BERKSHIRE HATHAWAY INC.

Annual Report

TO THE STOCKHOLDERS

1966

Berkshire Hathaway Inc.

COMPARATIVE HIGHLIGHTS

Fiscal Year Ended October 1, 1966
and Five Preceding Fiscal Years

(000 Omitted)

Fiscal Years	*1966*	*1965*	*1964*	*1963*	*1962*	*1961*
Net Sales	$ 49,372	$ 49,301	$ 49,983	$ 50,591	$ 53,259	$ 47,722
Net earnings (loss)*	2,763	2,279	176	(685)	(2,151)	(393)
Dollars per share**	2.71	2.24	.15	(.43)	(1.34)	(.24)
Depreciation and Amortization	963	862	1,101	1,717	1,905	2,129
Additions to properties, plants, and equipment	970	812	289	666	3,454	4,021
Working capital at year end	23,158	17,870	14,502	17,411	16,474	19,844
Stockholders' equity at year end	29,495	24,520	22,139	30,279	32,464	36,176
Dollars per share**	28.99	24.10	19.46	18.84	20.20	22.51
Shares outstanding at year end	1,017,547	1,017,547	1,137,778	1,607,380	1,607,380	1,607,380

*As reported in annual reports for the applicable years.

**Based on number of shares outstanding at year end.

Berkshire Hathaway Inc.

December 2, 1966

To the Stockholders of
Berkshire Hathaway Inc.:

For your information, we have highlighted the financial information for fiscal 1966 in comparison with the five preceding years on the facing page.

In this letter we will discuss in some detail the following areas:

1. Operating Conditions — 1966
2. Survey of Operations 1961–1966
3. Maintenance of Financial Condition
4. Dividends

OPERATING CONDITIONS — 1966

Sales

Although total sales of $49.4 million were very close to last year's, there were significant changes in the product mix. The Synthetic Division sales dropped in dollar volume, but this was offset by a corresponding increase in Home Fabrics sales. The Box Loom Division sales showed some gain, but this was offset by a drop in sales of our King Philip D Division.

The sales picture for the last half of 1966 was one of generally depressed markets. Heavy imports of yarn dyed goods plus a change in styling trends caused loss of sales and depressed prices in our Box Loom Division. Overproduction of acetate fabrics plus importation of nylon fabrics brought more looms into competition with us in our Synthetic Division. The combination of imports and increased domestic production depressed prices of plain polyester/cotton blends. We estimate that this development will cause looms to swing back on to cotton goods and thereby adversely affect our sales position on lawns woven at King Philip D Division.

The negative factors, which prevailed in the last quarter of our 1966 fiscal year, contributed to our decision to avoid inventory buildup by shutting down the Box Loom and Synthetic Divisions in New Bedford for the week of October 9, 1966. Inasmuch as the textile market has not, at this writing, shifted to a more active level, further cutbacks in production may be necessary to avoid inventory buildup.

New Products

The growth of our Home Fabrics Division over the past few years is, in large part, due to our development of both new products and new application of old products. In the past year, we have increased our expenditures for development so as to provide fabrics that will yield more stable prices and volumes.

Labor

In early 1966, we signed a contract with the Textile Workers Union of America AFL-CIO for three years ending April 15, 1969. This contract covers wages and benefits with no reopening clause.

Plant and Equipment

We have spent approximately $970,000 for purchase and installation of new equipment in order to lower costs, improve quality, and increase our manufacturing flexibility.

During fiscal 1966, we disposed of the remainder of our unused property.

Income Tax Payments

All but a small portion of our tax carryforward has been used as of the end of fiscal 1966. We therefore will incur income tax liability with respect to future earnings.

SURVEY OF OPERATIONS OCTOBER 1, 1960 — OCTOBER 1, 1966

As one might expect, in a business as highly cyclical as the textile business, the past decade for Berkshire Hathaway has been a recurring story of a period of earnings followed by a period of relatively heavy losses. The past year has been a significant one in this history because, not only was 1966 a year of profitable operations, but, also, it witnessed the restoration of our financial strength to the level that existed at the end of 1960. You will recall that the heavy losses of the years 1957 and 1958 had not yet been fully recouped by the profitable operations of the years 1959 and 1960, when our business was again hit with a three-year period of loss operations.

Not only did our financial condition in these years suffer from the inroads created by these losses, but it also had to absorb the impact of our heavy capital expenditure program of the early 1960s.

The following table summarizes the change in the net worth position of Berkshire Hathaway, Inc. during the past six years:

Net Worth October 1, 1960		$37,981,820
Net Earnings 1961–1966 (after reflecting $6,200,000 losses on disposal of fixed assets)	$ 40,476	
Less Dividends Paid 1961–1966	1,366,273	
Excess of Dividends over Net Earnings 1961–1966		1,325,797
		36,656,023
Repurchases of a total of 607,972 shares of Capital Stock 1961–1966		7,161,103
Net Worth October 1, 1966		$29,494,920

You will note that while dividends exceeded net earnings during this six-year period, the major reason for the 22% decrease in net worth has been the repurchase by the Company of its own stock, pursuant to a program whereby the Company's outstanding shares have been reduced to 1,017,547 shares — a 37% reduction compared with the shares outstanding on October 1, 1960. This decrease in outstanding shares has been appropriate, considering the reduction in scale of the Company's operations due to closing of unprofitable mills.

The benefit to the present stockholders of this program of share repurchases is indicated, in part, by the fact that net worth per share of the Company's outstanding common stock on October 1, 1966 was $28.99, compared with $23.37 six years previously.

In the year ended October 1, 1960, our sales totaled $62.6 million, whereas in 1966, they totaled $49.4 million, a decrease of approximately 21%. This corresponds to the 22% decrease in total net worth. The fact that the Company is now achieving approximately the same net worth turnover as existed at the beginning of this six-year period is again some indication of the restoration of its strength.

MAINTENANCE OF FINANCIAL CONDITION

It has always been among the goals of Berkshire Hathaway to maintain a strong financial condition. Indeed, it has been this practice that has enabled the Company to survive in the light of the highly cyclical nature of its business. The present strength of the Company's financial condition is demonstrated by its $23,158,187 of working capital at October 1, 1966. This figure is about equal to the Company's working capital on October 1, 1960 although on a per share basis, because of the reduction in the number of shares through repurchasing, our working capital is now $22.76 compared with $14.41 six years ago.

In addition to the cyclical nature of our business, there are other reasons why a strong financial condition is advisable. As you have been advised previously, the Company has been searching for suitable acquisitions within, and conceivably without, the textile field. Although to date none has been successfully concluded, we continue to have an active interest in such acquisitions. The present state of the money market, in which funds are virtually unobtainable for acquisition purposes, makes it imperative that we have available the liquid assets with which to consummate such acquisitions, should the hoped-for opportunities present themselves. Present uncertainties such as war, tax rates and decreased level of business activity also all combine to emphasize the continuing need for a strong financial condition.

A second area in which substantial investment may be necessary is our fast-growing Home Fabrics Division. Home Fabrics' sales have nearly doubled in the past three years. Should a corresponding increase be attained in the coming years, we may be called upon to invest up to $7 million in additional inventory and receivables.

Finally, the threat of technological change is ever present in the textile field. We have an investment of $24.4 million ($6.3 million after accrued depreciation) in plant and equipment. This is an investment which the textile machinery industry is constantly striving to render obsolete. An important change at any level of our manufacturing process could require major capital expenditures at tomorrow's replacement prices. We shall continue to weigh most carefully the possible rewards and risks of any capital expenditure program. However, should we decide that it is in our best interests to make capital expenditures, we must be in a financial position to do so. Sufficient working capital would be particularly necessary if the advent of important cost-cutting equipment coincided with a period of depressed textile earnings, making outside capital difficult or impossible to obtain.

It is these considerations which caused the Company at year end to include in its working capital $5.4 million of marketable securities, composed of short-term municipal bonds, commercial paper and common stock. Because of the uncertainties in knowing when the Company may be called upon to produce substantial sums of cash, and the possibility that this might not occur for a considerable period of time, your directors have felt that we should be as zealous to achieve a realistic return on this portion of our capital as we are on the other funds that are at the time invested in plant, inventories, receivables, etc. Accordingly, it is the present intention of the directors to proceed toward the interim investment of a major portion of these funds in marketable common stocks. This should hold promise not only of greater income than can be achieved through alternative investment possibilities in the field of non-equity marketable securities, but also provides us with the opportunity to participate in earnings derived outside of our textile business, even if only temporarily and indirectly.

DIVIDENDS

This restoration of the Company's financial position now permits a dividend policy reflecting the distribution to our stockholders of a reasonable proportion of current after-tax earnings. Such a policy, however, must be consistent with the need for preserving the strength of our present financial position.

To implement this policy, a dividend of 10¢ per share was declared on November 14, 1966, payable January 3, 1967 to stockholders of record on December 2, 1966.

Malcolm G. Chace, Jr.
Chairman of the Board

Kenneth V. Chace
President

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——ASSETS——

	1966	1965
Current Assets:		
Cash	$ 628,721	775,504
Marketable securities, at cost, which approximates market .	5,445,795	2,900,000
Accounts receivable (less allowance for doubtful accounts — 1966 — $299,433; 1965 — $280,302)	8,114,240	7,422,726
Inventories (*Note A*)	12,239,261	10,277,178
Prepaid expenses	131,428	196,391
Total Current Assets	26,559,445	21,571,799
Properties, Plants and Equipment:		
Properties comprising land, buildings, machinery and equipment	24,426,192	28,019,742
Less accumulated depreciation and amortization	18,119,666	19,593,163
	6,306,526	8,426,579
Less estimated loss on properties to be sold (*Note B*) . . .	—0—	1,809,132
Net Properties, Plants and Equipment	6,306,526	6,617,447
Other Assets	30,207	33,141
	$32,896,178	28,222,387

See accompanying note

HATHAWAY INC.

BALANCE SHEET

R 1, 1966

e figures for 1965

LIABILITIES AND STOCKHOLDERS' EQUITY

	1966	1965
CURRENT LIABILITIES:		
Accounts payable	$ 2,700,113	2,581,585
Accrued wages and salaries	278,599	296,256
Accrued state and local taxes	165,094	441,951
Social security and withholding taxes payable	257,452	382,481
TOTAL CURRENT LIABILITIES	3,401,258	3,702,273
STOCKHOLDERS' EQUITY:		
Common stock, $5 par value, Authorized 1,722,983 shares; issued 1,017,547 shares (*Note F*)	5,087,735	5,688,890
Retained earnings	24,407,185	20,469,068
	29,494,920	26,157,958
Less common stock in treasury (*Note F*)	—0—	1,637,844
TOTAL STOCKHOLDERS' EQUITY	29,494,920	24,520,114
	$32,896,178	28,222,387

s to financial statements.

BERKSHIRE HATHAWAY INC.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED OCTOBER 1, 1966
with comparative figures for 1965

	1966	*1965*
Net sales	$49,372,328	49,300,685
Cost of sales	42,195,572	42,478,984
Gross profit	7,176,756	6,821,701
Selling, general and administrative expenses	2,328,142	2,425,038
Operating income	4,848,614	4,396,663
Other income, net	253,589	162,652
Idle plant expense	(97,689)	(240,109)
Earnings before provision for Federal and foreign income taxes	5,004,514	4,319,206
Provision for Federal and foreign income taxes (Note C)	2,242,000	2,040,000
Net earnings	2,762,514	2,279,206
Retained earnings at beginning of year	20,469,068	19,417,576
Reduction in Federal and foreign income taxes (Note D)	2,212,292	2,040,000
Retirement of treasury stock (Note F)	(1,036,689)	(2,967,714)
Estimated loss on properties to be sold	—0—	(300,000)
Retained Earnings at End of Year	$24,407,185	20,469,068

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 1, 1966

General

The consolidated financial statements include the accounts of the Canadian subsidiary.

The comparative figures for 1965 included in the consolidated statement of earnings and retained earnings have been restated to conform to the account classifications in the current year's statements.

Note A — Inventories

Inventories are priced at the lower of cost or market. Cost for raw cotton is determined on an average basis; for raw synthetic fiber and yarns on a first-in first-out basis; for goods in process and finished goods on a current standard basis, with the minor exception of cotton content of in-process materials at King Philip D Division, for which cost represents a standard established in 1933.

Note B — Estimated Loss on Properties to be Sold

Losses on disposal of idle plant and equipment were sustained in the year ended October 1, 1966, amounting to $1,866,037. Of this amount, $56,905 was charged to current operations. $1,809,132 was charged to the estimated loss provision which existed for this purpose at October 2, 1965.

Note C — Income Taxes

No Federal income tax is payable for the year ended October 1, 1966 because of operating loss carryovers and losses sustained on disposal of plant assets. The current year net earnings have been reduced for Federal and foreign income taxes computed without regard to losses on disposal of plant assets, and without regard to availability of operating loss carryovers.

Note D — Reduction in Federal and Foreign Income Taxes

The reduction of Federal and foreign income taxes results from deductions, in computing current taxable income, of prior years' operating loss carryovers, and losses on disposal of plant assets.

Note E — Pension Plans

No contributions were made during 1966 to the Company's principal pension plan, which is a trusteed, non-contributing plan. The balance in this fund, accumulated from prior years' contributions, is in excess of minimum funding requirements determined on an actuarial basis.

Note F — Corporate Changes

At the annual meeting of stockholders held December 7, 1965, it was voted that the authorized capital stock of this Corporation be reduced to 1,722,983 shares of $5 par value common stock by canceling and retiring the 120,231 shares held in the treasury at October 2, 1965, and that the excess of cost over par value of retired shares be charged to retained earnings.

BERKSHIRE HATHAWAY INC.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
(COMBINING COMERY, DAVISON & COMPANY)
CERTIFIED PUBLIC ACCOUNTANTS
10 DORRANCE STREET
PROVIDENCE, RHODE ISLAND 02903

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheet of Berkshire Hathaway Inc. and its subsidiary as of October 1, 1966 and the related statement of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings present fairly the financial position of Berkshire Hathaway Inc. at October 1, 1966 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

October 26, 1966

Peat, Marwick, Mitchell & Co.

BERKSHIRE HATHAWAY INC.

EXECUTIVE OFFICES

97 COVE STREET, NEW BEDFORD, MASS. 02741

The Company had 2,666 Stockholders on
October 1, 1966

DIRECTORS

MALCOLM G. CHACE, JR., *Chairman*

RICHARD BOWEN
WARREN E. BUFFETT
KENNETH V. CHACE
DANIEL COWIN
LINSLEY V. DODGE
BRADFORD R. FROST
ARTHUR INGRAHAM, JR.
STANLEY RUBIN
WILLIAM SCOTT*
A. N. WINSLOW, JR.

OFFICERS

KENNETH V. CHACE, *President*
J. VERNE MCKENZIE*, *Treasurer*
STANLEY RUBIN, *Vice President*
RICHARD BOWEN, *Vice President*
JOHN E. HARTLEY, *Vice President*

*Elected November 14, 1966.

The Company had 2,425 Employees
on October 1, 1966

BERKSHIRE HATHAWAY INC.

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