BERKSHIRE HATHAWAY INC.

1969

ANNUAL REPORT TO THE STOCKHOLDERS

(53 WEEKS ENDED JANUARY 3, 1970)

Berkshire Hathaway Inc.

COMPARATIVE SUMMARY OF EARNINGS — 1969 and 1968

		Earnings (loss) before Federal Income Taxes	*Applicable Federal Income Taxes (Benefit)*	*Net Earnings*	*Per Share*
Operations:					
Textile Operations	1969	$1,439,000	$ 662,000	$ 777,000	$0.79
	1968	1,567,000	810,000	757,000	0.77
Insurance Subsidiaries	1969	2,774,000	496,000	2,278,000	2.31
	1968	2,173,000	384,000	1,789,000	1.82
Banking Subsidiary	1969	2,364,000	827,000	1,537,000	1.56
Interest and Dividend Income of Parent Company	1969	138,000	44,000	94,000	0.10
	1968	389,000	99,000	290,000	0.29
Interest Expense of Parent Company	1969	(675,000)	(338,000)	(337,000)	(0.35)
	1968	(363,000)	(181,000)	(182,000)	(0.18)
Total of Above	1969	6,040,000	1,691,000	4,349,000	4.42
	1968	3,766,000	1,112,000	2,654,000	2.69
Investment Gains (Losses):					
Parent Company (From Total Liquidation of Securities Portfolio)	1969	5,334,000	1,526,000	3,808,000	3.87
	1968	2,043,000	575,000	1,468,000	1.49
Insurance Subsidiaries	1969	389,000	107,000	282,000	0.29
	1968	974,000	268,000	706,000	0.71
Banking Subsidiary	1969	(782,000)	(410,000)	(372,000)	(0.38)
Extraordinary Items	1969	(228,000)	(114,000)	(114,000)	(0.12)
	1968	(704,000)	(538,000)	(166,000)	(0.17)

Per share figures based on average number of shares outstanding during each year.

Berkshire Hathaway Inc.

April 3, 1970

To the Stockholders of
Berkshire Hathaway Inc.:

Four years ago your management committed itself to the development of more substantial and more consistent earning power than appeared possible if capital continued to be invested exclusively in the textile industry. The funds for this program were temporarily utilized in marketable securities, pending the acquisition of operating businesses meeting our investment and management criteria.

This policy has proved reasonably successful — particularly when contrasted with results achieved by firms which have continued to commit large sums to textile expansion in the face of totally inadequate returns. We have been able to conclude two major purchases of operating businesses, and their successful operations enabled Berkshire Hathaway to achieve an over-all return of more than 10% on average stockholders' equity last year in the face of less than a 5% return from the portion of our capital employed in the textile business. We have liquidated our entire holdings of marketable securities over the last two years at a profit of more than $5 million after taxes. These gains provided important funds to facilitate our major purchase of 1969, when borrowed money to finance acquisitions was generally most difficult to obtain.

We anticipate no further purchases of marketable securities, but our search for desirable acquisitions continues. Any acquisition will, of course, be dependent upon obtaining appropriate financing.

Textile Operations

Dollar sales volume in 1969 was approximately 12% below 1968. Net earnings were slightly higher despite substantial operating losses incurred in the termination of our Box Loom Division. Earnings on capital employed improved modestly but still remain unsatisfactory despite strenuous efforts toward improvement.

We are presently in the midst of a textile recession of greater intensity than we have seen for some years. There is an over-all lack of demand for textile products in a great many end uses. This lack of demand has required curtailment of production to avoid inventory build-up. Both our Menswear Lining Division and Home Fabrics Division have been forced to schedule two-week shutdowns during the first quarter of 1970, but inventories remain on the high side. The slowdown in demand appears even greater than that normally occurring in the cyclical textile market. Recovery from this cycle will probably be dependent upon Federal Government action on economic factors they can control.

We have concentrated our textile operations in those areas that appear, from historical performance and from our market projections, to be potentially satisfactory businesses. Improvements have been made in our mill operations which, under better industry conditions, should produce substantial cost reductions. However, the present picture is for lower profits in this business during 1970.

Insurance Operations

Jack Ringwalt and his outstanding management group turned in new records in just about every department during 1969. During another year in which the fire and casualty insurance industry experienced substantial underwriting losses, our insurance subsidiaries achieved significant adjusted underwriting profits. Since establishment of the business in 1941, Mr. Ringwalt has held to the principle of underwriting for a profit — a policy which is frequently talked about within the industry but much less frequently achieved.

Our new surety department, although small, made good progress during the year. We are entering the workmen's compensation market in California through the establishment of a branch office in Los Angeles. Our new reinsurance division seems to be off to a strong start, although the nature of this business is such that it takes at least several years to render an intelligent verdict as to operating results. We also have interesting plans for a new "home state" insurance operation.

Phil Liesche — over twenty years a major contributor to outstanding results in the production and underwriting departments — was elected Executive Vice President early this year.

Expectations are for continued growth in our insurance operations.

Banking Operations

The most significant event of 1969 for Berkshire Hathaway was the acquisition of 97.7% of the stock of The Illinois National Bank and Trust Co. of Rockford, Illinois. This bank had been built by Eugene Abegg, without addition of outside capital, from $250,000 of net worth and $400,000 of deposits in 1931 to $17 million of net worth and $100 million of deposits in 1969. Mr. Abegg has continued as Chairman and produced record operating earnings (before security losses) of approximately $2 million in 1969. Such earnings, as a percentage of either deposits or total assets, are close to the top among larger commercial banks in the country which are not primarily trust department operations. It will not be easy to achieve greater earnings in 1970 because (1) our bank is already a highly efficient business, and (2) the unit banking law of Illinois makes more than modest deposit growth difficult for a major downtown bank.

After almost a year of ownership, we are delighted with our investment in Illinois National Bank, and our association with Mr. Abegg.

Kenneth V. Chace
President

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEET

January 3, 1970
with comparative figures at December 28, 1968

ASSETS

	Jan. 3, 1970	*Dec. 28, 1968*
Current assets:		
Cash	$ 1,792,835	$ 1,605,600
Marketable securities, at cost (note 2)	294,165	5,421,384
Accounts receivable (less allowance for doubtful accounts — 1969 — $189,026; 1968 — $281,418)	6,397,021	7,563,123
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	9,269,578	12,332,943
Prepaid and deferred charges	344,725	199,501
Total current assets	18,098,324	27,122,551
Properties, plants and equipment (note 4):		
Properties comprising land, buildings, machinery and equipment	15,747,970	19,998,693
Less accumulated depreciation and amortization	12,734,126	16,136,069
Net properties, plants and equipment	3,013,844	3,862,624
Investment in unconsolidated subsidiaries (note 1):		
Bank subsidiary	18,868,404	—
Insurance subsidiaries	15,314,965	12,754,985
Other subsidiaries	1,261,000	—
Total investment in unconsolidated subsidiaries	35,444,369	12,754,985
	$56,556,537	$43,740,160

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Note payable — Bank, unsecured	$ —	$ 2,000,000
Current installments of long-term debt	1,500,000	—
Accounts payable and accrued expenses	3,804,322	4,256,530
Accrued Federal, State, and local taxes	1,442,855	637,059
Total current liabilities	6,747,177	6,893,589
Long-term debt, excluding current installments:		
Note payable to banks (note 8)	5,250,000	—
7½% subordinated debentures (note 9)	641,300	641,300
Total long-term debt	5,891,300	641,300
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	39,647,495	31,694,706
	44,735,230	36,782,441
Less 37,965 shares (1968 — 32,065) of common stock in treasury, at cost	817,170	577,170
Total stockholders' equity	43,918,060	36,205,271
Contingency (note 10)		
	$56,556,537	$43,740,160

See accompanying notes to financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

53 weeks ended January 3, 1970

with comparative figures for the 52 weeks ended December 28, 1968

	53 weeks ended Jan. 3, 1970	52 weeks ended Dec. 28, 1968
Textile operations:		
Net sales	$40,427,037	$46,002,417
Cost of sales, administrative and selling expense	38,988,213	44,435,569
Earnings from textile operations before Federal income taxes	1,438,824	1,566,848
Applicable Federal income taxes	662,000	810,000
Earnings from textile operations	776,824	756,848
Investment gains:		
Gain on disposition of marketable securities	5,333,488	2,042,752
Applicable income taxes	1,525,736	575,000
Net investment gains	3,807,752	1,467,752
Interest and dividends:		
Interest (expense), less interest and dividend income	(536,890)	26,149
Applicable Federal income tax benefit	294,547	82,000
Net interest	(242,343)	108,149
Equity in after-tax earnings and investment gains or losses of unconsolidated subsidiaries (notes 1 and 5)	3,724,991	2,495,906
Earnings before extraordinary items	8,067,224	4,828,655
Extraordinary items:		
Loss on liquidation or retirement of textile properties	(228,788)	(704,319)
Applicable Federal income tax benefit	114,353	372,000
Reduction in Federal income taxes (note 6)	—	166,000
Net extraordinary items	(114,435)	(166,319)
Net earnings	$ 7,952,789	$ 4,662,336
Depreciation and amortization deducted above	$ 643,143	$ 662,061
Net earnings per share of outstanding common stock:		
Textile operations	$ .79	$ .77
Investment gains	3.87	1.49
Interest and dividends	(.25)	.11
Unconsolidated subsidiaries	3.78	2.53
Extraordinary items	(.12)	(.17)
Net earnings	$8.07	$4.73

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Jan. 3, 1970	Dec. 28, 1968
Retained earnings, beginning	$31,694,706	$27,032,370
Net earnings	7,952,789	4,662,336
Retained earnings, ending	$39,647,495	$31,694,706

See accompanying notes to financial statements.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 3, 1970

(1) Principles of Consolidation

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned Canadian subsidiary. The accounts of two insurance subsidiaries, substantially 100% owned by Berkshire Hathaway, and the accounts of the Illinois National Bank and Trust Co. of Rockford and subsidiaries, approximately 98% of which was acquired for cash by Berkshire Hathaway in March 1969, are not consolidated. The accompanying statement of earnings reflects the equity of Berkshire Hathaway Inc. in earnings of these functionally independent operations, and the investments in these subsidiaries are carried at cost plus the equity in undistributed earnings since acquisition. Three immaterial subsidiaries (an insurance agency and two printing and publishing operations) have not been consolidated, and the investments therein are carried at cost.

The carrying value of all unconsolidated subsidiaries at January 3, 1970 was approximately $3,432,000 in excess of the Company's equity in book values reflected in the accounts of the subsidiaries. No part of this excess has been allocated between tangible and intangible assets as the effect on income of such allocation would not be material and the excess is not being amortized as management believes its value is not declining.

Detailed financial statements of the two insurance subsidiaries and the bank subsidiary are presented elsewhere in this report.

(2) Marketable Securities

The market value of the securities portfolio, consisting of U. S. Treasury bills, was $297,120 at January 3, 1970. At December 28, 1968 the portfolio consisted primarily of marketable common stocks with a market value of $11,824,000.

(3) Inventories

A comparative summary follows:

	Jan. 3, 1970	*Dec. 28, 1968*
Raw materials and supplies	$1,168,967	$2,025,230
Stock in process	1,798,224	2,709,075
Cloth	6,302,387	7,598,638
	$9,269,578	$12,332,943

(4) Property, plants and equipment

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plants and equipment is shown below:

	Jan. 3, 1970	*Dec. 28, 1968*
Land	$ 106,555	$ 106,555
Buildings	3,726,310	3,715,838
Machinery and equipment	11,402,218	15,653,974
Furniture and fixtures and leasehold improvements	512,887	522,326
	15,747,970	19,998,693
Less accumulated depreciation and amortization	12,734,126	16,136,069
	$ 3,013,844	$ 3,862,624

(5) Equity in Earnings of Unconsolidated Subsidiaries

The Company and its subsidiaries plan to file consolidated tax returns. A summary of the equity of Berkshire Hathaway Inc. in the earnings of its unconsolidated subsidiaries, together with the related taxes, follows:

	Earnings (loss) before Federal income taxes	*Applicable Federal income tax (benefit)*	*Net earnings (loss)*
Earnings, excluding investment gains of insurance subsidiaries:			
1969	$2,774,186	$495,957	$2,278,229
1968	2,173,650	384,248	1,789,402
Realized investment gains of insurance subsidiaries:			
1969	388,622	106,871	281,751
1968	974,488	267,984	706,504
Earnings, excluding investment losses of banking subsidiary:			
1969	2,364,306	827,500	1,536,806
Realized investment losses of banking subsidiary:			
1969	(781,758)	(409,963)	(371,795)

(6) Reduction in Federal Income Taxes

For 1968, the reduction in Federal income taxes represents carryover of investment tax credits from prior periods.

(7) Pension Plan

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. The current year's pension expense was $53,000 and represents normal costs less amortization of the overfunded position at August 1, 1968 on a ten-year basis.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(8) Long-term Debt

Under the terms of a loan agreement, the Company was liable to certain banks at January 3, 1970 for $6,750,000, of which $1,500,000 is due within one year. Interest, payable quarterly in arrears, is computed at ½% over the prime rate for 90-day commercial loans of The First National Bank of Boston, which serves as the agent bank. Principal is payable quarterly in the amount of $375,000 with a final installment of $3,375,000 due on June 30, 1972.

The agreement contains provisions, among others, that: the banks may at any time require the debt to become secured; the Company will maintain working capital of at least $8,000,000; net worth shall be at least $35,000,000; and each subsidiary will maintain net worth at least as follows:

National Fire & Marine Insurance Co. . . .	$ 1,300,000
National Indemnity Company	8,000,000
Illinois National Bank & Trust Co. . . .	11,500,000

The agreement also limits the Company's ability to dispose of its assets; to incur additional indebtedness for borrowed money; or enter into business combinations. Additionally, the subsidiaries are restricted from issuance of any additional shares of their capital stock, any options therefore or any securities convertible thereto.

(9) 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.

(10) Contingent Liabilities

Berkshire Hathaway Inc. is contingently liable as guarantor on a $300,000 obligation of its insurance agency subsidiary.

PEAT, MARWICK, MITCHELL & CO.
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 January 3, 1970 and the related statements of earnings and retained earnings for the 53 weeks 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 balance sheet and statements of earnings and retained earnings present fairly the financial position of Berkshire Hathaway Inc. and its subsidiary at January 3, 1970 and the results of their operations for the 53 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co.

February 20, 1970

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1969
with comparative figures for 1968

ASSETS

	1969	1968
Bonds, at admitted value (note 3)	$27,894,117	$27,208,728
Stocks, at market value (note 3):		
Preferred (cost, 1969, $1,460,700; 1968, $26,963)	1,393,190	19,490
Common (cost, 1969, $7,649,755; 1968, $6,302,724)	7,376,925	8,067,196
	8,770,115	8,086,686
Real estate, at cost less allowance for depreciation of $228,606 (1968, $194,539) (note 4)	1,005,061	1,026,105
Cash and bank deposits	686,818	509,778
Agents' balances and premiums in course of collection, less ceded reinsurance balances payable of $87,581 (1968, $128,904)	3,513,854	2,205,360
Reinsurance recoverable on loss payments	533,531	292,549
Investment income due and accrued	470,174	431,820
Amounts due from sales of securities	655,430	3,170
Federal income taxes recoverable (note 7)	297,500	—
Other	62,180	33,356
	$43,888,780	$39,797,552

LIABILITIES AND CAPITAL STOCK

	1969	1968
Mortgage and contract payable on rental property	$ 28,182	$ 37,351
Unearned premiums (note 5)	10,091,999	6,817,002
Losses and loss adjustment expenses (note 6)	19,079,307	17,324,317
Funds held under reinsurance treaties	776,791	734,010
Contingent commissions	417,000	510,300
Other expenses	87,512	81,208
Taxes, licenses and fees	553,266	525,786
Federal income taxes (note 7)	—	231,500
Agents' and policyholders' deposits	473,178	405,581
Statutory reserve for bodily injury and compensation losses	97,707	344,078
Amounts due for purchases of securities	856,052	1,231,012
Other liabilities	13,392	46,487
	32,474,386	28,288,632
Capital stock and surplus:		
Common stock of $10 par value per share. Authorized 250,000 shares; issued 200,000 shares (note 8)	2,000,000	2,000,000
Paid-in surplus	301,250	301,250
Unassigned surplus	9,113,144	9,207,670
	11,414,394	11,508,920
	$43,888,780	$39,797,552

See accompanying notes to financial statements.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF INCOME

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Underwriting income:		
Net premiums written	$24,824,366	$19,999,000
(Increase) decrease in unearned premiums	(3,274,997)	342,137
Premiums earned	21,549,369	20,341,137
Losses and loss expenses incurred	13,933,982	13,343,028
	7,615,387	6,998,109
Underwriting expenses:		
Commissions and brokerage	5,750,605	4,540,886
Salaries and other compensation	765,067	699,168
Taxes, licenses and fees	669,872	571,711
Other underwriting expenses	559,201	615,233
	7,744,745	6,426,998
Net underwriting gain (loss)	(129,358)	571,111
Investment income:		
Interest on bonds	1,421,542	1,130,307
Dividends on stock	350,386	304,153
Real estate income	198,966	168,969
	1,970,894	1,603,429
Investment expenses	183,892	167,843
	1,787,002	1,435,586
Profit from underwriting and investments	1,657,644	2,006,697
Other expense	18,552	6,049
Income before Federal income taxes and realized gains on investments	1,639,092	2,000,648
Federal income taxes	20,809	378,053
Income before realized gains on investments	1,618,283	1,622,595
Realized gains on investments	297,058	796,242
Less Federal income taxes on gains	81,691	218,967
	215,367	577,275
Net income	$ 1,833,650	$ 2,199,870
Depreciation	$ 61,730	$ 59,913

See accompanying notes to financial statements.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Year ended December 31, 1969
with comparative figures for 1968

PAID-IN SURPLUS

	1969	*1968*
Beginning and end of year	$ 301,250	$ 301,250

UNASSIGNED SURPLUS

	1969	*1968*
Beginning of year	$ 9,207,670	$ 5,856,614
Net income	1,833,650	2,199,870
Increase (decrease) in net unrealized appreciation of investments	(2,150,741)	1,608,414
Decrease in liability for unauthorized reinsurance	31,640	12,670
Decrease in excess of bodily injury liability and compensation statutory and voluntary reserves over case basis and loss expense reserves (Schedule "P" reserve)	246,371	143,318
Increase in nonadmitted assets	(55,446)	(13,216)
Stock dividend (note 8)	—	(600,000)
End of year	$ 9,113,144	$ 9,207,670

STATEMENT OF ADJUSTED INCOME

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Net income as shown in the accompanying statement of income — statutory basis	$ 1,833,650	$ 2,199,870
Adjustments to net income:		
Net realized gain on investments (to segregate from adjusted net earnings)	(297,058)	(796,242)
Federal income taxes applicable to net realized gains	81,691	218,967
Increase (decrease) in estimated equity in unearned premiums	821,120	(102,642)
(Increase) decrease in future income taxes applicable to change in estimated equity in unearned premiums	(423,551)	54,194
	182,202	(625,723)
Net earnings, as adjusted (excluding investment gains)	$ 2,015,852	$ 1,574,147
Investment gains:		
Net realized gains	$ 297,058	$ 796,242
Less applicable income taxes	81,691	218,966
	215,367	577,276
Increase (decrease) in net unrealized gains	(2,730,100)	1,737,273
Less allowance for future income taxes	455,510	477,740
	(2,274,590)	1,259,533
Net investment gain (loss)	$(2,059,223)	$ 1,836,809

See accompanying notes to financial statements.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF ADJUSTED STOCKHOLDERS' EQUITY

December 31, 1969

with comparative figures for 1968

	1969	*1968*
Capital shares and surplus as shown in the accompanying statement of assets and liabilities — statutory basis	$11,414,394	$11,508,920
Adjustments to capital shares and surplus:		
Equity in unearned premium reserve, estimated at 28½% and 30% of reserve at December 31, 1969 and 1968, respectively	2,866,220	2,045,100
Statement value of bonds over market value	(663,284)	(83,924)
Reserve for reinsurance with unauthorized companies	13,183	44,823
Excess bodily injury liability and compensation statutory reserves over case basis	97,707	344,077
Nonadmitted assets (note 2)	221,008	165,562
	2,534,834	2,515,638
Adjusted equity before income taxes applicable to equity in unearned premiums and unrealized appreciation on investments	13,949,228	14,024,558
Less Federal income taxes applicable to estimated equity in unearned premiums and unrealized appreciation on investments	1,443,227	1,475,186
Adjusted stockholders' equity	$12,506,001	$12,549,372

NOTES TO FINANCIAL STATEMENTS

(1) Basis of Presentation:

The accompanying financial statements have been prepared, except as to form, on the basis of the requirements for reporting in the annual statements filed with the Insurance Departments of the respective domiciliary states.

The financial statements have been prepared in conformity with insurance accounting principles prescribed or permitted under statutory authority which differ in some respects from generally accepted accounting principles followed by other business enterprises in determining financial position and results of operations. Pursuant to such practices (a) investment securities are carried in accordance with valuations established by the National Association of Insurance Commissioners, i.e. eligible bonds are carried at cost adjusted, where appropriate, for amortization of premium or discount, and other bonds and stocks are carried at market values with no provision for income taxes relative to unrealized appreciation in such investments; (b) premium income is taken into earnings on a pro rata basis over the periods covered by the policies, whereas related acquisition and commission costs are charged off when incurred; (c) statutory loss reserves are required on certain lines of insurance in excess of losses computed on a case basis; (d) assets are included in the statement of assets and liabilities at "admitted asset value" and "nonadmitted assets" are excluded (see note 2); and (e) a provision is made for unearned premiums and losses recoverable, in excess of funds held, on business reinsured with companies not qualified by license. The effects of such differences are shown in the accompanying supplemental statements of adjusted stockholders' equity and adjusted net income.

(2) Nonadmitted Assets:

The assets in the accompanying statement of assets and liabilities are stated at admitted asset value. The term "admitted assets" means the assets stated at values at which they are permitted to be reported to the respective domiciliary state regulatory authority for statement of asset and liability purposes in the annual report in accordance with the rules and regulations of such regulatory authority. The term "nonadmitted assets" means assets other than assets which are so permitted to be reported.

Assets which have been excluded from the statement of assets and liabilities at December 31, 1969 are as follows:

Agents' balances or uncollected premiums	$ 76,036
Equipment and furniture	142,702
Other	2,270
	$221,008

(3) Bonds and Stocks:

Bonds and stocks are carried in accordance with valuations established by the National Association of Insurance Commissioners (see note 1). The market value as prescribed by the National Association of Insurance Commissioners of all bonds and the "admitted value" of bonds on deposit with regulatory authorities at December 31, 1969 was as follows:

Aggregate market value (statutory) of all bonds	$27,230,833
Admitted value of bonds on deposit	1,950,005

The change in each period in the valuation between investments at book value and investments valued as set forth above is carried to surplus as unrealized gain or loss from investments.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

NOTES TO FINANCIAL STATEMENTS, *Continued*

(4) Real Estate:

Real estate consists of the home office building and related real estate owned by National Indemnity Company and is included in the statement of assets and liabilities at cost less accumulated depreciation. Provision for depreciation of real estate is based upon the estimated useful life of the building and is computed under the straight-line method.

(5) Unearned Premiums:

Unearned premiums are computed on the monthly pro rata basis and include provisions for refunds under retrospectively rated policies and are stated after deduction on account of reinsurance placed with other insurers in the amount of $2,911,679 at December 31, 1969.

(6) Unpaid Losses and Loss Expenses:

The net reserve for unpaid losses and loss expenses is after the deduction of amounts for reinsurance placed with other insurers in the amount of $2,267,530 at December 31, 1969.

(7) Federal Income Taxes:

The company intends to file a consolidated Federal income tax return with its parent, Berkshire Hathaway Inc. for the year ended December 31, 1969. Federal income tax recoverable included in the statement of assets and liabilities represents payment of estimated taxes in excess of current year's taxes computed on the basis of the company filing a separate return.

Federal income tax returns have been examined through 1966 by the Internal Revenue Service and adjustments have been proposed. The company has filed a protest and management believes that the final determination will result in a refund due to the company.

(8) Stock Dividend:

The Board of Directors by special meeting on November 26, 1968, declared a three-for-seven stock dividend to stockholders of record December 2, 1968.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

KIEWIT PLAZA

OMAHA, NEBRASKA 68131

The Board of Directors
National Indemnity Company:

We have examined the statutory statement of assets and liabilities of National Indemnity Company as of December 31, 1969 and the related statements of income and paid-in and unassigned surplus for the year then ended. We have also examined the supplemental statements of adjusted income and stockholders' equity. 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, such financial statements present fairly the statutory financial position of National Indemnity Company at December 31, 1969 and the income and changes in paid-in and unassigned surplus for the year then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority applied on a basis consistent with that of the preceding year. These principles vary in some respects from generally accepted accounting principles, as explained in note 1 to the financial statements. Also, in our opinion, the supplemental statements of adjusted income and stockholders' equity present fairly net income for the year ended December 31, 1969 and the stockholders' equity at that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 27, 1970

National Fire & Marine Insurance Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1969
with comparative figures for 1968

ASSETS

	1969	*1968*
Bonds, at admitted value (note 2)	$3,940,926	$2,992,253
Stocks, at market value (note 2):		
Preferred (cost, 1969, $270,003; 1968, $18,900)	253,583	13,200
Common (cost, 1969, $1,326,984; 1968, $804,554)	1,229,678	1,083,704
	1,483,261	1,096,904
Cash and bank deposits	101,114	87,889
Agents' balances and premiums in course of collection, less ceded reinsurance balances payable of $60,868, 1969; $81,512, 1968	737,856	612,758
Reinsurance recoverable on loss payments	73,537	50,374
Investment income due and accrued	74,177	52,546
Amounts due from sales of securities	87,683	—
Federal income taxes recoverable (note 5)	23,242	—
Other	1,445	1,939
	$6,523,241	$4,894,663

LIABILITIES AND CAPITAL STOCK

	1969	*1968*
Unearned premiums (note 3)	$1,477,375	$1,234,103
Losses and loss adjustment expenses (note 4)	2,369,259	1,225,918
Funds held under reinsurance treaties	522,265	309,055
Other expenses	6,003	4,061
Taxes, licenses and fees	10,462	8,455
Federal income taxes (note 5)	—	7,021
Statutory reserve for bodily injury and compensation losses	—	84,733
Amounts due for purchases of securities	201,747	66,280
Other liabilities	12,814	10,898
	4,599,925	2,950,524
Capital stock and surplus:		
Common stock at $100 par value per share. Authorized and issued 10,000 shares, 1969 (note 6)	1,000,000	500,000
Paid-in surplus	50,000	50,000
Unassigned surplus	873,316	1,394,139
	1,923,316	1,944,139
	$6,523,241	$4,894,663

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF INCOME

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Underwriting income:		
Net premiums written	$3,951,771	$2,620,727
Less increase in unearned premiums	243,272	345,072
Premiums earned	3,708,499	2,275,655
Losses and loss expenses incurred	2,426,897	1,455,326
	1,281,602	820,329
Underwriting expenses:		
Commissions and brokerage	1,205,362	755,722
Salaries and other compensation	54,577	43,899
Taxes, licenses and fees	18,492	6,753
Other underwriting expenses	26,563	17,240
	1,304,994	823,614
Net underwriting loss	23,392	3,285
Investment income:		
Interest on bonds	193,040	134,895
Dividends on stocks	52,412	47,350
	245,452	182,245
Investment expenses	7,253	5,772
	238,199	176,473
Income before Federal income taxes and realized gains on investments	214,807	173,188
Federal income taxes (credit)	(308)	5,913
Income before realized gains on investments	215,115	167,275
Realized gains on investments	91,731	178,694
Less Federal income taxes on gains	25,226	49,140
	66,505	129,554
Net income	$ 281,620	$ 296,829

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Year ended December 31, 1969
with comparative figures for 1968

	1969	1968
PAID-IN SURPLUS		
Beginning and end of year	$ 50,000	$ 50,000
UNASSIGNED SURPLUS		
Beginning of year	1,394,139	815,996
Net income	281,620	296,829
Increase (decrease) in net unrealized appreciation of investments	(387,176)	225,031
Decrease (increase) in excess of bodily injury liability and compensation statutory and voluntary reserves over case basis and loss expense reserves (Schedule "P" reserve)	84,733	56,283
Stock dividend (note 6)	(500,000)	—
	$ 873,316	$1,394,139

STATEMENT OF ADJUSTED INCOME

Year ended December 31, 1969
with comparative figures for 1968

	1969	1968
Net income as shown in the accompanying statement of income — statutory basis	$ 281,620	$ 296,829
Adjustments to net income:		
Net realized gain on investments (to segregate from adjusted net earnings)	(91,731)	(178,694)
Federal income taxes applicable to net realized gains	25,226	49,140
Increase in estimated equity in unearned premiums	102,539	103,521
Future income taxes applicable to increase in estimated equity in unearned premiums	(54,141)	(54,659)
	(18,107)	(80,692)
Net earnings, as adjusted (excluding investment gains)	$ 263,513	$ 216,137
Investment gains:		
Net realized gains	$ 91,731	$ 178,694
Less applicable income taxes	25,226	49,140
	66,505	129,554
Increase (decrease) in net unrealized gains	(388,609)	222,889
Less allowance for future income taxes	73,027	61,162
	(315,582)	161,727
Net investment gain (loss)	$ (249,077)	$ 291,281

See accompanying notes to financial statements.

National Fire & Marine Insurance Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF ADJUSTED STOCKHOLDERS' EQUITY

December 31, 1969
with comparative figures for 1968

	1969	*1968*
Capital shares and surplus as shown in the accompanying statement of assets and liabilities — statutory basis	$1,923,316	$1,944,139
Adjustments to capital shares and surplus:		
Equity in unearned premium reserve, estimated at 32% and 30% of reserve at December 31, 1969 and 1968, respectively	472,770	370,231
Statement value of bonds over market value	(5,010)	(3,577)
Excess bodily injury liability and compensation statutory reserves over case basis	—	84,733
	467,760	451,387
Adjusted equity before income taxes applicable to equity in unearned premiums and unrealized appreciation on investments	2,391,076	2,395,526
Less Federal income taxes applicable to estimated equity in unearned premiums and unrealized appreciation on investments	242,155	261,041
Adjusted stockholders' equity	$2,148,921	$2,134,485

NOTES TO FINANCIAL STATEMENTS

(1) Basis of Presentation:

The accompanying financial statements have been prepared, except as to form, on the basis of the requirements for reporting in the annual statements filed with the insurance departments of the respective domiciliary states.

The financial statements have been prepared in conformity with insurance accounting principles prescribed or permitted under statutory authority which differ in some respects from generally accepted accounting principles followed by other business enterprises in determining financial position and results of operations. Pursuant to such practices (a) investment securities are carried in accordance with valuations established by the National Association of Insurance Commissioners, i.e. eligible bonds are carried at cost adjusted, where appropriate, for amortization of premium or discount, and other bonds and stocks are carried at market values with no provision for income taxes relative to unrealized appreciation in such investments; (b) premium income is taken into earnings on a pro rata basis over the periods covered by the policies, whereas related acquisition and commission costs are charged off when incurred; and (c) statutory loss reserves are required on certain lines of insurance in excess of losses computed on a case basis. The effects of such differences are shown in the accompanying supplemental statements of adjusted stockholders' equity and adjusted net income.

(2) Bonds and Stocks:

Bonds and stocks are carried in accordance with valuations established by the National Association of Insurance Commissioners (see note 1).

The market value as prescribed by the National Association of Insurance Commissioners of all bonds and the "admitted value" of bonds on deposit with regulatory authorities at December 31, 1969 was as follows:

Aggregate market value (statutory) of all bonds	$3,935,916
Admitted value of bonds on deposit	161,794

The change in each period in the valuation between investments at book value and investments valued as set forth above is carried to surplus as unrealized gain or loss from investments.

(3) Unearned Premiums:

Unearned premiums are computed on the monthly pro rata basis and include provisions for refunds under retrospectively rated policies and are stated after deduction on account of

NOTES TO FINANCIAL STATEMENTS, *Continued*

reinsurance placed with other insurers in the amount of $427,651.

(4) Unpaid Losses and Loss Adjustment Expenses:

The reserve for unpaid losses and loss adjustment expenses is after deduction of amounts for reinsurance placed with other insurers in the amount of $405,919.

(5) Federal Income Taxes:

The Company intends to file a consolidated Federal income tax return with its parent, Berkshire Hathaway Inc., for the year ended December 31, 1969. Federal income tax recoverable included in the statement of assets and liabilities represents payment of estimated taxes in excess of the current year's taxes computed on the basis of the Company filing a separate return.

Federal income tax returns have been examined through 1966 by the Internal Revenue Service and adjustments have been proposed. The Company intends to file a protest and management believes that final determination will result in a refund due to the Company.

(6) Stock Dividend:

The Board of Directors by special meeting on November 18, 1969, declared a one-for-one stock dividend to stockholders of record November 18, 1969.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

KIEWIT PLAZA

OMAHA, NEBRASKA 68131

The Board of Directors
National Fire & Marine Insurance Company:

We have examined the statutory statement of assets and liabilities of National Fire & Marine Insurance Company as of December 31, 1969 and the related statements of income and paid-in and unassigned surplus for the year then ended. We have also examined the supplemental statements of adjusted income and stockholder's equity. 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, such financial statements present fairly the statutory financial position of National Fire & Marine Insurance Company at December 31, 1969 and the income and changes in paid-in and unassigned surplus for the year then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority on a basis consistent with that of the preceding year. These principles vary in some respects from generally accepted accounting principles, as explained in note 1 to the financial statements. Also, in our opinion, the supplemental statements of adjusted income and stockholder's equity present fairly net income for the year ended December 31, 1969 and the stockholder's equity at that date in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 27, 1970

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF CONDITION

December 31, 1969
with comparative figures for 1968

ASSETS	*1969*	*1968*
Cash and due from banks	$ 19,917,661	$ 23,244,160
Investment securities (note 2):		
United States Government obligations	11,227,704	26,922,462
Obligations of states and political subdivisions	36,005,053	17,803,334
Other securities	210,000	210,000
Loans (note 3)	47,962,992	46,995,450
Bank premises and equipment (note 4)	1,825,164	1,236,936
Accrued interest receivable and other assets	1,040,477	895,831
	$118,189,051	$117,308,173

LIABILITIES AND CAPITAL ACCOUNTS		
Demand deposits	$ 58,237,471	$ 57,676,992
Time deposits	41,317,347	41,408,448
Total deposits	99,554,818	99,085,440
Accrued taxes and other expenses	638,453	783,194
Total liabilities	100,193,271	99,868,634
Reserve for loan losses (note 5)	800,271	599,008
Capital accounts:		
Common stock, $20.00 par		
Authorized and issued 100,000 shares	2,000,000	2,000,000
Surplus	5,027,442	5,027,442
Undivided profits	9,092,067	8,737,089
Reserve for contingencies	1,001,000	1,001,000
Reserve for asset re-evaluation	75,000	75,000
Total capital accounts	17,195,509	16,840,531
	$118,189,051	$117,308,173

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Operating income:		
Interest and fees on loans	$3,820,358	$3,431,019
Income on federal funds sold	392,335	319,556
Interest and dividends on:		
United States Government obligations	1,003,301	1,419,708
Obligations of states and political subdivisions	1,154,524	531,755
Trust department	342,976	339,039
Service charges on deposit accounts	219,891	199,012
Other	247,796	250,463
Total operating income	7,181,181	6,490,552
Operating expenses:		
Salaries	1,159,126	1,073,054
Pensions, profit sharing, and other employee benefits	113,551	137,037
Interest on deposits	1,694,877	1,493,180
Interest on federal funds purchased	12,538	2,517
Net occupancy expense of bank premises	301,557	325,147
Equipment rentals, depreciation, and maintenance	260,087	234,865
Provision for loan losses	61,600	65,800
Other	558,132	497,270
Total operating expenses	4,161,468	3,828,870
Income before income taxes and securities gains or (losses)	3,019,713	2,661,682
Applicable income taxes:		
Current	1,060,974	1,003,312
Deferred	(21,884)	107,010
Total applicable income taxes	1,039,090	1,110,322
Income before securities gains or (losses)	1,980,623	1,551,360
Securities gains or (losses)	(788,879)	150,985
Applicable income taxes	416,528	(41,434)
Securities gains or (losses) — net of applicable income taxes	(372,351)	109,551
Net income	$1,608,272	$1,660,911
Earnings per share (based on 100,000 shares during 1968 and 1969):		
Income before securities gains or (losses)	$19.81	$15.51
Net income	16.08	16.61

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL ACCOUNTS

Two years ended December 31, 1969

Balances January 1, 1968:		
Common Stock		$ 2,000,000
Surplus		5,027,442
Undivided Profits		6,573,370
Reserve for Contingencies		1,001,000
Reserve for Asset Re-evaluation		75,000
Total Capital		14,676,812
Changes in Undivided Profits in 1968:		
Net adjustments resulting from change to full accrual basis of accounting as of January 1, 1968 (net of tax)		836,985
Net Income		1,660,911
		17,174,708
Cash dividends ($2.75 per share)		(275,000)
Provision to reserve for loan losses from undivided profits net of tax		(59,177)
Balance December 31, 1968		16,840,531
Changes in Undivided Profits in 1969:		
Net income		1,608,272
		18,448,803
Cash dividends ($11.75 per share)		(1,175,000)
Provision to reserve for loan losses from undivided profits net of tax		(78,294)
Balance December 31, 1969		$17,195,509
Balance December 31, 1969 represented by:		
Common stock	$ 2,000,000	
Surplus	5,027,442	
Undivided profits	9,092,067	
Reserve for contingencies	1,001,000	
Reserve for asset re-evaluation	75,000	
Total Capital	$17,195,509	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1969

(1) Basis of Presentation:

The consolidated financial statements retroactively reflect certain changes in accounting practices and statement presentation which were adopted subsequent to December 31, 1968. These changes, which are explained in the following notes, did not materially affect the previously reported financial position or results of operation of the Bank.

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries, Brown Building Corporation and Illinois National Safe Deposit Co.

The consolidated financial statements are presented on the accrual basis of accounting. Income is reported on the cash basis for tax purposes. Applicable deferred income taxes have been provided for in the consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

NOTES TO FINANCIAL STATEMENTS, *Continued*

(2) Investment Securities:

Investment securities are stated at cost, adjusted for amortization of premium. The approximate market value of investment securities at December 31, 1969 and 1968 were $44,023,000 and $43,720,000, respectively.

Investment securities stated at $8,069,083 on December 31, 1969 and $11,614,592 on December 31, 1968 were pledged to secure public deposits and other purposes as required or permitted by law.

(3) Loans:

Loans, previously carried at face value, have been reduced by unearned discount, which was previously included among other liabilities, and Consumer Credit loan payments, which were previously included in time deposits. Unearned discount was $2,206,028 on December 31, 1969 and $2,126,499 on December 31, 1968. Consumer Credit loan payments totaled $11,031,809 on December 31, 1969 and $10,328,663 on December 31, 1968.

(4) Bank Premises and Equipment:

Bank premises and equipment are stated at cost less accumulated depreciation of $1,061,740 and $913,072 for 1969 and 1968, respectively. Depreciation charged to expense totaled $189,728 in 1969 and $143,325 in 1968. Depreciation, for both book and tax purposes, is provided on the straight-line method for buildings and automobiles and on an accelerated method for building improvements, equipment, and drive-in and parking facility.

(5) Reserve for Loan Losses:

The Bank has adopted the policy of including in operating expense a provision for loan losses based on a five-year moving average ratio of losses computed on the basis of net charge-offs to total loans over the past five years. The ratio of losses has been determined based on the aggregate of total net charge-offs and total average loans for the five most recent years, including the current year. This ratio has been applied to the average of outstanding loans during the current year to determine the loan loss provision charged to operating expense.

The consolidated statement of earnings for 1968 has been restated in accordance with this policy. Additional provisions allowable under the current Treasury Tax formula are charged to undivided profits — net of deferred taxes.

The balance in the reserve for loan losses represents the maximum allowable under the Treasury Tax formula for the period since the adoption of the reserve method of accounting for loan losses in 1965.

A summary of the reserve for loan losses for the years 1969 and 1968 is as follows:

	1969	*1968*
Balance beginning of year	$599,008	$498,377
Provisions charged to:		
Operating expenses	61,600	65,800
Undivided profits	165,877	125,375
Recoveries	57,897	44,766
Losses	(84,111)	(135,310)
Balance end of year	$800,271	$599,008

(6) Pension and Profit Sharing Plan:

The Bank has a noncontributory pension plan and a profit sharing plan for all officers and employees with two full years of service. No pension contribution was required for 1969; the profit sharing expense was $97,138 for 1969. The total pension and profit sharing expense was $117,574 for 1968.

As of January 1, 1969, the book value of the pension trust assets exceeded the actuarial values of the vested benefits of the participants.

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

111 WEST MONROE STREET

CHICAGO, ILLINOIS 60603

The Board of Directors
The Illinois National Bank & Trust
Co. of Rockford
Rockford, Illinois:

We have examined the consolidated statement of condition of The Illinois National Bank & Trust Co. of Rockford and subsidiaries as of December 31, 1969, and the related consolidated statements of earnings and changes in capital accounts 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. Financial statements of the preceding year, included for comparative purposes, have not been examined by independent public accountants.

In our opinion, such financial statements present fairly the financial position of The Illinois National Bank & Trust Co. of Rockford and subsidiaries at December 31, 1969, and the results of its operations and changes in capital accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated. (See note 1 to consolidated financial statements.)

Peat, Marwick, Mitchell & Co.

January 15, 1970

DIRECTORS

*Malcolm G. Chace, Jr.
Richard Bowen
*Warren E. Buffett
*Kenneth V. Chace
Daniel Cowin
John William Scott

*Member of Finance Committee

OFFICERS

Kenneth V. Chace, *President*
Richard Bowen, *Vice President*
J. Verne McKenzie, *Vice President and Treasurer*
Ralph Rigby, *Vice President*
John L. Threshie, *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.

Executive Offices — 97 Cove Street, New Bedford, Massachusetts 02744
Sales Offices — 261 Fifth Avenue, New York, New York 10016
137 East 36th Street, New York, New York 10016