BERKSHIRE HATHAWAY INC.

1972

ANNUAL REPORT TO THE STOCKHOLDERS

(52 WEEKS ENDED DECEMBER 30, 1972)

Contents

Berkshire Hathaway Inc.

To the Stockholders of
Berkshire Hathaway Inc.:

Operating earnings of Berkshire Hathaway during 1972 amounted to a highly satisfactory 19.8% of beginning shareholders' equity. Significant improvement was recorded in all of our major lines of business, but the most dramatic gains were in insurance underwriting profit. Due to an unusual convergence of favorable factors — diminishing auto accident frequency, moderating accident severity, and an absence of major catastrophes — underwriting profit margins achieved a level far above averages of the past or expectations of the future.

While we anticipate a modest decrease in operating earnings during 1973, it seems clear that our diversification moves of recent years have established a significantly higher base of normal earning power. Your present management assumed policy control of the company in May, 1965. Eight years later, our 1972 operating earnings of $11,116,256 represent a return many-fold higher than would have been produced had we continued to devote our resources entirely to the textile business. At the end of the 1964 fiscal year, shareholders' equity totaled $22,138,753. Since that time, no additional equity capital has been introduced into the business, either through cash sale or through merger. On the contrary, some stock has been reacquired, reducing outstanding shares by 14%. The increase in book value per share from $19.46 at fiscal year-end 1964 to $69.72 at 1972 year-end amounts to about 16½% compounded annually.

Our three major acquisitions of recent years have all worked out exceptionally well — from both the financial and human standpoints. In all three cases, the founders were major sellers and received significant proceeds in cash — and, in all three cases, the same individuals, Jack Ringwalt, Gene Abegg and Vic Raab, have continued to run the businesses with undiminished energy and imagination which have resulted in further improvement of the fine records previously established.

We will continue to search for logical extensions of our present operations, and also for new operations which will allow us to continue to employ our capital effectively.

Textile Operations

As predicted in last year's annual report, the textile industry experienced a pickup in 1972. In recent years, Ken Chace and Ralph Rigby have developed an outstanding sales organization enjoying a growing reputation for service and reliability. Manufacturing capabilities have been restructured to complement our sales strengths.

Helped by the industry recovery, we experienced some payoff from these efforts in 1972. Inventories were controlled, minimizing close-out losses in addition to minimizing capital requirements; product mix was greatly improved. While the general level of profitability of the industry will always be the primary factor in determining the level of our textile earnings, we believe that our relative position within the industry has noticeably improved. The outlook for 1973 is good.

Insurance Underwriting

Our exceptional underwriting profits during 1972 in the large traditional area of our insurance business at National Indemnity present a paradox. They served to swell substantially total corporate profits for 1972, but the factors which produced such profits induced exceptional amounts of new competition at what we believe to be a non-compensatory level of rates. Over-all, we probably would have retained better prospects for the next five years if profits had not risen so dramatically this year.

Substantial new competition was forecast in our annual report for last year and we experienced in 1972 the decline in premium volume that we stated such competition implied. Our belief is that industry underwriting profit margins will narrow substantially in 1973 or 1974 and, in time, this may produce an environment in which our historical growth can be resumed. Unfortunately, there is a lag between deterioration of underwriting results and tempering of competition. During this period we expect to continue to have negative volume comparisons in our traditional operation. Our seasoned management, headed by Jack Ringwalt and Phil Liesche, will continue to underwrite to produce a profit, although not at the level of 1972, and base our rates on long-term expectations rather than short-term hopes. Although this approach has meant dips in volume from time to time in the past, it has produced excellent long-term results.

Also as predicted in last year's report, our reinsurance division experienced many of the same competitive factors in 1972. A multitude of new organizations entered what has historically been a rather small field, and rates were often cut substantially, and we believe unsoundly, particularly in the catastrophe area. The past year turned out to be unusually free of catastrophes and our underwriting experience was good.

George Young has built a substantial and profitable reinsurance operation in just a few years. In the longer term we plan to be a very major factor in the reinsurance field, but an immediate expansion of volume is not sensible against a background of deteriorating rates. In our view, underwriting exposures are greater than ever. When the loss potential inherent in such exposures becomes an actuality, repricing will take place which should give us a chance to expand significantly.

In the "home state" operation, our oldest and largest such company, Cornhusker Casualty Company, operating in Nebraska only, achieved good underwriting results. In its second full year, the home state marketing appeal has been proven with the attainment of volume on the order of one-third of that achieved by "old line" giants who have operated in the state for many decades.

Our two smaller companies, in Minnesota and Texas, had unsatisfactory loss ratios on very small volume. The home state managements understand that underwriting profitability is the yardstick of success and that operations can only be expanded significantly when it is clear that we are doing the right job in the underwriting area. Expense ratios at the new companies are also high, but that is to be expected when they are in the development stage.

John Ringwalt has done an excellent job of launching this operation, and plans to expand into at least one additional state during 1973. While there is much work yet to be done, the home state operation appears to have major long-range potential.

Last year it was reported that we had acquired Home and Automobile Insurance Company of Chicago. We felt good about the acquisition at the time, and we feel even better now. Led by Vic Raab, this company continued its excellent record in 1972. During 1973 we expect to enter the Florida (Dade County) and California (Los Angeles) markets with the same sort of specialized urban auto coverage which Home and Auto has practiced so successfully in Cook County. Vic has the managerial capacity to run a much larger operation. Our expectation is that Home and Auto will expand significantly within a few years.

Insurance Investment Results

We were most fortunate to experience dramatic gains in premium volume from 1969 to 1971 coincidental with virtually record-high interest rates. Large amounts of investable funds were thus received at a time when they could be put to highly advantageous use. Most of these funds were placed in tax-exempt bonds and our investment income, which has increased from $2,025,201 in 1969 to $6,755,242 in 1972, is subject to a low effective tax rate.

Our bond portfolio possesses unusually good call protection, and we will benefit for many years to come from the high average yield of the present portfolio. The lack of current premium growth, however, will moderate substantially the growth in investment income during the next several years.

Banking Operations

Our banking subsidiary, The Illinois National Bank and Trust Co. of Rockford, maintained its position of industry leadership in profitability. After-tax earnings of 2.2% on average deposits in 1972 are the more remarkable when evaluated against such moderating factors as: (1) a mix of 60% time deposits heavily weighted toward consumer savings instruments, all paying the maximum rates permitted by law; (2) an unvaryingly strong liquid position and avoidance of money-market borrowings; (3) a loan policy which has produced a net charge-off ratio in the last two years of about 5% of that of the average commercial bank. This record is a direct tribute to the leadership of Gene Abegg and Bob Kline who run a bank where the owners and the depositors can both eat well and sleep well.

During 1972, interest paid to depositors was double the amount paid in 1969. We have aggressively sought consumer time deposits, but have not pushed for large "money market" certificates of deposit although, during the past several years, they have generally been a less costly source of time funds.

During the past year, loans to our customers expanded approximately 38%. This is considerably more than indicated by the enclosed balance sheet which includes $10.9 million in short-term commercial paper in the 1971 loan total, but which has no such paper included at the end of 1972.

Our position as "Rockford's Leading Bank" was enhanced during 1972. Present rate structures, a decrease in investable funds due to new Federal Reserve collection procedures, and a probable increase in already substantial non-federal taxes make it unlikely that Illinois National will be able to increase its earnings during 1973.

Financial

On March 15, 1973, Berkshire Hathaway borrowed $20 million at 8% from twenty institutional lenders. This loan is due March 1, 1993, with principal repayments beginning March 1, 1979. From the proceeds, $9 million was used to repay our bank loan and the balance is being invested in insurance subsidiaries. Periodically, we expect that there will be opportunities to achieve significant expansion in our insurance business and we intend to have the financial resources available to maximize such opportunities.

Our subsidiaries in banking and insurance have major fiduciary responsibilities to their customers. In these operations we maintain capital strength far above industry norms, but still achieve a good level of profitability on such capital. We will continue to adhere to the former objective and make every effort to continue to maintain the latter.

Warren E. Buffett
Chairman of the Board

March 16, 1973

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

40 WESTMINSTER STREET

PROVIDENCE, RHODE ISLAND 02903

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. as of December 30, 1972 and January 1, 1972, the statements of assets and liabilities of the Berkshire Hathaway Inc. - Insurance Group and the consolidated statements of condition of The Illinois National Bank & Trust Co. of Rockford and subsidiary as of December 31, 1972 and 1971, and the related consolidated statements of earnings and retained earnings and changes in financial position of Berkshire Hathaway Inc. for the 52 weeks ended December 30, 1972 and January 1, 1972; the statements of income and realized investment gains, paid-in and unassigned surplus and changes in financial position of the Berkshire Hathaway Inc. - Insurance Group for the years ended December 31, 1972 and 1971; and the consolidated statements of income, changes in capital accounts and changes in financial position of The Illinois National Bank and Trust Co. of Rockford and subsidiary for the years ended December 31, 1972 and 1971. 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 financial position of Berkshire Hathaway Inc., the Berkshire Hathaway Inc. - Insurance Group and The Illinois National Bank & Trust Co. of Rockford and subsidiary at December 31, 1972 and 1971 (December 30, 1972 and January 1, 1972 in the case of Berkshire Hathaway Inc.) and the results of their operations and changes in their financial position for the years ended December 31, 1972 and 1971 (the 52 weeks ended December 30, 1972 and January 1, 1972 in the case of Berkshire Hathaway Inc.) in accordance with generally accepted accounting principles which, except for the change (of which we approve) in the method of accounting for investments in stocks by the Berkshire Hathaway Inc. - Insurance Group, as described in Note 2 of their financial statements, have been applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 8, 1973
(except for Note 10 to the consolidated financial statements, as to which the date is March 15, 1973)

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEETS

December 30, 1972 and January 1, 1972

	Dec. 30, 1972	*Jan. 1, 1972*
ASSETS		
Current assets:		
Cash (Jan. 1, 1972 includes short-term investments at cost, which approximates market value)	$ 1,953,858	$ 962,010
Accounts receivable (less allowance for doubtful accounts: Dec. 30 — $226,530; Jan. 1 — $197,708)	4,054,676	5,099,853
Inventories (notes 1 and 3)	6,827,043	6,030,647
Prepaid and deferred charges	92,250	110,290
Total current assets	12,927,827	12,202,800
Property, plant and equipment (notes 1 and 4):		
Property comprising land, buildings, machinery and equipment	14,959,876	14,941,903
Less accumulated depreciation and amortization	12,993,741	12,732,699
Net property, plant and equipment	1,966,135	2,209,204
Investment in unconsolidated subsidiaries (notes 1 and 2):		
Insurance subsidiaries	44,981,758	33,501,882
Bank subsidiary	20,472,590	20,116,846
Other subsidiaries	1,258,832	1,258,832
Total investment in unconsolidated subsidiaries	66,713,180	54,877,560
	$81,607,142	$69,289,564

LIABILITIES AND STOCKHOLDERS' EQUITY

	Dec. 30, 1972	*Jan. 1, 1972*
Current liabilities:		
Accounts payable and accrued expenses	$ 3,235,859	$ 3,305,390
Accrued Federal, State and local taxes (note 1)	434,960	174,009
Total current liabilities	3,670,819	3,479,399
Long-term debt:		
Notes payable to banks (notes 6 and 10)	9,000,000	9,000,000
7½% subordinated debentures (note 7)	641,300	641,300
Total long-term debt	9,641,300	9,641,300
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	64,024,663	51,898,505
	69,112,398	56,986,240
Less 37,978 shares of common stock in treasury, at cost	817,375	817,375
Total stockholders' equity	68,295,023	56,168,865
	$81,607,142	$69,289,564

Other information (notes 1, 8 and 9)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

52 weeks ended December 30, 1972 and January 1, 1972

	52 weeks ended	
	Dec. 30, 1972	*Jan. 1, 1972*
Operating income:		
Net sales of textile products	$27,741,969	$26,011,267
Equity in pretax earnings (excluding investment gains) of unconsolidated subsidiaries:		
Insurance subsidiaries	10,811,674	6,433,482
Bank subsidiary	2,618,224	2,273,391
Interest income	30,027	81,273
	41,201,894	34,799,413
Operating costs:		
Cost of textile products sold	23,655,273	23,445,423
Administrative and selling expenses	2,606,126	2,467,177
Interest expense	583,724	594,885
	26,845,123	26,507,485
Operating earnings before applicable income taxes	14,356,771	8,291,928
Applicable income tax expense (notes 1 and 5)	3,240,515	1,351,019
Earnings before investment gains	11,116,256	6,940,909
Investment gains net of applicable income taxes (note 5)	1,009,902	744,623
Net earnings	12,126,158	7,685,532
Retained earnings at beginning of year	51,898,505	44,212,973
Retained earnings at end of year	$64,024,663	$51,898,505
Net earnings per share of outstanding common stock, based on the unchanged shares outstanding:		
Earnings before investment gains	$11.35	$ 7.09
Investment gains	1.03	.76
Net earnings	$12.38	$ 7.85

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

52 weeks ended December 30, 1972 and January 1, 1972

	Dec. 30, 1972	*Jan. 1, 1972*
Funds provided:		
Net earnings	$12,126,158	$ 7,685,532
Nonfund items:		
Add depreciation and amortization	427,062	459,746
Deduct equity in undistributed earnings of unconsolidated subsidiaries	(9,335,521)	(6,179,824)
Total nonfund items	(8,908,459)	(5,720,078)
Funds derived from operations	3,217,699	1,965,454
Long-term debt financing	—	9,000,000
Other	—	2,167
	3,217,699	10,967,621
Funds used:		
Investment in unconsolidated subsidiaries	2,500,100	8,496,332
Additions to property and equipment, net	183,992	175,175
Repayment of long-term debt	—	3,750,000
	2,684,092	12,421,507
Increase (decrease) in working capital	$ 533,607	($ 1,453,886)
Changes in working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 991,848	($ 389,557)
Receivables	(1,045,177)	1,183,521
Inventories	796,396	(2,441,151)
Prepayments, etc.	(18,040)	(90,051)
Decrease (increase) in current liabilities:		
Current installments of long-term debt	—	1,500,000
Accounts payable and accrued expenses	69,531	(1,290,547)
Accrued Federal, State and local taxes	(260,951)	73,899
Increase (decrease) in working capital	$ 533,607	($1,453,886)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 30, 1972 and January 1, 1972

(1) Summary of Significant Accounting Policies

Accounting Period: Accounts of Berkshire Hathaway Inc. and its wholly-owned consolidated subsidiary, Bourne Mills of Canada, Ltd., are maintained on the basis of a 52-53 week year ending on the Saturday nearest December 31. Equity in earnings of non-consolidated subsidiaries is determined on the basis of their calendar year accounting periods ending on the corresponding December 31.

Principles of Consolidation and Subsidiaries Not Consolidated: The accounts of Berkshire Hathaway Inc., the parent company, are consolidated only with the accounts of Bourne Mills of Canada, Ltd., a wholly-owned Canadian textile sales subsidiary.

Three immaterial subsidiaries are not consolidated and investments therein are carried at cost.

The investment of Berkshire Hathaway Inc. in its Insurance Group, representing substantially all of the net assets of the Group, is accounted for on the equity method. This Group was comprised, at December 30, 1972, of a wholly-owned intermediary subsidiary which in turn owned 100% of the outstanding stock of National Fire and Marine Insurance Company and substantially 100% of the outstanding stock of National Indemnity Company, both casualty insurance underwriters. National Indemnity Company has several wholly-owned subsidiaries, all of which are engaged in the casualty insurance business. Composition of the Group at January 1, 1972 was similar to the above except that the intermediary subsidiary did not exist.

Berkshire Hathaway Inc. owns approximately 98% of the outstanding stock of The Illinois National Bank and Trust Co. of Rockford. The Company applies the equity method of accounting for this investment.

Cost in Excess of Net Assets of Companies Acquired: Cost in excess of net assets of companies acquired is not being amortized. No such excess has arisen at the parent company level subsequent to November 1, 1970.

Inventories: Inventories are stated at the lower of cost or market. "Cost" is standard cost developed annually for individual items on the basis of material, labor, and overhead costs in effect for normal activity levels at the time the costs are developed. The effect of this method approximates that of the "first-in, first-out" method in that it assigns a balance sheet valuation at near current replacement cost. "Market" has been considered as estimated selling market, thus making allowance for goods as to which cost cannot be recovered.

Property, Plant and Equipment: Items of property and plant (including significant betterments and renewals) are carried at cost depreciated over their useful lives estimated at the date of acquisition. The double-declining balance method is used to calculate depreciation of new items acquired after 1965; the straight-line method is applied for new items acquired prior to 1966 and for used items. Maintenance, repairs, and renewals of a minor nature are generally charged to income as incurred.

Income Taxes: The liability for income taxes reflected in the consolidated balance sheet is that part of the consolidated Federal income tax liability expected to be apportioned to the parent company, less payments (net of payments by subsidiaries) on estimated tax, plus the foreign tax liability of the consolidated subsidiary and plus state or provincial income taxes of the parent company and consolidated subsidiary.

Income tax expense reflects that of the parent and consolidated subsidiary plus a proportion (based on ownership) of the income tax expense of those unconsolidated subsidiaries whose income is reflected on the equity method.

Income taxes other than Federal income tax (i.e., foreign and state income taxes) are less than 5% of the total income tax expense.

Reclassification and Format: The format of the consolidated statement of earnings for the year ended January 1, 1972 has been changed and minor reclassifications of the figures have been made for comparability with the corresponding statement for the year ended December 30, 1972.

(2) Equity in Book Values of Subsidiaries Not Consolidated

The carrying values of $66,713,180 at December 30, 1972 and $54,877,560 at January 1, 1972 for all unconsolidated subsidiaries were approximately $2,000,000 and $900,000 respectively, in excess of the Company's equity in book values reflected in the financial statements of the subsidiaries as of those dates. The figure for excess cost changed principally because of the change by the insurance subsidiaries in 1972 to the cost method from the market value method of valuing stocks.

Financial statements of the Berkshire Hathaway Inc. Insurance Group and the Illinois National Bank & Trust Co. of Rockford and Subsidiary (the bank subsidiary) are presented elsewhere herein.

(3) Inventories

A summary of inventories follows:

	Dec. 30, 1972	*Jan. 1, 1972*
Raw materials and supplies	$ 690,219	$ 510,394
Stock in process	1,676,141	1,331,472
Griege and finished cloth	4,460,683	4,188,781
	$6,827,043	$6,030,647

(4) Property, Plant and Equipment

The composition of property, plant and equipment is shown below:

	Dec. 30, 1972	*Jan. 1, 1972*
Land	$ 84,860	$ 87,116
Buildings	2,344,684	2,345,977
Machinery and equipment	11,869,465	11,873,592
Furniture and fixtures and leasehold improvements	660,867	635,218
	14,959,876	14,941,903
Less accumulated depreciation and amortization	12,993,741	12,732,699
	$ 1,966,135	$ 2,209,204

Depreciation expense recorded in 1972 was $427,062 and $459,746 in 1971.

(5) Income Taxes

Composition of income tax expense is as follows:

	1972		
	Total	*Current*	*Deferred*
Applicable to operating earnings:			
Parent and consolidated subsidiary	$ 480,844	$ 480,844	$ —
Insurance Group	2,760,017	2,815,520	(55,503)
Bank subsidiary	(346)	1,301	(1,647)
	$3,240,515	$3,297,665	$(57,150)
Applicable to securities gains	$ 502,479	$ 502,479	$ —

	1971		
	Total	*Current*	*Deferred*
Applicable to operating earnings:			
Parent and consolidated subsidiary	$ 33,188	$ 33,188	$ —
Insurance Group	1,211,620	625,342	586,278
Bank subsidiary	106,211	118,211	(12,000)
	$1,351,019	$776,741	$ 574,278
Applicable to securities gains	$ 317,055	$317,055	$ —

The income taxes applicable to operating earnings are less than the statutory 48% rate because of the nontaxable nature of certain investment income of the insurance and bank subsidiaries.

(6) Notes Payable to Banks

The Company was liable, as of December 30, 1972 and January 1, 1972, for $9,000,000 under the terms of a term loan agreement with certain banks. These borrowings were refinanced in March 1973. See Note 10.

(7) 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 at principal amount plus accrued interest, 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.

(8) "One-Bank Holding Company" Status

The Company is a bank holding company under Federal legislation enacted in 1970. It has filed with the Federal Reserve Board an irrevocable election to divest of its holdings in The Illinois National Bank & Trust Co. of Rockford prior to January 1, 1981. No determination has been made as to how it will affect such divesture, and so long as the Company controls the bank, it is subject to the restrictions imposed upon it by the Federal Bank Holding Company Act.

(9) Economic Stabilization Program

The Company is subject to price control regulations under the Economic Stabilization Program. Based on interpretations of the price control regulations which management and legal counsel believe are reasonable, it is the opinion of management that the Company is in substantial compliance with the price control regulations. At present, however, there are significant uncertainties regarding the interpretation of the regulations, and it is not possible to determine whether the Company's interpretations will be accepted by the Price Commission. Since it is not possible to reasonably estimate the effect of any remedies that may be imposed if the Price Commission takes issue with the Company's interpretations, no provision for remedies has been made in the accompanying financial statements.

(10) Subsequent Event—Refinancing

On March 15, 1973, the Company issued at par $20,000,000, 8% Senior Notes due March 1, 1993. Part of the proceeds will be used to repay the $9,000,000 of outstanding term notes from certain banks; the remainder of the proceeds will be used by the Company for additional capital contributions to subsidiaries which are part of the Company's Insurance Group.

The new notes call for mandatory annual prepayments of $1,143,000 on March 1 in each of the years from 1979 to 1992, inclusive. Optional prepayments are permitted without premium up to the amount of the required prepayments in each of the years 1979 to 1992; this right is not cumulative. Additionally, the Company may also prepay the notes at any time, in full or in part, at a premium of 8% in the twelve months commencing March 1, 1973; the premium declines ratably to par in 1992. The Company agreed it will not effect any optional prepayment prior to March 1, 1983 from proceeds of any refunding operation involving the incurring of any indebtedness at an effective annual interest rate of less than 8%.

In the note instruments the Company agreed, among other things, as to both the Company and restricted subsidiaries, as defined, to limitations as to permissible outstanding funded debt and subordinated funded debt; to a limitation on current debt (generally, money borrowed); and to a limitation on mortgage debt except as to after-acquired property. Further, the Company covenanted that it would not make "restricted payments", which term includes dividends or other equity distributions plus investment in unrestricted subsidiaries (those not bound by the terms of the Agreement), in excess of stated formula amounts. Retained earnings of approximately $13,000,000 as of December 30, 1972, are unrestricted by this provision; the remainder is restricted.

The Agreement also contains limiting terms relating to sales of its assets, mergers or consolidations, and allows the noteholders to demand prepayment, at par, within 60 days of notice that, during the lifetime of Warren E. Buffett, stock ownership in the Company by Warren E. Buffett and the members of his immediate family, including certain trusts and charitable organizations, has decreased to less than 15% of the outstanding capital stock of the Company.

Berkshire Hathaway Inc.

INSURANCE GROUP

Financial Statements
1972 and 1971

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF ASSETS AND LIABILITIES

December 31, 1972 and 1971

ASSETS

	1972	1971
Bonds, at amortized cost (note 1)	$ 88,148,480	$ 84,079,023
Stocks, 1972 at cost, 1971 at market (notes 1, 2 and 3):		
Preferred stocks	2,942,252	998,631
Common stock of Blue Chip Stamps	11,287,396	4,128,225
Other common stocks	17,411,780	11,676,048
	31,641,428	16,802,904
Real estate, equipment and furniture, at cost less allowance for depreciation 1972, $546,682; 1971, $442,442	1,674,114	1,312,772
Cash and bank deposits	3,044,367	4,563,077
Agents' balances and premiums in course of collection	6,892,288	7,131,037
Reinsurance recoverable on loss payments	277,741	440,396
Investment income due and accrued	1,629,176	1,500,148
Amounts due from sale of securities	—	206,513
Other	552,855	506,406
Prepaid acquisition costs	5,624,000	6,771,656
	$139,484,449	$123,313,932

LIABILITIES, CAPITAL STOCK AND SURPLUS

	1972	1971
Losses and loss adjustment expenses (note 1)	$ 60,275,018	$ 52,990,625
Unearned premiums (note 1)	23,839,397	25,516,268
Funds held under reinsurance treaties	957,845	1,025,737
Contingent commissions	369,152	268,151
Other expenses	210,833	347,788
Taxes, licenses and fees	567,914	908,500
Agents' and policyholders' deposits	540,742	787,429
Federal income taxes:		
Current	3,141,149	1,002,500
Deferred	3,214,084	3,742,611
Amounts due for purchase of securities	674,123	1,331,182
Mortgage and contract payable on rental property	58,995	9,845
Other liabilities	53,906	140,160
	93,903,158	88,070,796
Capital stock and surplus (note 4):		
Common stock of $10 par value per share. Authorized 500,000 shares; issued 400,000 shares	4,000,000	4,000,000
Common stock of $100 par value per share. Authorized 50,000 shares 1972, 20,000 shares 1971; issued 25,000 shares 1972, 20,000 shares 1971	2,500,000	2,000,000
Paid-in surplus	9,851,250	7,851,250
Unassigned surplus	29,230,041	21,391,886
	45,581,291	35,243,136
	$139,484,449	$123,313,932

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF INCOME AND REALIZED INVESTMENT GAINS

Years ended December 31, 1972 and 1971

	1972	*1971*
Underwriting income:		
Net premiums written	$57,950,178	$66,455,532
Decrease (increase) in unearned premiums	1,676,872	(5,588,326)
Premiums earned	59,627,050	60,867,206
Losses and loss expenses incurred	36,987,030	40,783,230
	22,640,020	20,083,976
Underwriting expenses:		
Commissions and brokerage	12,305,064	15,331,620
Salaries and other compensation	2,125,645	1,667,167
Taxes, licenses and fees	1,136,177	1,325,562
Other underwriting expenses	1,641,330	1,667,362
Decrease (increase) in prepaid acquisition costs	1,147,656	(1,316,962)
	18,355,872	18,674,749
Net underwriting gain	4,284,148	1,409,227
Investment income:		
Interest on bonds	5,899,570	4,429,701
Dividends on stock	829,930	595,041
Real estate income	310,951	221,085
	7,040,451	5,245,827
Investment expenses	285,209	272,199
	6,755,242	4,973,628
Profit from underwriting and investments	11,039,390	6,382,855
Other income (expense)	(222,283)	53,910
Income before Federal income taxes and realized gains on investments	10,817,107	6,436,765
Federal income taxes (credit) (note 1):		
Current	2,816,437	625,647
Deferred	(55,090)	586,565
	2,761,347	1,212,212
Income before realized gains on investments	8,055,760	5,224,553
Realized gains on investments	1,358,930	1,027,764
Less Federal income taxes	430,344	308,405
	928,586	719,359
Net income	$ 8,984,346	$ 5,943,912

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1972 and 1971

	1972	*1971*
Funds provided:		
From operations:		
Net income	$ 8,984,346	$ 5,943,912
Charges (credits) to income not requiring funds:		
Increase in loss and loss expense reserves	7,284,393	23,231,886
(Decrease) increase in unearned premium reserves	(1,676,871)	8,033,311
(Decrease) increase in funds held under reinsurance treaties	(67,892)	509,017
(Decrease) increase in deferred taxes	(55,090)	874,346
Increase in current income taxes	2,138,649	1,260,979
(Decrease) increase in accrued taxes and expenses	(376,540)	276,049
Decrease (increase) in agents' balances and uncollected premiums, net	238,749	(4,094,642)
Decrease (increase) in prepaid insurance acquisition costs	1,147,656	(1,781,510)
Depreciation	109,296	78,407
Increase in accrued investment income	(13,794)	(717,159)
Amortization of discount on bonds	(538,715)	—
Decrease (increase) in reinsurance recoverable loss payments	162,655	(440,396)
Decrease in agents' and policyholders' deposits	(246,687)	(153,550)
Other, net	(132,703)	30,311
Funds provided from operations	16,957,452	33,050,961
Proceeds fom sale of capital stock	1,000,000	8,500,000
Contribution from parent	1,500,000	—
From investments sold or matured:		
Bonds	53,779,887	73,402,063
Common stocks	7,111,015	2,362,779
Preferred stocks	—	163,190
	60,890,902	75,928,032
Decrease in cash	1,518,710	—
Total funds provided	$ 81,867,064	$117,478,993
Funds used:		
Cost of investments purchased:		
Bonds	$ 58,700,930	$106,166,036
Common stocks	20,785,640	6,829,009
Preferred stocks	1,959,005	160,499
	81,445,575	113,155,544
Payments on mortgage note payable	1,969	9,169
Purchase of equipment, net of disposals	419,520	199,944
Increase in cash	—	3,750,603
Excess of purchase cost over market value of assets of acquired subsidiary	—	363,733
	$ 81,867,064	$117,478,993

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Years ended December 31, 1972 and 1971

PAID-IN SURPLUS	*1972*	*1971*
Beginning of year	$ 7,851,250	$ 1,851,250
Contribution from parent	1,500,000	—
Excess of proceeds over par value of capital stock issued	500,000	6,000,000
End of year	$ 9,851,250	7,851,250
UNASSIGNED SURPLUS		
Beginning of year	$21,391,886	$14,482,568
Net income	8,984,346	5,943,912
Increase in net unrealized appreciation of investments	—	1,306,083
Increase in deferred income taxes on unrealized appreciation of investments	—	(340,677)
Excess of market value over cost on stocks (note 2)	(1,146,191)	—
End of year	$29,230,041	$21,391,886

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS

December 31, 1972 and 1971

(1) Summary of Significant Accounting Policies and Practices

Basis of Presentation: The financial statements of the Berkshire Hathaway Inc. — Insurance Group include those of National Indemnity Company and its wholly-owned subsidiaries, plus those of National Fire & Marine Insurance Company. National Indemnity Company has four wholly-owned subsidiaries: Cornhusker Casualty Company, formed in 1970; Lakeland Fire and Casualty Company, formed in 1971; Home and Automobile Insurance Company, purchased in 1971; Texas United Insurance Company, formed in 1972. The statements are presented on a combined basis, with significant intercompany transactions and balances eliminated.

Insurance Premiums: Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro rata basis and are stated after deduction for reinsurance placed with other insurers in the amount of $3,691,310 and $5,738,332 at December 31, 1972 and 1971, respectively. Policy acquisition costs such as commissions, premium taxes and certain other underwriting and agency expenses are deferred and charged against income ratably over the terms of the policies.

Securities: Investments in bonds are stated at cost, adjusted where appropriate for amortization of premium or accretion of discount. Bonds with amortized cost of $16,582,277 and $19,920,841 at December 31, 1972 and 1971, respectively, were deposited in trust with various regulatory authorities or in accordance with the terms of various reinsurance treaties.

Investments in stock at December 31, 1972 are stated at cost. At December 31, 1971, investments in stocks are stated at market value with unrealized gains and losses, net of applicable deferred income taxes, being reflected in stockholders' equity. Details concerning this accounting change are presented in note 2.

Reserve for Losses: The insurance companies provide a reserve for losses and loss adjustment expenses based upon (1) aggregate case basis estimates for losses reported, in respect to direct premiums written, (2) estimates of unreported losses based upon past experience, (3) estimates received relating to assumed reinsurance, and (4) deduction of amounts for reinsurance placed with reinsurers in the amount of $3,324,369 and $3,166,379 at December 31, 1972 and 1971, respectively.

Catastrophe Reserves: The insurance companies do not provide a reserve for catastrophe losses. The Com-

NOTES TO FINANCIAL STATEMENTS, *Continued*

mittee on Insurance Accounting and Auditing of the American Institute of Certified Public Accountants in cooperation with industry representatives is working toward the development of a definitive statement as to the appropriate accounting for catastrophe losses and resolution may lead to changes in the accounting practices being followed.

Real Estate, Equipment and Furniture: Real estate, equipment and furniture are stated at net depreciated cost. Provision for depreciation is based upon their estimated useful lives and is computed under the straight-line method. Maintenance and repairs are charged to expense and betterments are capitalized. Gains and losses on routine dispositions are charged against income.

Income Taxes: The insurance companies account for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these timing differences. Investment tax credits realized at the time of property acquisitions are credited to income.

The insurance companies join with Berkshire Hathaway Inc. in filing a consolidated Federal income tax return.

(2) Change in Method of Accounting for Investment in Stocks

Stocks are carried at cost at December 31, 1972. This represents a change from December 31, 1971, at which date stocks were reflected at market values with unrealized gains and losses, net of applicable deferred income taxes being reflected in stockholders' equity. The change does not affect the statements of income and realized investment gains. The change was made because management believes the presentation at cost to be of greater continuing significance than presentation at market value and to conform the accounting practices of the Insurance Group with the method used by the parent company, Berkshire Hathaway Inc. in accounting for investment in its subsidiary companies. Market values will continue to be disclosed in footnotes or otherwise. The comparison of amounts is as follows:

	Cost	*Market*
December 31, 1972:		
Preferred stocks . . .	$ 2,942,252	$ 2,872,980
Common stock of Blue Chip Stamps	11,287,396	13,130,968
Other common stocks . .	17,411,780	18,698,164
December 31, 1971:		
Preferred stocks . . .	983,247	998,631
Common stock of Blue Chip Stamps	3,545,650	4,128,225
Other common stocks . .	$10,746,439	$11,676,049

The change from the market to cost method required a charge of $1,146,191 to unassigned surplus in 1972, representing total unrealized appreciation at December 31, 1971 less applicable deferred income taxes of $473,437.

(3) Common Stock of Blue Chip Stamps

During 1972 the Berkshire Hathaway Insurance Group increased its holdings of Blue Chip Stamps from approximately 6% of that company's outstanding capital stock at December 31, 1971 to approximately 17% at December 31, 1972. The holdings were purchased in the open market. Blue Chip Stamps is engaged in the trading stamp business in California, and through a subsidiary, See's Candy Shops, Incorporated, in the manufacture and sale of candy.

A major stockholder of Berkshire Hathaway Inc., the parent company of the Insurance Group, owns directly or indirectly a substantial additional stock interest in Blue Chip Stamps. Blue Chip Stamps is considered an "investee" of the Insurance Group under the provision of Accounting Principles Board Opinion No. 18. Dividends of $111,168 and $63,486 received by the Insurance Group from Blue Chip Stamps are included in investment income of the Insurance Group respectively in 1972 and 1971. No additional income from the investment in Blue Chip Stamps is recognized, since the equity in undistributed earnings was not significant in either 1972 or 1971 after considering amortization of excess of purchase cost over net assets acquired. Such excess cost amounted to approximately $3,600,000 and $1,115,000 at December 31, 1972 and 1971, respectively.

(4) Stockholders' Equity

The following additional common stock was sold during the two years ended December 31, 1972:

National Indemnity Company, $10 par value common stock:
May 1971 — 100,000 shares for $4,500,000
January 1972 — 50,000 shares for $2,000,000

National Fire & Marine Insurance Company, $100 par value common stock:
April 1971 — 5,000 shares for $1,000,000
January 1972 — 5,000 shares for $1,000,000
July 1972 — 5,000 shares for $1,000,000

The January 12, 1972 additions were retroactively reflected as of December 31, 1971 in the accompanying financial statements.

Surplus is restricted for dividend purposes by the various insurance departments of the states in which the companies do business.

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

Financial Statements
1972 and 1971

Berkshire Hathaway Inc.
BANK SUBSIDIARY

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

CONSOLIDATED STATEMENTS OF CONDITION

December 31, 1972 and 1971

ASSETS

	1972	*1971*
Cash and due from banks	$ 22,111,475	$ 17,832,686
Investment securities (note 2):		
United States Government obligations	10,614,548	12,633,150
Obligations of states and political subdivisions	50,162,736	42,884,431
Other securities	7,778,900	5,864,759
Loans (note 3)	59,618,025	54,031,811
Bank premises and equipment, at cost less accumulated depreciation (note 4)	1,360,892	1,522,546
Accrued interest receivable and other assets	1,750,315	1,252,113
	$153,396,891	$136,021,496

LIABILITIES AND CAPITAL FUNDS

	1972	*1971*
Demand deposits	$ 55,129,900	$ 51,208,396
Time deposits	77,558,396	64,639,857
Total deposits	132,688,296	115,848,253
Accrued taxes and other liabilities	886,645	813,769
Total liabilities	133,574,941	116,662,022
Reserve for loan losses (note 5)	1,024,601	854,671
Capital funds:		
Common stock, $20 par value. Authorized and issued 250,000 shares (note 6)	5,000,000	5,000,000
Surplus	5,000,000	5,000,000
Undivided profits	7,796,349	7,503,803
Reserve for contingencies	1,001,000	1,001,000
Total capital funds	18,797,349	18,504,803
	$153,396,891	$136,021,496

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 1972 and 1971

	1972	1971
Operating income:		
Interest and fees on loans	$4,134,013	$4,006,094
Income on Federal funds sold	109,905	109,271
Interest and dividends on:		
United States Government obligations	598,308	708,058
Obligations of states and political subdivisions	2,677,138	2,093,649
Other securities	524,229	227,684
Trust department	385,389	336,362
Service charges on deposit accounts	127,258	137,345
Other	411,413	306,616
Total operating income	8,967,653	7,925,079
Operating expenses:		
Salaries	1,366,702	1,291,568
Pensions, profit sharing, and other employee benefits	238,618	207,709
Interest on deposits	3,418,746	2,732,651
Interest on Federal funds purchased	3,137	1,632
Net occupancy expense of bank premises (note 4)	314,221	358,709
Equipment rentals, depreciation, and maintenance (note 4)	264,366	288,761
Provision for loan losses (note 5)	36,900	35,900
Other	644,882	681,238
Total operating expenses	6,287,572	5,598,168
Income before income taxes and securities gains	2,680,081	2,326,911
Applicable income taxes:		
Current	1,331	121,000
Deferred	(1,685)	(12,288)
Total applicable income taxes	(354)	108,712
Income before securities gains	2,680,435	2,218,199
Securities gains, net of related taxes of $72,351 in 1972 and $9,000 in 1971	83,715	26,201
Net income	$2,764,150	$2,244,400
Income per share (based on 250,000 shares) (note 6):		
Income before securities gains	$10.72	$ 8.87
Net income	11.06	8.98

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

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

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL ACCOUNTS

Years Ended December 31, 1972 and 1971

	Common stock	*Surplus*	*Undivided profits*	*Reserve for contingencies*	*Reserve for asset re-evaluation*
Balance, January 1, 1971	$2,000,000	$5,000,000	$10,137,393	$1,001,000	$75,000
Add:					
Net income			2,244,400		
Excess of loan loss provision over allowable for tax purposes, net of tax of $17,232 (note 5)			18,668		
Other			28,342		
Less:					
Cash dividends			(2,000,000)		
Transfer to common stock related to stock dividend (note 6)	3,000,000	(3,000,000)			
Transfer to surplus		3,000,000	(3,000,000)		
Transfer to undivided profits			75,000		(75,000)
Balance, December 31, 1971	5,000,000	5,000,000	7,503,803	1,001,000	—
Add:					
Net income			2,764,150		
Less:					
Cash dividends			(2,400,000)		
Transfer to reserve for possible loan losses, exclusive of portion charged against income, net of tax of $66,095 (note 5)			(71,604)		
Balance, December 31, 1972	$5,000,000	$5,000,000	$ 7,796,349	$1,001,000	—

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1972 and 1971

	1972	*1971*
Funds provided for investment:		
Increase in:		
Capital funds:		
Net income	$ 2,764,150	$ 2,244,400
Cash dividends declared	(2,400,000)	(2,000,000)
Other, net	(71,604)	47,010
Net changes in capital funds	292,546	291,410
Deposits	16,840,043	14,274,944
Other, net	493,308	580,866
Total	$17,625,897	$15,147,220
Funds used:		
Invested in earning assets:		
Loans	$ 5,503,742	$ 2,844,218
Investment securities	7,173,845	9,416,606
Direct lease equipment	195,009	89,430
	12,872,596	12,350,254
Additions to bank premises and equipment	49,186	120,865
Increase in cash and due from banks	4,278,789	2,676,101
Other, net	425,326	—
Total	$17,625,897	$15,147,220

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1972 and 1971

(1) Significant Accounting Policies

The accounting policies of The Illinois National Bank & Trust Co. of Rockford (a subsidiary of Berkshire Hathaway Inc.) and its wholly-owned subsidiary, Brown Building Corporation, conform to generally accepted accounting principles and to general practice within the banking industry. The following is a description of the more significant of those policies:

Consolidation: The consolidated financial statements included those of the Bank and its wholly-owned subsidiary. All significant intercompany transactions have been eliminated in consolidation. At January 1, 1972, the Illinois National Safe Deposit Company (a wholly-owned subsidiary of the Bank) was dissolved in a tax-free liquidation, and its assets, liabilities and capital (which are not significant in amount) were merged into the Bank. The Illinois National Safe Deposit Company had been reported on a consolidated basis with the Bank in prior years and, accordingly, the liquidation has no effect on the current consolidated financial statements.

Investment Securities: Investment securities are stated at cost, adjusted for amortization of premium.

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation based on the estimated useful life of each asset. Depreciation is computed on the straight-line method for building and automobiles, and on an accelerated method for improvements, equipment, and drive-in and parking facilities.

Federal Income Taxes: Taxable income is determined using the cash basis of accounting whereas the accrual method of accounting is used in preparation of financial statements. Deferred taxes are provided in recognition of the timing differences.

The Bank and its subsidiary join in the filing of a consolidated Federal income tax return with Berkshire Hathaway Inc., the parent company of the Bank.

(2) Investment Securities

The appropriate market value of investment securities at December 31, 1972 and 1971 was $72,990,000 and $64,042,000, respectively.

Investment securities with a book value of $10,038,639 and $9,136,472 at December 31, 1972 and 1971, respectively, were pledged to secure public deposits and for other purposes.

(3) Loans

Loans have been reduced by unearned discount of $2,226,579 and $1,934,534 on December 31, 1972 and 1971, respectively.

(4) Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation of $1,676,936 and $1,480,008 at December 31, 1972 and 1971, respectively. Depreciation expense totaled $210,840 for 1972 and $222,540 for 1971.

(5) Reserve for Loan Losses

The Bank follows the policy of providing additions to the reserve for possible loan losses in accordance with maximum amounts allowed under the applicable Federal tax laws. For financial reporting purposes, the minimum provision to be charged to operating expenses is based upon the Bank's loan loss experience over the last five years.

Transactions in the reserve for loan losses for the years ended December 31, 1972 and 1971 were as follows:

	1972	*1971*
Balance at beginning of year	$ 854,671	$860,445
Provisions charged to:		
Operating expenses	36,900	35,900
Undivided profits	71,604	—
Accrued income taxes	66,095	—
	1,029,270	896,345
Less loans charged off, net of recoveries of $29,259 in 1972 and $29,232 in 1971	4,669	5,774
Transfer to:		
Undivided profits (1)	—	18,668
Accrued income taxes	—	17,232
Balance at end of year	$1,024,601	$854,871

(1) Provision charged to operating expenses not deductible for tax purposes in 1971 was transferred to undivided profits, net of tax.

The portion of the reserve which was available for loan losses was $706,422 at December 31, 1972 and $674,191 at December 31, 1971.

(6) Capital Funds

On April 12, 1971, capital stock was increased $3,000,000 by a transfer from surplus representing the par value of 150,000 shares issued in connection with a 2½ for 1 stock split effected in the form of a stock dividend approved by the shareholders on January 12, 1971.

(7) Reclassifications

Certain items of expense in the 1971 consolidated statement of income have been reclassified to conform to classifications of similar items in 1972.

Berkshire Hathaway Inc.

DIRECTORS

Warren E. Buffett, *Chairman*
Kenneth V. Chace
Malcolm G. Chace, Jr.
J. Verne McKenzie

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