aggregating \$3.1 million and \$32.5 million, respectively. For the two-year period, \$30.8 million was distributed to Berkshire Members and \$4.8 million to Leucadia Members.

OLYMPUS RE HOLDINGS, LTD.
(Incorporated in Bermuda)

Consolidated Financial Statements
DECEMBER 31, 2005, 2004 AND 2003
(expressed in U.S. dollars)

[PricewaterhouseCoopers logo]

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March 2, 2006

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF
OLYMPUS RE HOLDINGS, LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity, comprehensive income and cash flows present fairly, in all material respects, the financial position of OLYMPUS RE HOLDINGS, LTD. at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years ended December 31, 2005, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these consolidated statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers

Chartered Accountants

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A list of partners can be obtained from the above address.

PricewaterhouseCoopers refers to the members of the worldwide PricewaterhouseCoopers organization.

OLYMPUS RE HOLDINGS, LTD.
Consolidated Balance Sheets
AS OF DECEMBER 31, 2005 AND 2004

(expressed in U.S. dollars)

	2005	2004
	\$	\$
<hr style="border-top: 1px dashed black;"/>		
ASSETS		
Cash and cash equivalents (note 3)	57,817,230	50,929,556
Investments (note 3)	894,649,371	839,138,959
Investment income accrued	9,528,640	9,262,091
Investments trade pending	5,036,070	-
Accounts and premiums receivable	204,081,053	179,417,972
Deferred acquisition costs	35,459,806	48,406,242
Deferred capital raise expenditures (note 11)	1,434,635	-
Other assets	369,730	288,897
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	1,208,376,535	1,127,443,717
	<hr style="border-top: 3px double black;"/>	
LIABILITIES		
Loss and loss adjustment expense reserves (note 4)	1,025,993,782	301,021,728
Unearned premiums	120,607,036	156,827,274
Share subscriptions received in advance (note 11)	32,740,242	-
Accounts payable and accrued expenses	553,985	424,940
Advisory fees payable (note 6)	6,519,798	15,758,183
Accrued capital raise expenditures	653,552	-
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	1,187,068,395	474,032,125
	<hr style="border-top: 1px dashed black;"/>	
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	35,193	37,164
Contributed surplus (note 8)	351,893,807	371,600,636
Accumulated other comprehensive income	2,132,591	2,978,377
Retained (deficit) earnings	(332,753,451)	278,795,415
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	21,308,140	653,411,592
	<hr style="border-top: 1px dashed black;"/>	
	1,208,376,535	1,127,443,717
	<hr style="border-top: 3px double black;"/>	

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Approved by the Board of Directors

----- Director ----- Director

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

OLYMPUS RE HOLDINGS, LTD.
Consolidated Statements of Income
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

	2005 \$	2004 \$
REVENUES		
Gross premiums written	518,811,790	521,031,407
Net premiums written	518,811,790	521,031,407
Net change in unearned premiums	36,220,238	(14,034,538)
Net premiums earned	555,032,028	506,996,869
Net investment income	34,531,532	25,373,016
Net realized (losses) gains on investments	(16,882,643)	1,005,365
TOTAL REVENUES	572,680,917	533,375,250
EXPENSES		
Losses and loss expenses (note 4)	1,026,331,103	296,732,651
Commissions	128,348,583	160,686,894
Premium taxes and fees	4,341,284	4,419,724
Other underwriting expenses	7,882,461	3,070,531
General and administrative expenses	2,383,140	2,336,496
TOTAL EXPENSES	1,169,286,571	467,246,296
NET (LOSS) INCOME FOR THE YEAR	(596,605,654)	66,128,954

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

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OLYMPUS RE HOLDINGS, LTD.
 Consolidated Statements of Shareholders' Equity
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

	COMMON VOTING SHARES \$	ADDITIONAL PAID-IN CAPITAL \$	ACCUMULATED OTHER COMPREHENSIVE INCOME \$
BALANCE AS OF DECEMBER 31, 2002	51,000	509,949,000	16,105,280
Net income for the year	-	-	-
Change in unrealized depreciation on marketable investments	-	-	(4,589,630)
Repurchase of common voting shares	(7,143)	(71,421,457)	-
BALANCE AS OF DECEMBER 31, 2003	43,857	438,527,543	11,515,650
Net income for the year	-	-	-
Change in unrealized depreciation on marketable investments	-	-	(8,537,273)
Repurchase of common voting shares (note 8)	(6,693)	(66,926,907)	-
BALANCE AS OF DECEMBER 31, 2004	37,164	371,600,636	2,978,377
Net loss for the year	-	-	-
Change in unrealized depreciation on marketable investments	-	-	(845,786)
Repurchase of common voting shares (note 8)	(1,971)	(19,706,829)	-
BALANCE AS OF DECEMBER 31, 2005	35,193	351,893,807	2,132,591

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

OLYMPUS RE HOLDINGS, LTD.
 Consolidated Statements of Comprehensive Income
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

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(expressed in U.S. dollars)

	2005 \$	2004 \$	
NET (LOSS) INCOME FOR THE YEAR	(596,605,654)	66,128,954	200,
OTHER COMPREHENSIVE LOSS			
Change in unrealized depreciation on marketable investments	(845,786)	(8,537,273)	(4,
COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	(597,451,440)	57,591,681	196,

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

OLYMPUS RE HOLDINGS, LTD.
Consolidated Statements of Cash Flows
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

	2005 \$	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income for the year	(596,605,654)	
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Loss (gain) on sale of investments	16,882,643	
Net amortization of premium on fixed maturities	2,324,210	
Investment income accrued	(266,549)	
Accounts and premiums receivable	(24,663,081)	
Deferred acquisition costs	12,946,436	
Other assets	(80,833)	
Loss and loss adjustment expense reserves	724,972,054	1
Unearned premiums	(36,220,238)	
Accounts payable and accrued expenses	129,047	
Advisory fees payable	(9,238,385)	
Cash provided by operating activities	90,179,650	2
CASH FLOWS FOR INVESTING ACTIVITIES		
Purchase of investments	(911,493,880)	(6
Proceeds from sales of investments (net of investments trade pending)	830,894,757	6
Cash used in investing activities	(80,599,123)	

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CASH FLOWS FOR FINANCING ACTIVITIES		
Repurchase of common shares	(34,652,012)	(1
Deferred capital raise expenditures	(1,434,635)	
Accrued capital raise expenditures	653,552	
Share subscriptions received in advance	32,740,242	
Cash used in financing activities	(2,692,853)	(1
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,887,674	
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	50,929,556	
CASH AND CASH EQUIVALENTS - END OF YEAR	57,817,230	

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

OLYMPUS RE HOLDINGS, LTD.
Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

1. NATURE OF THE BUSINESS

Olympus Re Holdings, Ltd. and its principal operating subsidiary Olympus Reinsurance Company, Ltd. ("Olympus Re") were incorporated under the laws of Bermuda on December 3, 2001 and commenced operations on January 1, 2002. On December 22, 2005 Olympus Re Holdings, Ltd. incorporated a new subsidiary, Helicon Re Holdings, Ltd. ("Helicon") together with Helicon's wholly-owned operating subsidiary Helicon Reinsurance Company, Ltd. ("Helicon Re") (see note 11) (Olympus Re Holdings, Ltd. and its subsidiaries are referred to as "the Company"). Olympus Re is registered as a Class 4 insurer under The Insurance Act 1978, amendments thereto and related regulations ("The Act"). Helicon Re did not commence operations prior to December 31, 2005.

The Company's bye-laws provide that the Board of Directors of Olympus Re shall consist of persons who first have been elected as designated directors by a resolution in a general meeting of the shareholders of the Company. The Board of Directors of the Company must then vote all shares of Olympus Re owned by the Company to elect such designated directors as Olympus Re directors. The bye-law provisions with respect to the removal of directors of Olympus Re operate similarly (see note 2(a)).

The Company, through Olympus Re, writes reinsurance business on a global basis with an emphasis on property excess business. During the year ended December 31, 2005, this was through two main sources, quota share reinsurance agreements with a U.S. reinsurance company and a Swedish reinsurance company (see note 7) and underwriting advisory contracts. The purpose of these quota share agreements is to produce primarily property reinsurance. Olympus Re's underwriting advisory contracts are with non-U.S. advisors (see note 6) to recommend excess

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property and marine reinsurance business and consult on the quota share agreements. The non-U.S. advisors are related to the previously mentioned U.S. and Swedish reinsurance companies through common ownership.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as at the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

The following is a summary of the significant accounting policies adopted by the Company:

(a) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries Olympus Re and Helicon. All significant inter-company balances and transactions have been eliminated on consolidation.

In December 2003, the FASB issued a FASB Interpretation No. 46, Consolidation of variable interest entities - an interpretation of ARB No. 51 (revised December 2003) ("FIN 46R"). FIN 46R clarifies the accounting and reporting for certain entities in which equity investors do not have the characteristics of a controlling financial interest.

Olympus Re's Board of Directors, who are elected as described in note 1, have unilateral authority to manage the affairs of Olympus Re, except for certain actions that require approval by the Company as sole shareholder. Since the Company and Olympus Re are under the common control of the shareholders of the Company, the financial statements of the Company were previously presented on a combined basis, rather than on a consolidated basis, in accordance with ARB No. 51.

(1)

OLYMPUS RE HOLDINGS, LTD.
Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

The Company adopted FIN 46R during 2004, the impact of which is to present the financial statements as consolidated rather than combined. This has not had any impact on the Company's net income or net shareholders' equity as presented in these financial statements.

(b) PREMIUMS AND UNEARNED PREMIUMS

The Company records premiums for the quota share treaties based on cession statements received. Premiums are earned evenly over the term of the underlying reinsurance contract, in proportion to the risk

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assumed. The portion of the premium related to the unexpired portion of the contract at the end of the fiscal period is reflected in unearned premiums.

Other reinsurance premiums assumed are estimated at the inception of the policy based on information provided by the underlying ceding companies. The information used in establishing these estimates is reviewed and subsequent adjustments are taken into income in the period in which they are determined. These premiums are earned on a pro-rata basis over the terms of the related reinsurance contracts.

Reinstatement premiums are recognized at the time a loss event occurs where coverage limits for the remaining life of the contract are reinstated under pre-defined contract terms and are fully earned when recognized. Accrual of reinstatement premiums is based on the cession statements received or information provided by the underlying ceding companies.

(c) DEFERRED ACQUISITION COSTS

The Company records acquisition costs based on cessions statements received, in addition to its own direct acquisition costs.

Policy acquisition costs are comprised of ceding commissions, brokerage, premium taxes and other expenses that relate directly to the acquisition of premiums. These costs are deferred and amortized over the terms of the related contracts on a pro-rata basis. Deferred policy acquisition costs are reviewed to determine if they are recoverable from future underwriting profits, including investment income. If such costs are estimated to be unrecoverable, they are expensed.

(d) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company records loss and loss adjustment expenses based on cessions statements received. Loss and loss adjustment expense reserves, including losses incurred but not reported and provisions for settlement expenses, include amounts determined from losses reported to the Company, and management estimates. Due to limited historical experience, industry data is relied upon in the reserving process.

A significant portion of the Company's business is in the property catastrophe market and programs with higher layers of risks. Reserving for losses in such programs is inherently complicated in that losses in excess of the attachment level of the underlying policies are characterized by high severity and low frequency. This limits the volume of industry claims experience available from which to reliably predict ultimate losses following a loss event.

The Company uses industry data and professional judgment to estimate the ultimate loss from reinsurance contracts exposed to a loss event. Delays in reporting losses to the Company together with the potential for unforeseen adverse developments may result in losses and loss expenses significantly greater or less than the reserve provided at the time of the loss event.

Loss and loss adjustment expense reserve estimates are regularly reviewed and updated, as new information becomes known to the Company. Any resulting adjustments are included in income in the period in which they become known.

OLYMPUS RE HOLDINGS, LTD.
 Notes to Consolidated Financial Statements
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

(e) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include time deposits with original maturities of three months or less.

(f) INVESTMENTS

The Company's investments in fixed maturities are classified as "available-for-sale" and are carried at fair value, based on quoted market prices. Unrealized gains and losses are included within accumulated other comprehensive income in shareholders' equity.

Net investment income is stated net of investment management and custody fees. Interest income is recognized on the accrual basis and includes the amortization of premium or discount on fixed interest securities purchased at amounts different from their par value.

Gains and losses on investments are included in income when realized. Investments are recorded on a trade date basis and the cost of securities sold is determined on the first-in, first-out basis.

Investments are reviewed periodically to determine if they have sustained an impairment of value that is considered to be other than temporary. The identification of potentially impaired investments involves significant management judgment, which includes the determination of their fair value and the assessment of whether any decline in value is other than temporary. If investments are determined to be impaired, a loss is charged to income in that period.

(g) FOREIGN CURRENCY

Monetary assets and liabilities denominated in foreign currencies have been translated to U.S. dollars at the rates of exchange prevailing at the balance sheet date. Income and expense transactions originating in foreign currencies are translated at the rates of exchange prevailing on the date of the transaction. Gains and losses on foreign currency translation are included in income.

3. INVESTMENTS

	COST OR AMORTIZED COST \$	GROSS UNREALIZED GAIN \$	GROSS UNREA
U.S. Government	120,498,280	1,841,404	
U.S. Government-Sponsored Enterprises	369,580,139	186,544	

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Corporate	278,118,953	45,027
Mortgage-backed securities	124,319,408	59,616
	-----	-----
	892,516,780	2,132,591
	-----	-----

(3)

OLYMPUS RE HOLDINGS, LTD.
Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

	COST OR AMORTIZED COST \$	GROSS UNREALIZED GAIN \$	UNREA
	-----	-----	-----
U.S. Government	146,969,861	1,605,351	1,12
U.S. Government-Sponsored Enterprises	347,715,100	1,919,481	76
Corporate	300,062,897	2,729,585	1,18
Mortgage-backed securities	41,412,724	23,962	23
	-----	-----	-----
	836,160,582	6,278,379	3,30
	-----	-----	-----

The estimated fair value of fixed interest securities is based on quoted market values.

Realized gains and losses in 2005 include a loss of \$7,859,862, relating to certain fixed income investments where the Company determined that there was an other than temporary decline in the value of those investments.

As at December 31, 2005, it was determined that the total gross unrealized losses on investments should be recognized as realized losses. This is a direct result of the magnitude of the underwriting losses suffered by the Company during 2005. Due to the potential short-term nature of expected loss payments, the Company did not believe that it had the intent or the ability to hold the relevant investments until a market price recovery, or until maturity, and as such recognized an other than temporary impairment in investments described above.

The Company did not have any investments in a single corporate security which exceeded 2% and 1.6% of total fixed interest securities as of December 31, 2005 and 2004, respectively.

The following table sets forth certain information regarding the investment ratings of the company's fixed interest securities portfolio as of December 31, 2005 and 2004.

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RATINGS	2005		AMO
	AMORTIZED COST \$	%	
U.S. Government	120,498,280	14	146,
U.S. Government-Sponsored Enterprises	369,580,139	41	347,
AAA	132,929,361	15	64,
AA	53,027,563	6	45,
A	178,350,334	20	227,
BBB	38,131,103	4	4,
	892,516,780	100	836,

(4)

OLYMPUS RE HOLDINGS, LTD.
Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

The amortized cost and estimated fair value amounts for fixed interest securities held at December 31, 2005 are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	AMORTI C
Due within one year	64,904
Due after one year through five years	655,432
Due after five years through ten years	47,860
	768,197
Mortgage-backed securities	124,319
	892,516

The components of net investment income are as follows:

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	2005	
	\$	
Interest on fixed maturities	37,085,044	30,40
Net amortization of premium on fixed maturities	(2,324,210)	(5,33
Interest on cash and cash equivalents	749,044	1,04
	35,509,878	26,11
Net investment expenses	(978,346)	(74
	34,531,532	25,37

During 2005, 2004 and 2003, proceeds from sales of available-for-sale securities were \$835,930,827, \$610,701,636 and \$564,819,740 respectively. Gross realized gains were \$1,217,826, \$2,990,444 and \$5,548,574 and gross realized losses were \$18,100,469, \$1,985,079 and \$418,276 for the years ended December 31, 2005, 2004 and 2003 respectively.

White Mountain Advisors, LLC, the Company's investment advisors, receive a management fee at an annual rate of 0.1% of net invested assets. In 2004 and 2003 the annual rate was 0.1% and 0.2% respectively.

In the normal course of business, the Company provides collateral in accordance with certain reinsurance agreements. The Company has cash equivalents of \$7,358,639 and \$2,840,794 and investments of \$752,348,653 and \$287,839,361 in trusts, as of December 31, 2005 and 2004, respectively, provided as collateral.

4. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Loss and loss adjustment expense reserves are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim

(5)

OLYMPUS RE HOLDINGS, LTD.

Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

information, changes in judicial interpretation of contracts or significant changes in the severity or frequency of claims from historical trends. Loss and loss adjustment expenses estimates are based on all relevant information available to the Company. Methods of estimation are used which the Company believes produce reasonable results given current information.

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Reserve activity for loss and loss expenses is summarized below:

BALANCE - BEGINNING OF YEAR	301,02
<hr/>	
Net claims and claims expenses incurred for the year related to:	
Current year	987,67
Prior year	38,65
	<hr/>
	1,026,33
<hr/>	
Net paid claims and claims expenses for the year related to:	
Current year	89,88
Prior year	211,47
	<hr/>
	301,35
<hr/>	
BALANCE - END OF YEAR	1,025,99
	<hr/> <hr/>

The Company suffered significant catastrophe losses during 2005 (see note 5). In addition, during 2005 there was adverse development of \$41.6 million on the loss and loss adjustment expense reserves for hurricanes and typhoons recorded during 2004. The majority of this development was for marine and energy claims from hurricane Ivan, which were reported for the first time in 2005.

The December 31, 2005 and 2004 year end balance is comprised of provisions for reported claims of \$676,149,004 and \$115,474,945 and provisions for claims incurred but not reported of \$349,844,778 and \$185,546,783, respectively.

5. 2005 CATASTROPHE LOSSES

The Company suffered significant losses from the catastrophe events which occurred in 2005, the largest of which were the losses from Hurricanes Katrina, Rita and Wilma. The net impact to the Company was:

	KATRINA	RITA
Gross losses incurred	\$714,915,375	\$72,374,8
Reinstatement premiums earned	(77,673,277)	(4,357,3
Override commission, brokerage & FET	10,872,548	541,2
NET IMPACT	648,114,646	68,558,7

The Company's estimates for these losses are based on currently available information from cedants and actual losses may vary from these estimates due to the inherent uncertainties in reserving for such losses, and these variances could be material. 77% of the Company's loss and loss adjustment expense reserves as at December 31, 2005 were for these three Hurricanes.

(6)

OLYMPUS RE HOLDINGS, LTD.
Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

6. ADVISORY FEES PAYABLE

Advisory fees payable represents override commission payable to the non-U.S. advisors, White Mountains Underwriting Limited and White Mountains Underwriting (Bermuda) Limited, (collectively White Mountains Underwriting) for all business on which they advise.

There is no profit commission payable by Olympus Re to White Mountains Underwriting as at December 31, 2005 due to the underwriting loss sustained in 2005. The advisory agreements with White Mountains Underwriting provide for 20% of underwriting loss to be carried forward and applied against future profit commissions payable until extinguished (known as the "profit commission deficit"). As at December 31, 2005 and December 31, 2004 the total amount of the underwriting loss applicable to the advisory agreements was \$576,764,961 and \$0 respectively.

7. MAJOR CUSTOMERS

During the years ended December 31, 2005, 2004 and 2003, the Company derived 75%, 86% and 90%, respectively, of its premiums written from Folksamerica Reinsurance Company ("Folksamerica") for which the Company pays an override commission. During the years ended December 31, 2005 and 2004 and 2003, the Company derived 11%, 9% and 8% respectively, of its premiums written from business recommended by White Mountains Underwriting for which the Company pays an override commission. During the years ended December 31, 2005 and 2004, the Company derived 13% and 3% respectively, of its premiums written from Sirius International Insurance Corporation ("Sirius") for which the Company pays an override commission. Folksamerica, White Mountains Underwriting and Sirius are wholly-owned subsidiaries of White Mountains Insurance Group Ltd. ("White Mountains"), parent of White Mountain Advisors, LLC. White Mountains has an approximate 0.01% indirect ownership in the Company. Included in premiums receivable for the years ended December 31, 2005 and 2004 were amounts of \$148,335,494 and \$166,798,822, respectively, due from Folksamerica and \$31,444,740 and \$5,613,406 respectively from Sirius.

8. CAPITAL STOCK

(a) AUTHORIZED SHARES

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The Company's authorized share capital is 20,000,000 common shares of the par value of \$0.01 each.

(b) COMMON SHARES

At December 31, 2005 and 2004, the total issued and outstanding common shares of the Company were 3,519,289 and 3,716,378, respectively, with a par value of \$0.01. The holders of the ordinary shares are entitled to receive dividends and are allocated one vote per share, provided that, if the controlled shares of any shareholder (excluding Leucadia National Corporation) constitute 9.5 percent or more of the outstanding common shares of the Company, only a fraction of the vote will be allowed so as not to exceed 9.5 percent. There are various restrictions on the ability of shareholders to dispose of their shares.

The Company's Bye-laws provide that the shareholders have an annual put option to request that the Company repurchase any or all of their shares. Such repurchase is subject to capital adequacy of the Company under The Act and the approval of the Board of Directors of the Company. At December 31, 2005 the Company had received requests to repurchase 86,506 shares which will cost the Company \$523,361 at year end net asset value. The repurchase of these shares is subject to approval by the Board of Directors at their first meeting in 2006.

In the years ended December 31, 2005 and 2004, the Company used cash of \$34,652,012 and \$122,984,606 to repurchase a total of 197,088 and 669,336 shares respectively.

(7)

OLYMPUS RE HOLDINGS, LTD.

Notes to Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

9. TAXATION

BERMUDA

The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 28, 2016. At the present time no such taxes are levied in Bermuda.

UNITED STATES

The Company does not consider itself to be engaged in trade or business in the United States and, accordingly, does not expect to be subject to United States income tax.

10. STATUTORY REQUIREMENTS

Under The Act, Olympus Re is required to prepare Statutory Financial Statements and to file a Statutory Financial Return. The Act also requires Olympus Re to maintain a minimum share capital of \$1,000,000 and to meet a minimum solvency margin equal to the greater of \$100,000,000, 50% of net premiums written or 15% of the loss and loss adjustment expense reserves. Olympus Re did not meet the minimum solvency margin at December 31, 2005. Olympus Re exceeded the minimum solvency margin as at December 31, 2004 and 2003.

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Statutory capital and surplus as reported under The Act is different from shareholders' equity as determined in conformity with accounting principles generally accepted in the United States of America ("GAAP") due to certain items that are capitalized under GAAP but expensed under The Act.

Olympus Re is also required to maintain a minimum liquidity ratio under the Act, which was met for the years ended December 31, 2005, 2004 and 2003.

The Company reported the statutory non-compliance to the Bermuda Monetary Authority ("BMA") and met with them to discuss plans to return to compliance. Olympus Re returned to compliance under The Act in January 2006 following the completion of the capital raise (see note 11). The BMA has restricted Olympus Re's license with effect from January 1, 2006 to only write the quota share treaties with Folksamerica.

11. CAPITAL RAISING ACTIVITIES

During late 2005 and early 2006 the Company conducted a capital raise through concurrent private placement memoranda (the "Memoranda"). The Memoranda allowed potential investors the choice of investing in the operations of the Company and/or Helicon. Helicon's operations involve the participation, through Helicon Re, in the quota share business with Folksamerica on similar terms as Olympus Re.

The Company received \$32,740,242 in subscriptions in respect of the capital raise prior to December 31, 2005. In addition the Company has incurred expenses of \$1,434,635 for the year ended December 31, 2005 in respect of the capital raise and has deferred these. They will be offset against the proceeds of the capital raise in 2006.

The capital raise closed in January 2006. The Company raised a total of \$156,500,000 for the operations of Olympus Re and an additional \$145,500,000 was raised for the operations of Helicon Re. At the date of the closing Helicon repurchased its own shares from the Company and consequently as of that date its results are no longer consolidated by Olympus Re Holdings, Ltd.

(8)

OLYMPUS RE HOLDINGS, LTD.

Notes to Consolidated Financial Statements
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(expressed in U.S. dollars)

The capital raise resulted in 8.5 million new shares issued by the Company during January 2006 with an additional 17.5 million shares to be issued promptly following the release of the audited financial statements for the year ended December 31, 2005.

As part of the capital raise process of the Company, White Mountains Underwriting has consented to an arrangement whereby Helicon Re may use portions of Olympus Re's profit commission deficit (see note 6) to settle profit commissions which would otherwise be payable by Helicon Re to White Mountains Underwriting. This is accomplished by an agreement whereby Helicon Re must annually purchase for cash from Olympus Re, at book value, the amount of the profit commission deficit that Helicon Re can use in any given year to settle its own profit commission payable to White Mountains Underwriting. This arrangement will remain in place until all of Olympus Re's profit commission deficit as of December 31, 2005 is utilized.

EAGLEROCK CAPITAL PARTNERS (QP), LP

FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 2005

EAGLEROCK CAPITAL PARTNERS (QP), LP

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FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 2005

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EAGLEROCK CAPITAL PARTNERS (QP), LP

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INDEPENDENT AUDITORS' REPORT

The Partners
EagleRock Capital Partners (QP), LP
New York, New York

We have audited the accompanying statements of assets and liabilities of EagleRock Capital Partners (QP), LP (a limited partnership) as of December 31, 2005 and 2004, and the related statements of operations, changes in partners' capital, and changes in net assets for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 3(b), pursuant to the terms of its agreements with its limited partners and assuming the General Partner enters no agreements to the contrary going forward, the interests of the existing limited partners of EagleRock Capital Partners (QP), LP will be redeemed in 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EagleRock Capital Partners (QP), LP as of December 31, 2005 and 2004, and the results of its operations, changes in partners' capital and its changes in net assets for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

New York, New York

February 17, 2006

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STATEMENTS OF A

December 31,	2005
ASSETS	
Investment in EagleRock Master Fund, LP	\$122,938,768
Cash	556
Other assets	4,766
	122,944,090
LIABILITIES	
Capital withdrawal payable (Note 3(a))	1,805,269
Due to EagleRock Master Fund, LP (Note 2)	-
NET ASSETS (PARTNERS' CAPITAL) (NOTE 3)	\$121,138,821

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK CAPITA

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Year ended December 31,	2005	2004
INVESTMENT (LOSS) INCOME:		
Net investment (loss) income allocated from EagleRock Master Fund, LP:		
Interest	\$ 7,019,216	\$ 4,326,725
Dividends	942,273	1,024,367
Expenses	(10,675,122)	(7,186,079)
NET INVESTMENT (LOSS) INCOME FROM EAGLEROCK MASTER FUND, LP	(2,713,633)	(1,834,987)
Interest income	-	556
TOTAL INVESTMENT (LOSS) INCOME	(2,713,633)	(1,834,431)
EXPENSES:		
Management fee (Note 2)	1,501,405	1,068,296
Other	4,400	-
TOTAL EXPENSES	1,505,805	1,068,296
NET INVESTMENT (LOSS) INCOME	(4,219,438)	(2,902,727)
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS ALLOCATED FROM EAGLEROCK MASTER FUND, LP:		
Net realized gain on investments	6,012,886	5,606,973
Net change in unrealized gain on investments	(40,395,693)	37,703,722
NET (LOSS) INCOME (NOTE 1)	\$ (38,602,245)	\$40,407,968

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See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK CAPITAL PARTNERS, L.P.
STATEMENTS OF CHANGES IN CAPITAL

Three years ended December 31, 2005

	General partner	Limited partners (Note 3(b))
BALANCE, JANUARY 1, 2003	\$ 885,194	\$ 45,515,172
Net income (Note 1):		
Pro rata allocation	1,074,563	54,395,990
Performance allocation	4,991,114	(4,991,114)
Profit participation allocation	(521,806)	521,806
BALANCE, DECEMBER 31, 2003	6,429,065	95,441,854
Capital contributions	-	23,000,000
Capital withdrawals	-	(3,732,552)
Net income (Note 1):		
Pro rata allocation	2,278,164	38,129,804
Performance allocation	4,427,330	(4,427,330)
Profit participation allocation	(581,663)	581,663
BALANCE, DECEMBER 31, 2004	12,552,896	148,993,439
Capital withdrawals	-	(1,805,269)
Net loss (Note 1):		
Pro rata allocation	(2,896,764)	(35,705,481)
BALANCE, DECEMBER 31, 2005	\$ 9,656,132	\$111,482,689

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK CAPITAL PARTNERS, L.P.
STATEMENTS OF CHANGES IN CAPITAL

Year ended December 31, 2005 2004

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(DECREASE) INCREASE IN NET ASSETS FROM OPERATIONS:		
Net investment (loss) income	\$ (4,219,438)	\$ (2,902,727)
Net realized gain on investments	6,012,886	5,606,973
Net change in unrealized gain on investments	(40,395,693)	37,703,722

NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	(38,602,245)	40,407,968

(DECREASE) INCREASE IN NET ASSETS FROM CAPITAL TRANSACTIONS:		
Capital contributions	-	23,000,000
Capital withdrawals	(1,805,269)	(3,732,552)

NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS	(1,805,269)	19,267,448

TOTAL (DECREASE) INCREASE	(40,407,514)	59,675,416
NET ASSETS, BEGINNING OF YEAR	161,546,335	101,870,919

NET ASSETS, END OF YEAR	\$121,138,821	\$161,546,335
=====		

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK CAPITAL PARTNERS (QP), LP

SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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BUSINESS EagleRock Capital Partners (QP), L.P. ("Partnership") is a Delaware limited partnership organized to invest and trade in securities and other investment vehicles and instruments. The Partnership invests a significant portion of its assets in EagleRock Master Fund, LP ("Master Fund"). On November 1, 2004, EagleRock Master Fund, a Delaware partnership, transferred its net assets and partnership interests to the Master Fund, a Cayman Islands exempted partnership that became the surviving master partnership. As a result of the transfer, the Partnership received a pro rata share of the Partnership interest in the Master Fund on that date. The Partnership is also a general partner in the Master Fund. Mariel Capital Management, LLC ("General Partner") is the general partner of the Partnership. The financial statements of the Master Fund are included elsewhere in this report and should be read with the Partnership's financial statements.

As more fully discussed in Note 3(b), pursuant to the terms of its agreements with its limited partners and assuming the General Partner enters no agreements to the contrary going forward, the interests of the existing limited partners of the Partnership will be redeemed in 2006.

SIGNIFICANT
ACCOUNTING
POLICIES

INVESTMENT IN EAGLEROCK MASTER FUND, LP

The investment in the Master Fund is accounted for under the equity method, which reflects the Partnership's proportionate interest in the net assets and net income (loss) of the Master Fund. Valuation of the investments held by the Master Fund is discussed in the notes to the Master Fund financial statements included elsewhere in this report. The percentage of the Master Fund partners' capital owned by the Partnership at December 31, 2005 and 2004 was approximately 65% and 72%, respectively.

INVESTMENT TRANSACTIONS

The Partnership records all security transactions and related expenses on a trade date basis. Revenues and expenses are recorded on the accrual basis. Dividends are recorded on the ex-dividend date and interest is accrued in the period earned.

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EAGLEROCK CAPITAL PARTNERS (QP), LP

SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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INCOME TAXES

No income tax provision has been made in the accompanying financial statements since the partners are required to report their respective shares of the Partnership income in their individual income tax returns.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

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EAGLEROCK CAPITAL PARTNERS (QP), LP

NOTES TO FINANCIAL STATEMENTS

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1. ALLOCATION OF NET
INCOME (LOSS) AND
PERFORMANCE
ALLOCATION

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AND PROFIT
PARTICIPATION
ALLOCATION

The net income (loss) for the three years ended December 31, 2005 is allocated to each partner in accordance with the ratio of the capital account of each partner to the total of all capital accounts at the beginning of each fiscal period.

At the end of each performance period, 20% of net income in excess of cumulative loss is reallocated to the capital accounts of the General Partner as a performance allocation. The General Partner may, at its discretion, waive or alter this allocation. For one of the limited partners of the Partnership, a separate agreement exists stating that at the end of each performance period, 10% of net income in excess of cumulative loss is reallocated to the capital account of the General Partner. For the years ended December 31, 2004 and 2003, the performance allocation was \$4,427,330 and \$4,991,114, respectively. There was no performance allocation for the year ended December 31, 2005.

In consideration of one of the limited partner's contribution, the limited partner is entitled to receive 10% of any performance allocation paid to the General Partner by the Partnership and an affiliated partnership (the "Profit Participation Allocation"). Prior to June 1, 2003, the limited partner was entitled to 5% of any performance allocation paid to the General Partner by the Partnership. The General Partner may, at its discretion, increase this fee. For the years ended December 31, 2004 and 2003, the Profit Participation Allocation was \$581,663 and \$521,806, respectively. There was no profit participation allocation for the year ended December 31, 2005.

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EAGLEROCK CAPITAL PARTNERS (QP), LP

NOTES TO FINANCIAL STATEMENTS

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2. DUE TO EAGLEROCK
MASTER FUND, L.P.

MANAGEMENT FEES

EagleRock Capital Management, LLC ("Investment Manager") serves as the Investment Manager of the Partnership. The Partnership incurs a quarterly fee payable at the beginning of each quarter equal to .375% of the capital account balance of each limited partner as of the close of the preceding quarter. The General Partner may, at its discretion, reduce or eliminate this fee. Management fees are paid by the Master Fund and are discussed in the notes to the Master Fund's financial statements included elsewhere in this report. For one of the limited partners of the Partnership, a separate agreement exists stating that the Partnership incur a quarterly fee payable at the beginning of each quarter equal to .25% of the capital account balance of the limited partner as of the close of the preceding quarter. For the

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years ended December 31, 2005, 2004 and 2003, the Partnership's management fees were \$1,501,405, \$1,068,296 and \$584,522, respectively. As of December 31, 2005 and 2004 an aggregate amount of \$0 and \$1,974,347 was due to the Master Fund.

3. CAPITAL TRANSACTIONS (a) CAPITAL WITHDRAWAL PAYABLE

As of December 31, 2005, \$1,805,269 was payable to a limited partner for a capital withdrawal and was paid during January 2006.

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EAGLEROCK CAPITAL PARTNERS (QP), LP

NOTES TO FINANCIAL STATEMENTS

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(b) SUBSEQUENT CAPITAL TRANSACTIONS

Pursuant to the terms of its agreements with its limited partners, the General Partner began to redeem the interests of the existing limited partners of the Partnership during the first quarter of 2006. During the period January 1 to February 17, 2006, the General Partner made redemption payments totaling approximately \$18 million to the limited partners. Pursuant to the terms of its agreements with its limited partners, the General Partner intends to make payments in respect of the remaining approximately \$93 million to the limited partners on a quarterly basis. Until the limited partners' interests are redeemed in full, the Partnership's capital remains invested at the discretion of the General Partner.

4. FINANCIAL HIGHLIGHTS The financial highlights table represents the Partnership's financial performance for the three years ended December 31, 2005 are as follows:

Limited partner	2005	2004	2003
Total return before performance allocation and profit participation allocation	(23.96)%	34.11%	119.51%
Performance allocation, net of profit participation allocation	-	(3.45)	(9.82)
Total return after performance allocation and profit participation allocation (a)	(23.96)%	30.66%	109.69%

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Operating expense ratio (b)	3.23%	3.19%	4.33%
Performance allocation, net of profit participation allocation	-	3.45	9.82
Total expenses and performance allocation, net of profit participation allocation	3.23%	6.64%	14.15%
Net investment (loss) income ratio (c)	(3.02)%	(2.60)%	3.33%

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EAGLEROCK CAPITAL PARTNERS (QP), LP

NOTES TO FINANCIAL STATEMENTS

The financial highlights are calculated based on the following criteria:

- (a) Total return is computed based on the change in value during the year of a theoretical investment made at the beginning of the year. The total return is shown net of operating expenses, management fees and the performance allocation, net of profit participation allocation.

An individual partner's return may vary from the above returns based on different management fee and performance arrangements and the timing of capital transactions.

- (b) The operating expense ratio is calculated by dividing the total operating expenses by the average net assets of a theoretical investment made at the beginning of the year. The operating expense ratio is based on the expenses allocated to each limited partner prior to the effects of any performance allocation, net of profit participation allocation.

The expense ratios attributable to an individual partner's account may vary based on different management fee and performance arrangements and the timing of capital transactions.

- (c) The net investment (loss) income ratio is calculated by dividing the net investment (loss) income by the average net assets of a theoretical investment made at the beginning of year. The net investment (loss) income ratio is based on the net investment income allocated to a limited partner prior to the effects of a performance allocation, net of profit participation allocation.

The net investment (loss) income ratio attributable to an individual partner's account may vary based on different management fee and performance arrangements and based on timing of capital transactions.

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EAGLEROCK MASTER FUND, LP

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FINANCIAL STATEMENTS
THREE YEARS ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITORS' REPORT

The Partners
EagleRock Master Fund, LP
Grand Cayman, Cayman Islands

We have audited the accompanying statements of assets and liabilities, including the condensed schedules of investments, of EagleRock Master Fund LP (formerly, EagleRock Master Fund) as of December 31, 2005 and 2004, and the related statements of operations, changes in partners' capital, and changes in net assets for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully discussed in Note 6, and pursuant to agreements with existing limited partners of its Feeder Funds, a significant portion of the interests of the existing limited partners in its Feeder Funds will be redeemed. The Partnership commenced making such redemption payments in the first quarter of 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of EagleRock Master Fund LP as of December 31, 2005 and 2004, and the results of its operations, changes in partners' capital and changes in net assets for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

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BDO Seidman, LLP

New York, New York

February 17, 2006

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		EAGLE
		STATEMENTS OF AS
		(EXP
=====		
December 31,		2005

ASSETS		
Investments in securities, at fair value (cost \$299,102,075 and \$377,657,524) (Notes 1 and 5)		\$326,074,156
Investment in securities pledged to counterparty, at fair value (cost \$18,049,368 and \$-0-) (Notes 1, 4 and 5)		17,866,699
Dividends and interest receivable		657,016
Due from affiliates (Note 3)		-
Other		-

		344,597,871

LIABILITIES		
Securities sold, not yet purchased, at fair value (proceeds \$138,444,811 and \$81,968,106) (Notes 1 and 5)		133,421,837
Unrealized loss on open swap contracts (Notes 1 and 5)		871,148
Due to brokers, net (Note 1)		19,344,126
Dividends and interest payable		1,276,936
Accrued expenses and other liabilities (Note 3)		20,000

		154,934,047

CONTINGENCY (NOTE 7)		
NET ASSETS (PARTNERS' CAPITAL) (NOTE 6)		\$189,663,824
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See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLE
CONDENSED SCHEDULE
(EXPRES

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December 31, 2005

Number of shares/face	Description	% of net assets of \$189,663,824
INVESTMENTS IN SECURITIES:		
Common stock:		
United States:		
	Automotive	1.75%
	Building materials	.54
	Business services	7.37
	Capital equipment	7.62
	Chemicals	5.49
	Consumer products:	
2,508,302	Interstate Bakeries Corp.	9.85
	Other	5.18
	Electronics	7.89
	Energy	7.25
	Financial services	3.75
	Food processing:	
2,540,864	Darling International Inc.	5.32
	Other	.01
	Health & death care	3.10
	Housing	.35
	Index	3.24
	Media, entertainment & leisure:	
754,744	World Wrestling Entertainment Inc.	5.84
	Other	3.74
	Mining and metals	3.88
	Networking	.16
	Packaging & containers	4.68
	Paper products	.37
	Pharmaceuticals and biotech	4.48
	Retail	4.32
	Semis	6.05
	Software	7.81
	Telecommunications	11.29
	Transportation and defense	3.13
	Utilities	1.57
TOTAL COMMON STOCK - UNITED STATES (COST \$227,046,587)		126.03

See accompanying summary of business and significant accounting policies
and notes to financial statements.

December 31, 2005

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Number of shares/face	Description	% of net assets o \$189,663,824
INVESTMENTS IN SECURITIES (CONTINUED):		
Common stock (continued):		
Bermuda:		
	Telecommunications	.08%
	TOTAL COMMON STOCK - BERMUDA (COST \$153,086)	.08
Canada:		
	Energy	.03
	Software	.02
	Transportation and defense	.16
	TOTAL COMMON STOCK - CANADA (COST \$420,605)	.21
England:		
	Telecommunications	3.03
	TOTAL COMMON STOCK - ENGLAND (COST \$1,895,474)	3.03
France:		
	Chemicals	.17
	TOTAL COMMON STOCK - FRANCE (COST \$148,620)	.17
Germany:		
	Financial services	.17
	TOTAL COMMON STOCK - GERMANY (COST \$598,695)	.17
Italy:		
	Food processing	2.64
	TOTAL COMMON STOCK - ITALY (COST \$6,486,204)	2.64
South Africa:		
	Mining and metals	.44
	TOTAL COMMON STOCK - SOUTH AFRICA (COST \$700,163)	.44
	TOTAL COMMON STOCK (COST \$237,449,434)	132.77

See accompanying summary of business and significant accounting policies
and notes to financial statements.

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EAGLE

CONDENSED SCH
(EXP

December 31, 2005

Number of shares/face	Description	% of net assets o \$189,663,824
INVESTMENTS IN SECURITIES (CONTINUED):		
	Long-term debt securities	
	United States:	
	Automotive	.57%
	Building materials	2.33
	Business services	.92
	Chemicals	.54
	Consumer products	.13
	Electronics	.52
	Financial services	.86
	Health and death care	.63
	Media, entertainment and leisure	7.59
	Mining and metals:	
15,750,000	WCI Steel 10% 12/1/04 Sr Nts	5.77
	Other	2.19
	Packaging and containers	.80
	Retail	.06
	Semis	.67
	Telecommunications	3.11
	Transportation and defense	5.79
	Utilities	.42
	TOTAL LONG-TERM DEBT SECURITIES - UNITED STATES (COST \$59,327,430)	32.90
	Bermuda:	
	Pharmaceuticals and biotech	.74
	Telecommunications	.99
	TOTAL LONG-TERM DEBT SECURITIES - BERMUDA (COST \$1,350,006)	1.73
	England:	
	Automotive	.76
	Telecommunications	2.67
	TOTAL LONG-TERM DEBT SECURITIES - ENGLAND (COST \$6,686,967)	3.43

See accompanying summary of business and significant accounting policies
and notes to financial statements.

EAGLE

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CONDENSED SCH
(EXP)

December 31, 2005

Number of shares/face	Description	% of net assets of \$189,663,824
INVESTMENTS IN SECURITIES (CONTINUED):		
Long-term debt securities (continued):		
Mexico:		
	Telecommunications	1.20%
TOTAL LONG-TERM DEBT SECURITIES - MEXICO (COST \$1,654,435)		1.20
TOTAL LONG-TERM DEBT SECURITIES (COST \$69,018,838)		39.26
Preferred stock:		
United States:		
	Automotive	.06
	Building materials	3.86
	Media, entertainment and leisure	.92
	Mining and metals	2.20
	Pharmaceuticals and biotech	.36
	Telecommunications	.20
	Transportation and defense	.03
	Utilities	.84
TOTAL PREFERRED STOCK (COST \$8,703,602)		8.47
Options purchased (cost \$1,979,569):		
	United States	.83
TOTAL INVESTMENTS IN SECURITIES (COST \$317,151,443)		181.33%

See accompanying summary of business and significant accounting policies
and notes to financial statements.

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EAGLE

CONDENSED SCH
(EXP)

December 31, 2005

Number of shares/face	Description	% of net assets of \$189,663,824
SECURITIES SOLD, NOT YET PURCHASED:		
Common stock:		
United States:		
	Automotive	.40%

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Building materials	1.48
Capital equipment	2.59
Chemicals	.47
Consumer products	.66
Electronics	.23
Energy	.74
Financial services	1.22
Health and death care	.34
Index	4.50
Media, entertainment and leisure	.10
Mining and metals	.54
Packaging and containers	.41
Paper products	.01
Pharmaceuticals and biotech	.35
Retail	1.26
Telecommunications	.73
Transportation and defense	.32

TOTAL COMMON STOCK - UNITED STATES (PROCEEDS \$32,928,257)	16.35

Canada:	
Transportation and defense	.16

TOTAL COMMON STOCK - CANADA (PROCEEDS \$279,130)	.16

England:	
Telecommunications	2.29

TOTAL COMMON STOCK - ENGLAND (PROCEEDS \$4,024,423)	2.29

Germany:	
Food packaging	.15

TOTAL COMMON STOCK - GERMANY (PROCEEDS \$299,456)	.15

TOTAL COMMON STOCK - (PROCEEDS \$37,531,266)	18.95
=====	

See accompanying summary of business and significant accounting policies and notes to financial statements.

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December 31, 2005

Number of shares/face	Description	% of net assets of \$189,663,824
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SECURITIES SOLD, NOT YET PURCHASED (CONTINUED):		
Long-term debt securities:		
United States:		
	Automotive	2.27%
Building materials:		
15,100,000	Owens Corning 7.5% 8/1/18	6.13
	Other	1.09
	Capital equipment	.51
	Chemicals	1.61
	Consumer products	1.13
	Financial services	1.21
	Health and death care	2.20
	Media, entertainment and leisure	5.32
Mining and metals:		
9,900,000	U.S. Steel 9.75% 5/15/10	5.64
	Other	6.89
	Paper products	.67
	Packaging and containers	7.24
	Retail	2.79
	Transportation and defense	.61
	Utilities	4.41
TOTAL UNITED STATES (PROCEEDS \$97,872,728)		49.72
Preferred stock:		
United States:		
	Building materials	.72
	Utilities	.36
TOTAL PREFERRED STOCK (PROCEEDS \$1,973,982)		1.08
Options written:		
	United States	.61
TOTAL OPTIONS WRITTEN (PROCEEDS \$1,066,836)		.61
TOTAL SECURITIES SOLD, NOT YET PURCHASED (PROCEEDS \$138,444,811)		70.36%

See accompanying summary of business and significant accounting policies and notes to financial statements.

EAGLER		
CONDENSED SCH		
(EXP		
December 31, 2005		
Number of shares/face	Description	% of net assets of \$189,663,824
UNREALIZED LOSS ON OPEN SWAP CONTRACTS:		
	Credit default swaps	.46%

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TOTAL UNREALIZED LOSS ON OPEN SWAP .46%
CONTRACTS

See accompanying summary of business and significant accounting policies
and notes to financial statements.

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		EAGLE
		CONDENSED SC
		(EX
December 31, 2004		
Number of shares/face	Description	% of net assets of \$226,341,416
INVESTMENTS IN SECURITIES:		
Common stock:		
United States:		
	Building materials	.51%
	Business services	2.48
	Capital equipment	8.62
	Chemicals:	
10,702,820	Solutia Inc.	5.53
	Other	.68
	Consumer products:	
2,831,639	Interstate Bakeries Corp.	8.01
	Other	7.35
	Electronics	6.82
	Energy	2.99
	Financial services	4.33
	Food processing:	
4,267,101	Darling International Inc.	8.22
	Other	0.00
	Health & death care	5.99
	Index	.05
	Media, entertainment & leisure	8.72
	Mining and metals	2.78
	Packaging and containers:	
2,363,801	Constar International Inc.	8.06
	Other	.45
	Pharmaceuticals	.60
	Retail	9.47
	Software	16.06
	Telecommunications	8.05
	Transportation and defense	3.87
	Utilities	4.15
	Wireless Communications	4.11
TOTAL COMMON STOCK - UNITED STATES (COST \$229,389,463)		127.90

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See accompanying summary of business and significant accounting policies
and notes to financial statements.

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EAGLER		
CONDENSED SCH		
(EXP		
December 31, 2004		
Number of shares/face	Description	% of net assets of \$226,341,416
INVESTMENTS IN SECURITIES (CONTINUED):		
Common stock (continued):		
Canada:		
	Transportation and defense	.12%
	TOTAL COMMON STOCK - CANADA (COST \$150,554)	.12
China:		
	Software	1.40
	TOTAL COMMON STOCK - CHINA (COST \$3,156,229)	1.40
England:		
	Telecommunications	.07
	TOTAL COMMON STOCK - ENGLAND (COST \$229,485)	.07
France:		
	Chemicals	.41
	TOTAL COMMON STOCK - FRANCE (COST \$474,997)	.41
Germany:		
	Financial services	.68
	Health & death care	.04
	TOTAL COMMON STOCK - GERMANY (COST \$1,489,915)	.72
Mexico:		
	Media, entertainment & leisure	.08
	TOTAL COMMON STOCK - MEXICO (COST \$178,388)	.08
Norway:		
	Energy	.26

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TOTAL COMMON STOCK - NORWAY (COST \$201,021)	.26
Russia: Energy	.56
TOTAL COMMON STOCK - RUSSIA (COST \$1,346,876)	.56

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLER		
CONDENSED SCH		
(EXP		
December 31, 2004		
Number of shares/face	Description	% of net assets o \$226,341,416
INVESTMENTS IN SECURITIES (CONTINUED):		
Common stock (continued):		
South Africa:		
	Mining and metals	.96%
TOTAL COMMON STOCK - SOUTH AFRICA (COST \$2,328,853)		
.96		
TOTAL COMMON STOCK (COST \$238,945,781)		
132.48		
Long-term debt securities:		
United States:		
	Building materials	1.03
	Business services	1.49
	Capital equipment	1.01
	Chemicals	.96
	Consumer products	.97
	Electronics	.46
	Energy	.83
	Financial services	2.35
	Index	.40
	Media, entertainment & leisure	9.53
	Mining and metals:	
26,100,000	WCI Steel Inc 10% 12/1/04 Sr Nts	8.65
	Other	2.68
	Packaging and containers	3.03
	Pharmaceuticals	.33
	Retail	1.45
	Telecommunications	2.55
	Transportation and defense:	
30,225,000	Delta Airlines 8.3% 12/15/29	6.01

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Other	3.23
Utilities	8.52

TOTAL LONG-TERM DEBT SECURITIES - UNITED STATES (COST \$98,068,993)	55.48
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See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLER
CONDENSED SCH
(EXP

December 31, 2004

Number of shares/face	Description	% of net assets of \$226,341,416
INVESTMENTS IN SECURITIES (CONTINUED):		
Long-term debt securities (continued):		
Bermuda:		
	Telecommunications	3.60%
TOTAL LONG-TERM DEBT SECURITIES - BERMUDA (COST \$8,224,170)		3.60
England:		
	Automotive	.85
	Telecommunications	.02
TOTAL LONG-TERM DEBT SECURITIES - ENGLAND (COST \$1,236,855)		.87
Italy:		
	Consumer products	2.27
TOTAL LONG-TERM DEBT SECURITIES - ITALY (COST \$11,532,266)		2.27
Mexico:		
	Wireless communications	.78
TOTAL LONG-TERM DEBT SECURITIES - MEXICO (COST \$1,654,435)		.78
Norway:		
	Energy	1.08
TOTAL LONG-TERM DEBT SECURITIES - NORWAY (COST \$1,356,611)		1.08
TOTAL LONG-TERM DEBT SECURITIES (COST \$122,073,330)		64.08

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Preferred stock:	
United States:	
Building materials	2.86
Consumer products	.11
Electronics	1.22
Financial services	.61
Media, entertainment & leisure	1.43
Packaging and containers	.65
Transportation and defense	.28
Utilities	.16

TOTAL PREFERRED STOCK (COST \$8,322,031)	7.32

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLER		
CONDENSED SCH		
(EXP		
=====		
December 31, 2004		
Number of shares/face	Description	% of net assets of \$226,341,416

INVESTMENTS IN SECURITIES (CONTINUED):		
Options purchased (cost \$8,316,382):		
	United States	3.25%

TOTAL INVESTMENTS IN SECURITIES (COST \$377,657,524)		207.13%
=====		
SECURITIES SOLD NOT YET PURCHASED:		
Common stock:		
United States:		
	Automotive	.30%
	Capital equipment	1.52
	Chemicals	.72
	Consumer products	.35
	Electronics	.74
	Energy	.56
	Financial services	1.14
	Health & death care	.15
	Index	.01
	Mining and metals	1.14
	Pharmaceuticals	.78
	Retail	.69
	Software	.02
	Telecommunications	.03
	Transportation and defense	.04

TOTAL COMMON STOCK - UNITED STATES		

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(PROCEEDS \$18,421,290)	8.19

Preferred stock:	
United States:	
Building Materials	.80

TOTAL PREFERRED STOCK (PROCEEDS \$1,990,073)	.80
=====	

See accompanying summary of business and significant accounting policies and notes to financial statements.

EAGLER
CONDENSED SCH
(EXP

December 31, 2004

Number of shares/face	Description	% of net assets of \$226,341,416

SECURITIES SOLD, NOT YET PURCHASED (CONTINUED):		
Long-term debt securities:		
United States:		
	Automotive	3.64%
	Capital equipment	3.24
	Chemicals	2.30
	Consumer products	2.11
	Energy	.09
	Financial services	.88
	Mining and metals	6.24
	Packaging and containers	4.06
	Retail	.46
	Transportation and defense	1.68
	Utilities	.67

	TOTAL LONG-TERM DEBT SECURITIES (PROCEEDS \$58,666,374)	25.37

	Options written (proceeds \$2,890,369):	
	United States:	.91

	TOTAL SECURITIES SOLD, NOT YET PURCHASED (PROCEEDS \$81,968,106)	35.27%
=====		

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK

STATEMENT
(EXPRESS)

Year ended December 31,	2005	2004
INVESTMENT INCOME:		
Interest	\$ 10,899,042	\$ 5,053,958
Dividends, net of withholding taxes	1,282,542	1,159,591
TOTAL INVESTMENT INCOME	12,181,584	6,213,549
EXPENSES:		
Interest on securities sold, not yet purchased	11,536,812	4,526,696
Margin interest	1,975,739	2,486,380
Dividends on securities sold, not yet purchased	425,658	900,263
Other (Note 4)	2,586,283	473,715
TOTAL EXPENSES	16,524,492	8,387,054
NET INVESTMENT (LOSS) INCOME	(4,342,908)	(2,173,505)
NET REALIZED GAIN ON INVESTMENTS	10,430,167	4,381,952
NET CHANGE IN UNREALIZED GAIN ON INVESTMENTS	(62,562,860)	52,979,588
NET (LOSS) INCOME (NOTE 2)	\$ (56,475,601)	\$55,188,035

See accompanying summary of business and significant accounting policies and notes to financial statements.

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STATEMENT

Three years ended December 31, 2005

	EagleRock Capital Partners QP, L.P.	EagleRock Capital Partners, L.P.	EagleRock Capital Partners, L.P.
BALANCE, JANUARY 1, 2003	\$46,721,895	\$ 352,723	\$
Capital contributions	-	6,800,000	
Capital withdrawals	-	(48,935)	
Net income (Note 2):			
Pro rata allocation	56,055,075	2,725,581	
BALANCE, DECEMBER 31, 2003	102,776,970	9,829,369	
Transfer from EagleRock Capital Partners Offshore Fund, Ltd.	-	-	
Capital contributions	23,000,000	15,654,565	

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Capital withdrawals	(3,732,552)	-
Net income (Note 2):		
Pro rata allocation	41,475,708	7,430,887

BALANCE, DECEMBER 31, 2004	163,520,126	32,914,821
Capital contributions	-	5,500,000
Capital withdrawals	(3,484,918)	(9,037,074)
Net loss (Note 2):		
Pro rata allocation	(37,096,440)	(6,907,641)

BALANCE, DECEMBER 31, 2005 (NOTE 6)	\$122,938,768	\$22,470,106
=====		

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK

STATEMENTS OF CHANGES IN NET ASSETS
(EXPRESSED IN US DOLLARS)

Year ended December 31,	2005	2004

(DECREASE) INCREASE IN NET ASSETS FROM OPERATIONS:		
Net investment (loss) income	\$ (4,342,908)	\$ (2,173,505)
Net realized gain on investments	10,430,167	4,381,952
Net change in unrealized gain on investments	(62,562,860)	52,979,588

NET (DECREASE) INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	(56,475,601)	55,188,035

INCREASE (DECREASE) IN NET ASSETS FROM CAPITAL TRANSACTIONS:		
Transfer from EagleRock Capital Partners Offshore Fund, Ltd.	-	10,100,017
Capital contributions	41,200,000	52,179,577
Capital withdrawals	(21,401,991)	(3,732,552)

NET INCREASE IN NET ASSETS RESULTING FROM CAPITAL TRANSACTIONS	19,798,009	58,547,042

TOTAL (DECREASE) INCREASE	(36,677,592)	113,735,077
NET ASSETS, BEGINNING OF YEAR	226,341,416	112,606,339

NET ASSETS, END OF YEAR	\$189,663,824	\$226,341,416

See accompanying summary of business and significant accounting policies and notes to financial statements.

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EAGLEROCK MASTER FUND, LP

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SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(EXPRESSED IN US DOLLARS)

=====

BUSINESS

EagleRock Master Fund, LP ("Partnership") is a Cayman Islands exempted partnership that invests and trades in securities and other investment vehicles and instruments.

The Partnership is a successor of EagleRock Master Fund, a Delaware partnership, which transferred all of its net assets on November 1, 2004. As a result, the financial statements are presented as if the entities were always the same reporting entity. In addition, the EagleRock Capital Partners Offshore Fund, Ltd. transferred all of its net assets to the Partnership in exchange for a pro rata share of the Partnership interests based on net assets contributed at that date and became a feeder fund of the Partnership.

EagleRock Capital Partners, LP, EagleRock Capital Partners (QP), LP and EagleRock Capital Partners Offshore Fund, Ltd. (collectively "Feeder Funds") are all entities under common control and are the general and limited partners of the Partnership. Mariel Capital Management, LLC is also a general partner of the Partnership and had no capital balance at December 31, 2005 and December 31, 2004.

As more fully discussed in Note 6, and pursuant to agreements with existing limited partners of its Feeder Funds, a significant portion of the interests of the existing limited partners in its Feeder Funds will be redeemed. The Partnership commenced making such redemption payments in the first quarter of 2006.

SIGNIFICANT
ACCOUNTING
POLICIES

BASIS OF PRESENTATION

The financial statements are presented in United States ("U.S.") dollars in accordance with accounting principles generally accepted in the United States of America.

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EAGLEROCK MASTER FUND, LP

SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(EXPRESSED IN US DOLLARS)

=====

INVESTMENT TRANSACTIONS

The Partnership records all security transactions and related expenses on a trade date basis. Revenues and expenses are recorded on the accrual basis. Dividends are recorded on the ex-dividend date and interest is accrued in the period earned.

INVESTMENT VALUATION

Securities and other investments listed or traded on a national securities exchange or on the national market system of NASDAQ are valued at their last sales price on the date of valuation or if there has been no sale on that date, at the mean of the bid (for investments) or ask (for securities sold, not yet purchased) prices supplied by market making broker-dealers at the close of business. Certain long-term debt and other securities for which quotations are not readily available are valued at estimated fair value as determined in good faith by the general partners. The values assigned to such investments are based upon available information and do not necessarily represent amounts which might ultimately be realized. Because of the inherent uncertainty of valuation, those estimated fair values may differ from the values that would have been used had a ready market for the investments existed and those differences could be material. The resulting unrealized gains and losses are reflected in the statements of operations.

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Partnership recognizes all derivatives as either assets or liabilities in the statement of assets and liabilities and measures those instruments at fair value. Fair values for derivatives traded on a national exchange, principally certain options, are based on quoted market prices.

EAGLEROCK MASTER FUND, LP

SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(EXPRESSED IN US DOLLARS)

=====

The Partnership uses purchased and written option contracts as part of its investment strategy and to manage market risk. Option contracts are contractual agreements that give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a predetermined exercise price. In return for this right, the purchaser pays a premium to the seller of the option. By selling or writing options, the Partnership receives a premium and becomes obligated during the term of the option to purchase or sell a financial instrument at a predetermined exercise price if the option is exercised, and assumes the risk of not being able to enter into a closing transaction if a liquid secondary market does not exist. Option contracts are recorded in the statement of assets and liabilities at fair value as discussed above. Gains and losses on option contracts are recorded in the statements of operations in net realized and unrealized gain/loss on investments.

CREDIT DEFAULT SWAPS

The Partnership enters into credit default swaps which are agreements in which one party pays fixed periodic payments to a counterparty in consideration for a guarantee from the counterparty to make a specific payment should a negative credit event take place. Risks arise from the possible

inability of counterparties to meet the terms of their contracts. The unrealized gains or losses on open credit default swaps are included on the statements of assets and liabilities, with net changes in unrealized gains or losses included in the statements of operations.

FOREIGN CURRENCY

Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

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EAGLEROCK MASTER FUND, LP

SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES
(EXPRESSED IN US DOLLARS)

=====

The Partnership does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

INCOME TAXES

The Partnership is exempt from all forms of taxation in the Cayman Islands including income, capital gains and withholding taxes. In jurisdictions other than the Cayman Islands, foreign taxes may be withheld on dividends and interest received by the Partnership at rates up to 30%. Capital gains derived by the Partnership are generally exempt from foreign income or withholding taxes at source. Dividend income is recorded net of any such withholding taxes.

Prior to November 1, 2004, there was no U.S. income tax provision made in the accompanying financial statements since the partners were required to report their respective shares of the Partnership's income in their individual income tax returns.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

EAGLEROCK MASTER FUND, LP

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN US DOLLARS)

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1. BROKERAGE AGREEMENTS The Partnership has agreements with brokerage firms to carry its customer account. These brokers have custody of the Partnership's securities and, from time to time, cash balances, which may be due from these brokers.

These securities and/or cash positions serve as collateral for any amounts due to brokers as well as collateral for securities sold short.

The Partnership is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody.

2. ALLOCATION OF NET INCOME (LOSS) The net income (loss) is allocated to each partner in accordance with the ratio of the capital account of each partner to the total of all capital accounts at the beginning of each fiscal year.

3. MANAGEMENT FEES EagleRock Capital Management, LLC ("Investment Manager") serves as the Investment Manager of the Partnership. The Partnership pays a quarterly management fee on behalf of its three Feeder Funds. As of December 31, 2004, due from these affiliates was \$2,302,938 and was reimbursed by the Feeder Funds in the form of a capital withdrawal during January 2005. In addition, the Partnership has a payable to the Investment Manager of \$-0- and \$28,686 as of December 31, 2005 and 2004, respectively which is included in accrued expenses and other liabilities. During the year ended December 31, 2005, the Partnership paid the 2005 management fee and was reimbursed by the Feeder Funds in the form of a capital withdrawal which amounted to \$2,898,515.

EAGLEROCK MASTER FUND, LP

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN US DOLLARS)

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4. INVESTMENTS IN SECURITIES PLEDGED TO COUNTERPARTY Under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the Partnership is required to disclose the fair value of securities and cash

held at the broker that have been pledged. The Partnership has entered into certain stock borrow agreements to cover securities sold, not yet purchased positions. At December 31, 2005, the Partnership has also pledged \$17,866,699 of investments in securities related to stock borrow transactions. For the years ended December 31, 2005, 2004 and 2003, stock borrow fees charged by the broker amounted to \$2,588,754, \$636,581 and \$134,528, respectively, and are included in other expenses.

5. FINANCIAL INSTRUMENTS
WITH OFF-BALANCE SHEET
RISK

The Partnership invests in marketable securities and is exposed to market risks resulting from changes in the fair value of their investments. Derivative financial instruments are used by the Partnership to help manage such market risk.

Securities sold, not yet purchased by the Partnership, may give rise to off-balance sheet risk. The Partnership may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Partnership sells a security short, it must borrow the security sold short. A gain, limited to the price at which the Partnership sold the security short, or a loss, unlimited in amount, will be recognized upon the termination of a short sale. The Partnership has recorded this obligation in the financial statements at the December 31, 2005 and 2004 market value of these securities. There is an element of market risk in that, if the securities increase in value, it will be necessary to purchase the securities at a cost in excess of the price reflected in the statement of assets and liabilities. The amounts reflected in investments in securities owned and securities sold, not yet purchased include \$32,633,954 and \$22,663,677 of identical securities held both long and short at December 31, 2005 and 2004, respectively.

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EAGLEROCK MASTER FUND, LP

NOTES TO FINANCIAL STATEMENTS
(EXPRESSED IN US DOLLARS)

=====

The Partnership is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations.

6. SUBSEQUENT CAPITAL
TRANSACTIONS

Pursuant to the terms of its agreements with the existing limited partners of its Feeder Funds, the Partnership has begun to redeem a significant

portion of the limited partners' interests in two of its Feeder Funds. During the period January 1 to February 17, 2006, the Partnership paid approximately \$25 million of such limited partners' interests. Absent agreement to the contrary between the General Partner and such limited partners, the Partnership intends to make quarterly payments aggregating approximately \$117 million to such limited partners.

7. CONTINGENCY

The Partnership and its affiliates are involved in a legal action arising in the ordinary course of business. Management believes the ultimate resolution of such legal action would not have a material adverse effect on the financial statements of the Partnership.

8. FINANCIAL HIGHLIGHTS

The financial highlights table represents the Partnership's financial performance for the three years ended December 31, 2005 are as follows:

Partner	2005	2004	2003
Total return (a)	(23.13)%	34.99%	120.81%
Operating expense ratio (b)	2.06%	2.17%	3.05%
Net investment (loss) income ratio (c)	(1.96)%	(1.60)%	7.66%

The financial highlights are calculated based on the following criteria:

(a) Total return is computed based on the change in value during the year of a theoretical investment made at the beginning of the year. The total return is shown net of operating expenses. There is no performance fee allocated to the Partnership.

An individual partner's return may vary from the above returns based on different fee arrangements and the timing of capital transactions.

(b) The operating expense ratio is calculated by dividing the total operating expenses by the

average net assets of a theoretical investment made at the beginning of the year. The operating expense ratio is based on the expenses allocated to each limited partner. For the purpose of this calculation, expenses do not include dividend and interest expense on securities sold, not yet purchased.

The expense ratios attributable to an individual partner's account may vary based on different fee arrangements and the timing of capital transactions.

- (c) The net investment (loss) income ratio is calculated by dividing the net investment income by the average net assets of a theoretical investment made at the beginning of year. The net investment (loss) income ratio is based on the net investment (loss) income allocated to a limited partner.

The net investment (loss) income ratio attributable to an individual partner's account may vary based on different fee arrangements and timing of capital transactions.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Financial Statements

As of December 31, 2005
and for the year then ended

(With Independent Auditors' Report Thereon)

REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Members

Jefferies Partners Opportunity Fund II, LLC:

We have audited the accompanying statement of financial condition of Jefferies Partners Opportunity Fund II, LLC (the "Fund"), including the condensed schedule of investments, as of December 31, 2005, and the related statements of earnings, changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on

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our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferies Partners Opportunity Fund II, LLC as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York
February 28, 2006

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Financial Condition

December 31, 2005

ASSETS

Cash and cash equivalents	\$	24,076,728
Receivable from affiliated brokers and dealers		15,609,525
Securities owned		144,878,800
Securities borrowed		11,271,700
Other assets		724,538

Total assets	\$	196,561,291
		=====

LIABILITIES AND MEMBERS' EQUITY

Securities sold, not yet purchased	\$	16,821,753
Payable to affiliated brokers and dealers		16,159,703
Payable to Jefferies & Company, Inc.		539,592
Accrued expenses and other liabilities		76,357

Total liabilities		33,597,405

Members' equity:		162,963,886

Total liabilities and members' equity	\$	196,561,291
		=====

See accompanying notes to financial statements.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Condensed Schedule of Investments

December 31, 2005

DESCRIPTION	FAIR VALUE

Securities owned:	
Corporate Bonds:	
Bermuda - Transportation	\$ 1,537,515
British Virgin Islands - Oil & Gas	537,600
Canada:	
Engineering & Construction	351,540
Oil & Gas	266,520
Transportation	73,260

Total Canada	691,320

Cayman Islands - Oil & Gas	6,000
France - Oil & Gas	6,240
Luxembourg - Telecommunications	125,400
Norway - Oil & Gas	353,100
Sweden - Holding Companies - Diversified	54,000
United States:	
Aerospace & Defense	48,000
Agriculture	2,019,750
Airlines	1,353,514
Apparel	873,038
Auto Parts & Equipment	2,388,170
Biotechnology	70,920
Building Materials	315,630
Chemicals	47,040
Coal	487,785
Commercial Services	772,681
Cosmetics & Personal Care	37,440
Electrical Components & Equipment	393,500
Electronics	8,738,006
Engineering & Construction	389,760
Entertainment	31,076
Environmental Control	93,150
Financial Services - Diversified	239,705
Food	747
Healthcare Services	3,880

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Condensed Schedule of Investments

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December 31, 2005

DESCRIPTION	FAIR VALUE
-----	-----
Holding Companies-Diversified	1,665,129
Home Builders	50,880
Iron & Steel	5,415,836
Leisure Time	1,577,025
Lodging	7,026,360
Media	548,520
Metal Fabrication & Hardware	2,631,778
Mining	508,963
Miscellaneous Manufacturing	5,466,885
Oil & Gas:	
Ascent Energy 11.75% 5/1/15	15,706,374
Texcal Energy Ser A Units	31,644,800
Oil & Gas - Other	9,116,942
Packaging & Containers	1,306,840
Retail	692,825
Telecommunications	4,725,802
Textiles	12
Transportation	77,780

Total United States	106,466,543

Total corporate bonds	109,777,718

Common Stock:	
Canada - Airlines	2,840,976
Great Britain - Telecommunications	3,260,208
United States:	
Auto Parts & Equipment	55,440
Beverages	1,493,796
Chemicals	3,867,942
Commercial Services	5,067,728
Distribution - Wholesale	197,086
Electrical Components & Equipment	8,316
Electronics	742,323
Financial Services - Diversified	2,375,674
Iron & Steel	1,176,480
Machinery:	
Fairfield Manufacturing	12,861,600
Publishing	57,595

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Condensed Schedule of Investments

December 31, 2005

DESCRIPTION	FAIR VALUE
-----	-----
Retail	7,422
Telecommunications	172,998
Textiles	2,605

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Total United States	28,087,005
Total common stock	34,188,189
Warrants:	
United States	27,125
Investment Companies	
United States	885,768
Total securities owned	\$ 144,878,800
Securities sold, not yet purchased:	
Corporate Bonds:	
Canada:	
Electrical Components & Equipment	\$ 257,720
Financial Services - Diversified	195,020
Forest Products & Paper	27,863
Iron & Steel	604,800
Mining	218,400
Total Canada	1,303,803
Marshall Island - Transportation	97,920
United States:	
Aerospace & Defense	371,870
Auto Parts & Equipment	300,600
Building Materials	9,950
Coal	1,457,505
Commercial Services	11,400
Electrical Components & Equipment	3,510
Electronics	251,548
Entertainment	646,010
Environmental Control	57,600
Financial Services - Diversified	83,270
Food	174,100
Forest Products & Paper	546,000

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Condensed Schedule of Investments

December 31, 2005

DESCRIPTION	FAIR VALUE
Healthcare Services	725,400
Household Products & Wares	571,825
Iron & Steel	630,470
Lodging	2,124,518
Media	125,495
Metal Fabrication & Hardware	626,830
Mining	638,280
Miscellaneous Manufacturing	138,600
Oil & Gas	3,226,374
Packaging & Containers	418,860

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Pharmaceuticals	122,400
Retail	1,306,737
Telecommunications	337,773
Transportation	511,665

Total United States	15,418,590

Total corporate bonds	16,820,313

Warrants:	
United States	1,440

Total securities sold, not yet purchased	\$ 16,821,753
	=====

See accompanying notes to financial statements.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Earnings

Year ended December 31, 2005

Revenues:		
Principal transactions, net of direct trading expenses (See Note 5)	\$	33,330,000
Interest:		
Interest income		4,120,287
Interest expense		(757,797)

Net interest		3,362,490

Net revenues		36,692,490

Expenses:		
General and administrative		473,117
Management fee		1,115,755

Total expenses		1,588,872

Net income	\$	35,103,618
		=====

See accompanying notes to financial statements.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Changes in Members' Equity

Year ended December 31, 2005

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	MEMBERS	CLASS B MEMBER
	-----	-----
Balance, December 31, 2004	\$ 151,260,161	\$ 1
Allocation of carried interest	(2,634,430)	2,634
Distributions	(20,766,463)	(2,634)
Net earnings	35,103,618	
Balance, December 31, 2005	----- \$ 162,962,886 =====	----- \$ 1 =====

See accompanying notes to financial statements.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Statement of Cash Flows

Year ended December 31, 2005

Cash flows from operating activities:

Net income

Adjustments to reconcile net earnings to net cash used in operating activities: \$

Amortization of financing costs

Changes in operating assets and liabilities:

Decrease in receivable from affiliated brokers and dealers

Increase in securities owned

Increase in securities borrowed

Increase in other assets

Increase in securities sold, not yet purchased

Increase in payable to affiliated brokers and dealers

Increase in payable to Jefferies & Company, Inc.

Decrease in accrued expenses and other liabilities

Net cash used in operating activities

Cash flows from financing activities:

Distributions

Net cash used in financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Supplemental disclosures of cash flow information - Cash paid
during the year for interest

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See accompanying notes to financial statements.

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JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

Year ended December 31, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jefferies Partners Opportunity Fund II, LLC (the "Fund") is a Delaware limited liability company. The Fund commenced operations on January 19, 2000. The investment objective of the Fund is to generate returns for its members by making, holding, and disposing of a diverse portfolio of primarily below investment grade debt and equity investments. The Fund was established to offer members the opportunity to participate in the trading, investment, and brokerage activities of the High Yield Department of Jefferies & Company, Inc. ("Jefferies"). The Fund employs a trading and investment strategy substantially similar to that historically employed by Jefferies' High Yield Department. The Fund acquires, actively manages, and trades a diverse portfolio of primarily non-investment grade investments consisting of the following three asset groups: High Yield Debt, Special Situation Investments, and, to a lesser extent, Bank Loans. The Fund has appointed Jefferies to serve as manager to the Fund (the "Manager"). The Fund participates in the non-syndicate trading and investment activities of the High Yield Department on a pari passu basis with Jefferies. To permit such participation, the Fund has been registered as a broker dealer under the Securities Exchange Act of 1934 and with the National Association of Securities Dealers.

The Fund will be in effect until January 18, 2007, unless extended for up to three successive one-year terms by the vote of the Manager and a majority of the member interests.

The Fund claims an exemption from Rule 15c3-3 as of December 31, 2005, based on Section (k) (2) (ii). Securities transactions are cleared through an affiliated broker-dealer on a fully disclosed basis. The Fund does not execute any securities transactions with or on behalf of any customers.

The Fund prepares its financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(a) CASH AND CASH EQUIVALENTS

Cash equivalents consist of money market funds, which are part of the cash management activities of the Fund, and have original maturities of 90 days or less. At December 31, 2005, such cash equivalents amounted to \$23,589,985.

(b) FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Fund's financial instruments are carried at fair value or amounts approximating fair value. Assets, including cash and cash equivalents, securities borrowed, and certain receivables,

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are carried at fair value or contracted amounts which approximate fair value due to the short period to maturity. Similarly, liabilities, including certain payables, are carried at amounts approximating fair value.

Securities and other inventory positions owned and securities and other inventory positions sold, but not yet purchased (all of which are recorded on a trade-date basis) are valued at fair value, with unrealized gains and losses reflected in Principal transactions in the Statement of Earnings. Fair value generally is determined based on listed prices or broker quotes. In certain instances, such price quotations may be deemed unreliable when the instruments are thinly traded or when the Fund holds a substantial block of a particular security and the listed price is not deemed to be readily realizable. In these instances, the Fund determines fair value based on management's best estimate, giving appropriate consideration to

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(Continued)

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2005

reported prices and the extent of public trading in similar securities, the discount from the listed price associated with the cost at the date of acquisition, and the size of the position held in relation to the liquidity in the market, among other factors. When the size of the holding of a listed security is likely to impair the Fund's ability to realize the quoted market price, the Fund records the position at a discount to the quoted price reflecting management's best estimate of fair value. In such instances, the Fund generally determines fair value with reference to the discount associated with the acquisition price of the security. When listed prices or broker quotes are not available, the Fund determines fair value based on pricing models or other valuation techniques, including the use of implied pricing from similar instruments. The Fund typically uses pricing models to derive fair value based on the net present value of estimated future cash flows including adjustments, when appropriate, for liquidity, credit and/or other factors.

(c) SECURITIES TRANSACTIONS

The Fund records its securities transactions on a trade-date basis. Securities owned and securities sold, not yet purchased, are valued at fair value, and unrealized gains or losses are reflected in Principal transactions in the Statements of Earnings.

(d) CONTRIBUTIONS

Capital contributions were recorded net of the Fund's closing costs and placement fees. Each member is charged a one-time placement fee of 1% of gross contributions.

(e) FEDERAL AND STATE INCOME TAXES

Under current federal and applicable state limited liability company laws and regulations, limited liability companies are treated as partnerships for tax reporting purposes and, accordingly, are not

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subject to income taxes. Therefore, no provision for income taxes has been made in the Fund's financial statements. For tax purposes, income or losses are included in the tax returns of the members.

(f) ALLOCATION OF INCOME AND EXPENSE

Income and expense are allocated 100% to the members based on the pro rata share of their capital contributed to the Fund until the total allocation equals the aggregate members' preferred return of 8% of contributed capital. All remaining income and expense are allocated 80% to the members and 20% to the Class B Member.

(g) COMMITMENTS

As of December 31, 2005, the Fund had unfunded commitments of \$2,760,000 under a revolving credit facility.

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(Continued)

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2005

(h) USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires the Fund Manager to make a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses to prepare these financial statements. Actual results could differ from those estimates.

(2) RECEIVABLE FROM, AND PAYABLE TO, AFFILIATED BROKERS AND DEALERS

The following is a summary of the major categories of receivable from, and payable to, affiliated brokers and dealers as of December 31, 2005:

Receivable from affiliated brokers and dealers:		
Securities failed to deliver	\$	15,581,273
Other		28,252

	\$	15,609,525
		=====
 Payable to affiliated brokers and dealers:		
Securities failed to receive	\$	14,972,987
Other		1,186,716

	\$	16,159,703
		=====

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(3) SECURITIES OWNED AND SECURITIES SOLD, NOT YET PURCHASED

The following is a summary of the fair value of major categories of Securities owned and Securities sold, not yet purchased, as of December 31, 2005:

	SECURITIES OWNED	SECURITIES SOLD, NOT YET PURCHASED
	-----	-----
Corporate debt securities	\$ 109,777,718	\$ 16,820,313
Corporate equity securities	34,215,314	1,440
Other	885,768	--
	-----	-----
	\$ 144,878,800	\$ 16,821,753
	=====	=====

(4) REVOLVING CREDIT FACILITY

In June 2005, the Fund renewed a revolving credit facility agreement with an unaffiliated third party to be used in connection with the Fund's investing activities. At December 31, 2005, \$85,200,000 was available under the terms of the revolving credit facility agreement. The revolving credit facility expires in June 2006, but provides for annual extensions. Advances under this facility bear interest at the lender's commercial paper rate plus 115 basis points. The Fund incurs a liquidity fee on the total amount available under the revolving credit facility. The Fund incurs a program fee on amounts borrowed under the revolving credit facility. The Fund incurs a minimum program fee if program fees do not reach a certain threshold. For the year ended December 31, 2005, the Fund was charged a

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(Continued)

JEFFERIES PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2005

liquidity fee of \$323,938 and a program fee of \$257,304, which are included in Interest expense in the Statement of Earnings. During the year ended December 31, 2005, the Fund did not borrow under the revolving credit facility. At December 31, 2005, there were no outstanding balances under the revolving credit facility.

The Fund incurred costs in securing the revolving credit facility. These costs have been capitalized and are being amortized over seven years. At December 31, 2005, the net unamortized costs of \$116,614 are included in Other assets. For the year ended December 31, 2005, amortization expense of \$107,644 is included in Interest expense in the Statement of Earnings.

(5) RELATED PARTY TRANSACTIONS

At December 31, 2005, members' equity included an investment in the Fund by Jefferies of \$27,159,268. Additionally, Jefferies, as the Class B Member,

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contributed \$1,000 of capital for the right to receive a distribution of 20% of the Fund's distributions in excess of an 8% preferred return paid to the members. During the year ended December 31, 2005, the Fund distributed, in cash, undistributed net income of \$23,400,893 to the members, of which \$2,634,430 was distributed to the Class B Member in accordance with its carried interest.

At December 31, 2005, receivable from and payable to affiliated brokers and dealers are for amounts due from and due to Jefferies related to trade execution and settlement.

For the year ended December 31, 2005, interest income included \$38,263 of income received from Jefferies Execution Services, Inc. related to stock borrow transactions. During the year ended December 31, 2005, Jefferies Execution Services, Inc. was the sole counterparty to all of the Fund's stock borrow transactions.

At December 31, 2005, Payable to Jefferies & Company, Inc. of \$539,592 is for amounts due for direct trading expenses, general and administrative expenses, and management fees. For the year ended December 31, 2005, direct trading expenses of \$3,005,998 is netted against principal transactions revenue. The Fund reimburses Jefferies for general and administrative expenses based on the Fund's pro rata portion of actual charges incurred. For the year ended December 31, 2005, reimbursed expenses of \$506,228 are included in General and administrative expenses.

For the year ended December 31, 2005, the Fund was charged interest of \$68,912 by Jefferies related to securities failed to receive.

Jefferies, in its capacity as Manager, receives a management fee equal to 1% per annum of the sum of 100% of the average balance of securities owned and 98% of the average balance of securities sold, not yet purchased. At December 31, 2005, accrued management fees of \$129,202 were included in Payable to Jefferies & Company, Inc.

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(Continued)

JEFFERSON PARTNERS OPPORTUNITY FUND II, LLC

Notes to Financial Statements

December 31, 2005

(6) FINANCIAL INSTRUMENTS

(a) OFF-BALANCE SHEET RISK

The Fund has contractual commitments arising in the ordinary course of business for securities sold, not yet purchased. These financial instruments contain varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount. The settlement of these transactions is not expected to have a material effect upon the Fund's financial statements.

(b) CREDIT RISK

In the normal course of business, the Fund is involved in the execution, settlement, and financing of various principal securities transactions. Securities transactions are subject to the risk of

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counterparty nonperformance. However, transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the fair value of the security through settlement date.

The Fund seeks to control the risk associated with these transactions by establishing and monitoring collateral and transaction levels daily.

(c) CONCENTRATION OF CREDIT RISK

The Fund's activities are executed exclusively with Jefferies. Concentrations of credit risk can be affected by changes in economic, industry, or geographical factors. The Fund seeks to control its credit risk and the potential risk concentration through a variety of reporting and control procedures including those described in the preceding discussion of credit risk.

(7) NET CAPITAL REQUIREMENT

The Fund is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Fund has elected to use the alternative method permitted by Rule 15c3-1, which requires that the Fund maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined.

At December 31, 2005, the Fund had net capital of \$51,434,728, which was \$51,184,728 in excess of required net capital.

(8) SUBSEQUENT EVENT

On February 15, 2006, the Fund distributed, in cash, undistributed net income of \$35,103,618 to the members, of which \$4,974,974 was distributed to the Class B Member in accordance with its carried interest.