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BERKSHIRE HATHAWAY INC.

REPORT TO THE STOCKHOLDERS
FOR FIFTEEN MONTHS ENDED
DECEMBER 30, 1967

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RICHARD BOWEN

*WARREN E. BUFFETT

*KENNETH V. CHACE

DANIEL COWIN

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*Member of Finance Committee

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STANLEY RUBIN, *Vice President*

GENERAL COUNSEL

ROPES & GRAY, Boston, Massachusetts

AUDITORS

PEAT, MARWICK, MITCHELL & Co.

TRANSFER AGENT

OLD COLONY TRUST COMPANY, Boston, Massachusetts

REGISTRAR

THE FIRST NATIONAL BANK OF BOSTON, Boston, Massachusetts

BERKSHIRE HATHAWAY INC.

March 8, 1968

TO THE STOCKHOLDERS OF
BERKSHIRE HATHAWAY INC.:

The Company has adopted a calendar year for accounting purposes. This new calendar year end substitutes for the previous September 30 year end. The change was effective December 30, 1967. This report covers the fifteen months ended December 30, 1967.

TEXTILE OPERATIONS

FISCAL YEAR ENDED SEPTEMBER 30, 1967

Sales

Total sales showed a decline from \$49.4 million in fiscal 1966 to \$39 million in fiscal 1967. The cause of the drop in dollar volume was a combination of a decrease in yardage demand in all divisions and a sharp drop in prices in all areas except the Home Fabrics Division. Although sales and profits of our Home Fabrics Division were down substantially, this area demonstrated the greatest resistance to the depressed conditions of the textile markets in which we operate. Berkshire Hathaway does not produce coarse goods such as heavy ducks, which is the segment of the textile business that was the strongest in 1967.

During the year, we curtailed our production about 15 per cent in an attempt to avoid building inventories. We maintained satisfactory inventory levels but our curtailment resulted in the loss of certain categories of skilled help which will be required if we are to fully utilize our plant capacity. Therefore, abnormally high training costs will be incurred before we again run full.

By the end of the fiscal year, there was some indication that the general textile market was improving with the exception of that for our fine combed lawns, which we manufacture at our King Philip D Division in Warren, Rhode Island. This fabric remained in poor demand, with depressed prices throughout the year. A market survey indicated that the demand for cotton lawn fabrics was gradually being displaced by a demand for polyester blend fabrics.

On the positive side, we expanded our Home Fabrics products line into a wider variety of fabrics and also expanded our sales force in this area. In addition to this, we started an Apparel Fabrics Division, selling finished yarn-dyed box loom goods into the women's apparel market. Both of these moves were part of our general policy of attempting to establish product lines away from areas of direct competition with staple fabric producers. We intend to further implement this policy.

Manufacturing Operation

Because of reduced levels of production, smaller individual orders, and more frequent loom shifts, manufacturing costs were materially higher than in the last several years. A return to full operation should correct this situation to a great extent. Although product development and diversification of fabrics will result in higher manufacturing costs, these higher costs should be more than offset by higher prices for the fabrics and result in greater profits.

Labor Relations

Labor relations remain satisfactory. Our labor contract will carry us through until April of 1969. A general wage rate increase is called for by this contract in April of 1968. The current labor market is a difficult one, as for most industries, with relatively fewer job applications being received from persons possessing the requisite training and skills.

THREE MONTHS ENDED DECEMBER 30, 1967

This quarter showed a very definite increase in demand in all divisions except King Philip D. We operated at close to normal levels, with some equipment idle only because of our inability to quickly obtain and train sufficient people. Our new Apparel Fabrics Division was off to a good start and our Home Fabrics Division renewed its historical strong growth pattern. Based on current market conditions, we expect a significant improvement in textile operating profits during 1968. Our operating loss carry-forward has been fully utilized and any future net profit we realize will be subject to normal federal income taxes.

The portion of our business which proved unsatisfactory was the cotton lawn business. As a result of a second market survey, it was decided to close the King Philip D Division in Warren, Rhode Island where these goods were manufactured. The plant was an efficient one for the manufacture of fine combed lawns, which, unfortunately, are no longer in any sort of demand. The equipment at this plant had little adaptability to other end products, thereby making a conversion attempt uneconomical. The decision to terminate operations was hastened by the very large increase in the cost of new crop cotton, which could not be reflected in increased finished product prices. Any loss from termination of operations at King Philip D will be reflected as incurred in 1968. At this point in time, we can only speculate as to the amount of this loss but we do not envision that it will exceed \$1 million pre-tax.

INSURANCE SUBSIDIARIES

We are highly pleased with the results of our insurance subsidiaries since their acquisition in March 1967. These two companies, National Indemnity Company and National Fire and Marine Insurance Company, continue under the very able management of Mr. Jack Ringwalt who has guided them since inception.

Gross premium volume increased only slightly during 1967, but termination of certain re-insurance arrangements resulted in a substantial gain in net premium volume. Underwriting was conducted at a good profit margin and investment income increased substantially, reflecting both a greater base of assets and the higher yields that prevailed throughout the year in the fixed income sector. All earnings of the insurance subsidiaries are being retained to build additional capital strength.

Our investment in the insurance companies reflects a first major step in our efforts to achieve a more diversified base of earning power. The success of this effort is indicated by the attainment of earnings in the subsidiaries during 1967 which substantially exceeded the earnings attributable to a larger capital investment in the textile business. We expect that there will be years in the future when the order of relative profitability is reversed, reflecting different stages in both the insurance and textile cycles. However, we believe it is an added factor of strength to have these two unrelated sources of earnings rather than to be solely exposed to the conditions of one industry, as heretofore.

FUTURE OBJECTIVES

Management continues to be alert to opportunities to expand our operations in either the textile business, the insurance business or unrelated areas. We feel it is essential that we not repeat the history

of the 1956-1966 period, when over-all earnings on average invested capital of over \$30 million were something less than zero. Our present liquid resources held in readily marketable common stocks are available for either acquisition of new businesses or for application toward greater profit opportunities in our present operations. In addition, we will not hesitate to borrow money to take advantage of attractive opportunities. Our goal is to obtain a reasonably stable and substantial level of earning power commensurate with the capital employed in the business.

MALCOLM G. CHACE, JR.
Chairman of the Board

KENNETH V. CHACE
President

BERKSHIRE

CONSOLIDATED

DECEMBER

with comparative figures

ASSETS

	<u>Dec. 30, 1967</u>	<u>Oct. 1, 1966</u>
CURRENT ASSETS:		
Cash	\$ 835,301	\$ 628,721
Marketable securities, at cost (note 3)	3,825,077	5,445,795
Accounts receivable (less allowance for doubtful accounts— 1967 — \$220,966; 1966 — \$299,433)	7,571,694	8,114,240
Inventories (note 4)	11,585,598	12,239,261
Prepaid and deferred charges	223,554	161,635
TOTAL CURRENT ASSETS	<u>24,041,224</u>	<u>26,589,652</u>
PROPERTIES, PLANTS AND EQUIPMENT (note 10):		
Properties comprising land, buildings, machinery and equipment	24,878,601	24,426,192
Less accumulated depreciation and amortization	19,238,314	18,119,666
NET PROPERTIES, PLANTS AND EQUIPMENT	<u>5,640,287</u>	<u>6,306,526</u>
INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES (note 2)	10,259,079	—
	<u>\$39,940,590</u>	<u>\$32,896,178</u>

See accompanying notes

HATHAWAY INC.

BALANCE SHEET

December 30, 1967

Assets at October 1, 1966

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>Dec. 30, 1967</u>	<u>Oct. 1, 1966</u>
CURRENT LIABILITIES:		
Note payable — bank, unsecured	\$ 2,000,000	\$ —
Accounts payable and accrued expenses	5,433,556	2,978,712
Accrued Federal, State, and local taxes (note 5)	322,799	422,546
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TOTAL CURRENT LIABILITIES	7,756,355	3,401,258
	<hr/>	<hr/>
LONG-TERM DEBT:		
7½% subordinated debentures (note 6)	641,300	—
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STOCKHOLDERS' EQUITY:		
Common stock, \$5 par value. Authorized 1,722,983 shares; issued 1,017,547 shares	5,087,735	5,087,735
Retained earnings	27,032,370	24,407,185
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	32,120,105	29,494,920
Less common stock in treasury, at cost (note 7)	577,170	—
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TOTAL STOCKHOLDERS' EQUITY	31,542,935	29,494,920
	<hr/>	<hr/>
	\$39,940,590	\$32,896,178
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to financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

Three months ended December 30, 1967 and twelve months ended September 30, 1967
with comparative figures for twelve months ended October 1, 1966

	<i>Three months ended Dec. 30, 1967</i>	<i>Twelve months ended Sept. 30, 1967</i>	<i>Twelve months ended Oct. 1, 1966</i>
Net sales	\$11,599,890	\$39,055,671	\$49,372,328
Cost of sales	<u>10,353,859</u>	<u>36,669,665</u>	<u>42,195,572</u>
Gross profit	1,246,031	2,386,006	7,176,756
Selling and administrative expenses	<u>684,785</u>	<u>2,330,487</u>	<u>2,328,142</u>
Operating income	561,246	55,519	4,848,614
Other income, net	<u>46,901</u>	<u>163,055</u>	<u>155,900</u>
Earnings before provision for income taxes, equity in earnings of unconsolidated subsidiaries, and extraordinary items	608,147	218,574	5,004,514
Provision for Federal and Foreign income taxes (note 5)	<u>215,127</u>	<u>3,200</u>	<u>2,242,000</u>
Earnings before equity in earnings of unconsolidated subsidiaries, and extraordinary items	393,020	215,374	2,762,514
Equity in earnings of unconsolidated subsidiaries (net of Federal income taxes — (\$29,000) and \$345,000)	<u>478,761</u>	<u>791,938</u>	<u>—</u>
Earnings before extraordinary items	<u>871,781</u>	<u>1,007,312</u>	<u>2,762,514</u>
Extraordinary items:			
Reduction in Federal and Foreign income taxes (note 5)	210,150	—	2,212,292
Realized investment gains — unconsolidated subsidiaries (net of Federal income taxes — \$103,800 and \$33,400)	<u>311,453</u>	<u>100,147</u>	<u>—</u>
	521,603	100,147	2,212,292
Net earnings	<u>\$ 1,393,384</u>	<u>\$ 1,107,459</u>	<u>\$ 4,974,806</u>
Depreciation and amortization deducted above	<u>\$ 223,186</u>	<u>\$ 979,016</u>	<u>\$ 963,081</u>
Per share of common stock:			
Earnings before extraordinary items	\$.88	\$1.02	\$2.71
Extraordinary items, net of tax	<u>.53</u>	<u>.10</u>	<u>2.18</u>
Net earnings	<u>\$1.41</u>	<u>\$1.12</u>	<u>\$4.89</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning:			
As previously reported	\$25,638,986	\$24,407,185	\$20,469,068
Adjustments (note 9)	<u>—</u>	<u>226,097</u>	<u>226,097</u>
At restated	25,638,986	24,633,282	20,695,165
Net earnings	<u>1,393,384</u>	<u>1,107,459</u>	<u>4,974,806</u>
	27,032,370	25,740,741	25,669,971
Less:			
Dividends paid — \$.10 per share	—	101,755	—
Retirement of treasury stock	—	—	1,036,689
Retained earnings, ending	<u>\$27,032,370</u>	<u>\$25,638,986</u>	<u>\$24,633,282</u>

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 30, 1967

(1) Accounting Period

The Company, effective December 30, 1967, changed its fiscal year from one ending on the Saturday nearest September 30 to one ending on Saturday nearest December 31. Accordingly, the accompanying financial statements reflect financial position at the end of its newly established fiscal year, December 30, 1967, and results of operations for the twelve months ended September 30, 1967 and the three months ended December 30, 1967.

(2) Basis of Consolidation

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned noninsurance Canadian subsidiary. In March 1967, the Company purchased for \$8,577,000 over 99% of the outstanding stock of National Indemnity Company and 100% of the outstanding stock of National Fire & Marine Insurance Company, both headquartered in Omaha, Nebraska. The accompanying financial statements reflect the Company's equity in earnings since March 31, 1967 of these insurance subsidiaries, which derive over 80% of their premium volume from automobile lines of insurance. These companies are functionally independent of the textile operations of the parent. The Company's equity in unconsolidated subsidiaries exceeded the cost plus equity in earnings by approximately \$500,000 at December 30, 1967.

(3) Marketable Securities

The market value of the securities portfolio, primarily marketable common stocks, was \$7,422,000 at December 30, 1967. At October 1, 1966, market value approximated cost.

(4) Inventories

Inventories are stated at the lower of cost or market. Costs are determined, generally, on an average basis from current purchase invoices for raw materials, and from current standards for in-process inventories and cloth, with the exception of cotton content of in-process inventory at King Philip D Division (see note 10), which is priced at a standard cost established in 1933 which is less than current cost or market.

A comparative summary follows:

	<u>Dec. 30, 1967</u>	<u>Oct. 1, 1966</u>
Raw materials and supplies	\$ 2,053,503	\$ 2,596,100
Stock in process	3,074,160	2,689,448
Cloth	6,457,935	6,953,713
	<u>\$11,585,598</u>	<u>\$12,239,261</u>

(5) Taxes on Income

For Federal income tax purposes, earnings of Berkshire Hathaway Inc. for the year ended September 30, 1967 and for the three months ended December 30, 1967 have been reduced by operating loss carryovers, including losses in prior years resulting from disposals of plant assets. It is not currently the intention of the Company to file a consolidated Federal income tax return with its insurance subsidiaries, and, on an individual return basis, for Berkshire Hathaway Inc. there were no Federal income taxes payable for the year ended September 30, 1967, and only a nominal liability (estimated at \$1,000) is payable for earnings during the three months ended December 30, 1967. At December 30, 1967 the Company had unused investment tax credit carryforwards amounting to approximately \$200,000. There was no remaining operating loss carryover.

Earnings have been reduced for Federal and Foreign income taxes computed without regard to availability of operating loss carryovers. In order to conform to Opinion No. 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company has classified tax savings resulting from these carryovers as an extraordinary item instead of, as in prior years, a direct credit to retained earnings. In the accompanying comparative statement for 1966, this item has been accordingly reclassified.

Equity in earnings of insurance subsidiaries is reflected net of income tax effect upon the subsidiaries.

(6) 7½% Subordinated Debentures

Debentures bear interest at the rate of 7½%, payable February 1 and August 1, and will be due on August 1, 1987. The debentures are not secured by any lien and are not convertible; they are subordinated to senior indebtedness which includes indebtedness of the Company for money borrowed. The debentures may, at the Company's option, be redeemed at 105% through July 31, 1973 and thereafter at 100%. The indenture under which the debentures are issued requires the Company to provide for the retirement by redemption, through a sinking fund, on August 1, in each of the years 1973 to and including 1986, of one-fifteenth of the total amount of debentures issued. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(7) Treasury Stock

The Company acquired, as of August 1, 1967, 32,065 shares of Treasury stock pursuant to its offering of 7½% subordinated debentures in exchange for common stock. See note 6 for terms of the debenture offering.

(8) Pension Plan

The Company has a noncontributory pension plan for salaried employees. The total pension expense for the year ended September 30, 1967 was \$80,000, and for the three months ended December 30, 1967 was \$22,500, which amounts include normal cost of the plan plus interest on unfunded prior service costs. The Company's policy is to keep the plan substantially funded and to accrue any unfunded pension cost. There is no unfunded amount of vested benefits.

(9) Prior Period Adjustment

The Company returned \$226,000 to retained earnings during the year ended September 30, 1967, which amount represents the difference between Commonwealth of Massachusetts excise taxes accrued in prior years and such taxes as were payable as determined by ruling from the Commonwealth obtained during the year.

(10) Plant Closing

The Company announced in December 1967 plans to close its King Philip D mill located in Warren, Rhode Island, because of the declining market for cotton lawns woven at this mill. The production from this mill represented less than 10% of the sales of the Company during 1967. Management anticipates the run-out loss, if any, to be immaterial in amount, although the length of time required for the run-out will be a determining factor. A loss on sale of the properties may be realized. The amount of any such loss, and the time at which it may be realized, cannot be readily estimated at this time.

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 December 30, 1967 and the related statements of earnings and retained earnings for the twelve months ended September 30, 1967 and the three months ended December 30, 1967. 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.

Your attention is directed to Note 10 to the financial statements wherein the closing of the Company's cotton lawn mill at Warren, Rhode Island, is discussed. Because the amount and timing of loss, if any, which may result from the closing of the mill is, in management's opinion, currently indeterminable, no provision for such loss is provided for in the accompanying financial statements.

In our opinion, subject to the possible necessity for a provision for loss from the closed mill as discussed in the preceding paragraph, the accompanying consolidated financial statements present fairly the financial position of Berkshire Hathaway Inc. and its subsidiary at December 30, 1967 and the results of its operations for the twelve months ended September 30, 1967 and the three months ended December 30, 1967, in conformity with generally accepted accounting principles applied on a basis consistent with that of the year ended October 1, 1966, restated to conform to Opinion No. 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants, as explained in Note 5 of Notes to Consolidated Financial Statements.

February 23, 1968

Peat, Marwick, Mitchell & Co.

ANNUAL MEETING

The next annual meeting of the shareholders of Berkshire Hathaway Inc. will be held at the principal office of the Company at 97 Cove Street, New Bedford, Massachusetts, at 10:00 a.m. on Tuesday, April 23, 1968.

BERKSHIRE HATHAWAY INC.

Executive Offices — 97 Cove Street, New Bedford, Massachusetts 02744

Sales Offices — 261 Fifth Avenue, New York, New York 10016

1040 Avenue of the Americas, New York, New York 10019