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BERKSHIRE HATHAWAY INC.

1975

ANNUAL REPORT TO THE STOCKHOLDERS

Berkshire Hathaway Inc.

1975 Annual Report to the Stockholders

BUSINESS OF THE COMPANY

The Company is engaged directly and through subsidiaries in the manufacture and sale of woven textiles in the United States and through a subsidiary in the sale of textile products in Canada. Through subsidiaries collectively referred to in this annual report as the Insurance Group, the Company is engaged in the underwriting of fire and casualty insurance throughout the United States. The Company owns approximately 98% of The Illinois National Bank & Trust Co. of Rockford, Illinois which is engaged in the commercial banking business. The Company and subsidiary members of the Insurance Group have significant holdings in Blue Chip Stamps, a California corporation – the businesses of which are more fully described herein.

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We have great confidence in the ability of Ken Chace and his team to maximize our strengths in textiles. Therefore, we continue to look for ways to increase further our scale of operation while avoiding major capital investment in new fixed assets which we consider unwise, considering the relatively low returns historically earned on large scale investment in new textile equipment.

Insurance Underwriting

The property and casualty insurance industry had its worst year in history during 1975. We did our share – unfortunately, even somewhat more. Really disastrous results were concentrated in auto and long-tail (contracts where settlement of loss usually occurs long after the loss event) lines.

Economic inflation, with the increase in cost of repairing humans and property far outstripping the general rate of inflation, produced ultimate loss costs which soared beyond premium levels established in a different cost environment. "Social" inflation caused the liability concept to be expanded continuously, far beyond limits contemplated when rates were established – in effect, adding coverage beyond what was paid for. Such social inflation increased significantly both the propensity to sue and the possibility of collecting mammoth jury awards for events not previously considered statistically significant in the establishment of rates. Furthermore, losses to policyholders which otherwise would result from mushrooming insolvencies of companies inadequately reacting to these problems are divided through Guaranty Funds among remaining solvent insurers. These trends will continue, and should moderate any optimism which otherwise might be justified by the sharply increased rates now taking effect.

Berkshire Hathaway's insurance subsidiaries have a disproportionate concentration of business in precisely the lines which produced the worst underwriting results in 1975. Such lines produce unusually high investment income and, therefore, have been particularly attractive to us under previous underwriting conditions. However, our "mix" has been very disadvantageous during the past two years and it well may be that we will remain positioned in the more difficult part of the insurance spectrum during the inflationary years ahead.

The only segment to show improved results for us during 1975 was the "home state" operation, which has made continuous progress under the leadership of John Ringwalt. Although still operating at a significant underwriting loss, the combined ratio improved from 1974. Adjusted for excess costs attributable to operations still in the start-up phase, underwriting results are satisfactory. Texas United Insurance Company, a major problem a few years ago, has made outstanding progress since George Billings has assumed command. With an almost totally new agency force, Texas United was the winner of the "Chairman's Cup" for achievement of the lowest loss ratio among the home state companies. Cornhusker Casualty Company, oldest and largest of the home state companies, continues its outstanding operation with major gains in premium volume and a combined ratio slightly under 100. Substantial premium growth is expected at the home state operation during 1976; the measurement of success, however, will continue to be the achievement of a low combined ratio.

Our traditional business at National Indemnity Company, representing well over half of our insurance volume, had an extraordinarily bad underwriting year in 1975. Although rates were increased frequently and significantly, they continually lagged loss experience throughout the year. Several special programs instituted in the early 1970s have caused significant losses, as well as a heavy drain on managerial time and energies. Present indications are that premium volume will show a major increase in 1976, and we hope that underwriting results will improve.

Reinsurance suffered the same problems as our direct business during 1975. The same remedial efforts were attempted. Because reinsurance contract settlements lag those of direct business,

Berkshire Hathaway Inc.

To the Stockholders of Berkshire Hathaway Inc.:

Last year, when discussing the prospects for 1975, we stated "the outlook for 1975 is not encouraging". This forecast proved to be distressingly accurate. Our operating earnings for 1975 were $6,713,592, or $6.85 per share, producing a return on beginning shareholder's equity of 7.6%. This is the lowest return on equity experienced since 1967. Furthermore, as explained later in this letter, a large segment of these earnings resulted from Federal income tax refunds which will not be available to assist performance in 1976.

On balance, however, current trends indicate a somewhat brighter 1976. Operations and prospects will be discussed in greater detail below, under specific industry titles. Our expectation is that significantly better results in textiles, earnings added from recent acquisitions, an increase in equity in earnings of Blue Chip Stamps resulting from an enlarged ownership interest, and at least a modest improvement in insurance underwriting results will more than offset other possible negatives to produce greater earnings in 1976. The major variable – and by far the most difficult to predict with any feeling of confidence – is the insurance underwriting result. Present *very tentative* indications are that underwriting improvement is in prospect. If such improvement is moderate, our overall gain in earnings in 1976 likewise will prove moderate. More significant underwriting improvement could give us a major gain in earnings.

Textile Operations

During the first half of 1975 sales of textile products were extremely depressed, resulting in major production curtailments. Operations ran at a significant loss, with employment down as much as 53% from a year earlier.

In contrast with previous cyclical slumps, however, most textile producers quickly reduced production to match incoming orders, thus preventing massive industry-wide accumulation of inventories. Such cutbacks caused quite prompt reflection at the mill operating level when demand revived at retail. As a result, beginning about midyear business rebounded at a fairly rapid rate. This "V" shaped textile depression, while one of the sharpest on record, also became one of the shortest ones in our experience. The fourth quarter produced an excellent profit for our textile division, bringing results for the year into the black.

On April 28, 1975 we acquired Waumbec Mills Incorporated and Waumbec Dyeing and Finishing Co., Inc. located in Manchester, New Hampshire. These companies have long sold woven goods into the drapery and apparel trade. Such drapery materials complement and extend the line already marketed through the Home Fabrics Division of Berkshire Hathaway. In the period prior to our acquisition, the company had run at a very substantial loss, with only about 55% of looms in operation and the finishing plant operating at about 50% of capacity. Losses continued on a reduced basis for a few months after acquisition. Outstanding efforts by our manufacturing, administrative and sales people now have produced major improvements which, coupled with the general revival in textiles, have moved Waumbec into a significant profit position.

We expect a good level of profits from textiles in 1976. Continued progress is being made in the movement of Waumbec goods into areas of traditional marketing strength of Berkshire Hathaway, productivity should improve in both the weaving and finishing areas at Manchester, and textile demand continues firm at decent prices.

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Reinsurance suffered the same problems as our direct business during 1975. The same remedial efforts were attempted. Because reinsurance contract settlements lag those of direct business, it well may be that any upturn in results from our direct insurance business will precede those of the reinsurance segment.

At our Home and Automobile Insurance Company subsidiary, now writing auto business only in the Cook County area of Illinois, experience continued very bad in 1975 resulting in a management change in October. John Seward was made President at that time, and has energetically and imaginatively implemented a completely revamped underwriting approach.

Overall, our insurance operation will produce a substantial gain in premium volume during 1976. Much of this will reflect increased rates rather than more policies. Under normal circumstances such a gain in volume would be welcome, but our emotions are mixed at present. Underwriting experience *should* improve – and we expect it to – but our confidence level is not high. While our efforts will be devoted to obtaining a combined ratio below 100, it is unlikely to be attained during 1976.

Insurance Investments

Gains in investment income were moderate during 1975 because premium volume remained flat and underwriting losses reduced funds available for investment. Invested assets, measured at cost at yearend, were close to identical with the level at the beginning of the year.

At the end of 1974 the net unrealized loss in the stock section of our portfolio amounted to about $17 million, but we expressed the opinion, nevertheless, that this portfolio overall represented good value at its carrying value of cost. During 1975 a net capital loss of $2,888,000 before tax credits was realized, but our present expectation is that 1976 will be a year of realized capital gain. On March 31, 1976 our net unrealized gains applicable to equities amounted to about $15 million. Our equity investments are heavily concentrated in a few companies which are selected based on favorable economic characteristics, competent and honest management, and a purchase price attractive when measured against the yardstick of value to a private owner.

When such criteria are maintained, our intention is to hold for a long time; indeed, our largest equity investment is 467,150 shares of Washington Post "B" stock with a cost of $10.6 million, which we expect to hold permanently.

With this approach, stock market fluctuations are of little importance to us – except as they may provide buying opportunities – but business performance is of major importance. On this score we have been delighted with the progress made by practically all of the companies in which we now have significant investments.

We have continued to maintain a strong liquid position in our insurance companies. In last year's annual report we explained how variations of 1/10 of 1% in interest rates result in million dollar swings in market value of our bonds. We consider such market fluctuation of minor importance as our liquidity and general financial strength make it highly improbable that bonds will have to be sold at times other than those of our choice.

Banking

It is difficult to find adjectives to describe the performance of Eugene Abegg, Chief Executive of Illinois National Bank and Trust of Rockford, Illinois, our banking subsidiary.

In a year when many banking operations experienced major troubles, Illinois National continued its outstanding record. Against average loans of about $65 million, net loan losses were $24,000, or .04%. Unusually high liquidity is maintained with obligations of the U. S. Government and its agencies, all due within one year, at yearend amounting to about 75% of demand deposits. Maximum rates of interest are paid on all consumer savings instruments which make up more than half of the deposit base. Yet, despite the maintenance of premier liquidity and the avoidance of "stretching" for high yield loans, the Illinois National continues as about the most profitable bank of its size, or larger, in the country.

In 1975 the thirty largest banks in the United States earned an average of .5% on total ssets. The Illinois National earned about four times that much. These same thirty largest banks carried down 7% of operating revenues to net income. Without counting any tax benefits from consolidation, Illinois National carried down 27%.

Gene Abegg opened the doors of the Illinois National Bank in 1931 with paid-in capital of $250,000. In 1932, its first full year of operation, it earned $8,782. No additional capital has been paid in, and we recommend reading its financial statements on pages 28-34 to see what a truly outstanding manager has built in 44 years at the helm.

Under the present interest rate structure, it is expected that earnings of the Bank will be off somewhat during 1976 but still will remain at a highly satisfactory level.

Blue Chip Stamps

During 1975 our holdings of Blue Chip Stamps remained at 25½% of that company's outstanding shares. However, early in 1976 our holdings were increased to 31½%. We expect some increase in our equity in Blue Chip's earnings in 1976 because of this increased ownership.

The stamp business continues its precipitous decline with volume in the year ended February 28, 1976 amounting to only one-sixth that of the peak year ended February 28, 1970. Don Koeppel and Bill Ramsey have done an extraordinary job of cost-cutting, which has served to moderate operating problems resulting from this evaporation of business. In addition, the acquisition of See's Candies in 1972 has proven a real winner. Chuck Huggins's management has been outstanding, and profits have moved up dramatically during the past several years.

Shareholders of Berkshire Hathaway Inc. desiring the current annual report of Blue Chip Stamps should write Mr. Robert H. Bird, Secretary, Blue Chip Stamps, 5801 South Eastern Avenue, Los Angeles, California 90040.

Federal Income Tax Implications

In reading our earnings statement you will notice a significant amount of Federal income taxes paid in earlier years are now recoverable because of the net operating loss, as computed for tax purposes, sustained in 1975. Such loss results from the exclusion from income of 100% of interest from state and local issues, and 85% of dividends from domestic corporations. We have exhausted our reservoir of available tax recoveries and, therefore, a repeat of our overall operating performance in 1976 would produce much smaller net earnings. While we do not expect this result, it is important that you are aware of the absence of this cushion in the event that operating losses, as calculated for Federal tax purposes, should continue.

Acquisition of K & W Products

In addition to the 1975 Waumbec acquisition, we acquired for cash and notes on January 6, 1976, 100% of the assets of K & W Products, including its insurance subsidiaries. The insurance operations are minor in scope, representing business already associated with National Indemnity Company. K & W Products manufactures specialty automotive chemicals for use in automobile maintenance, such as radiator and block sealants, gasket compounds and fuel and oil additives. The company has extensive trademark or trade name protection for its products, which it manufactures at plants in California and Indiana. Although relatively small, with sales of a little over

$2 million, it consistently has generated favorable earnings. Positioned as we now are with respect to income taxes, the addition of a solid source of taxable income is particularly welcome.

General Review

Your present management assumed responsibility at Berkshire Hathaway in May, 1965. At the end of the prior fiscal year (September, 1964) the net worth of the Company was $22.1 million, and 1,137,778 common shares were outstanding, with a resulting book value of $19.46 per share. Ten years earlier, Berkshire Hathaway's net worth had been $53.4 million. Dividends and stock repurchases accounted for over $21 million of the decline in company net worth, but aggregate net losses of $9.8 million had been incurred on sales of $595 million during the decade.

In 1965, two New England textile mills were the company's only sources of earning power and, before Ken Chace assumed responsibility for the operation, textile earnings had been erratic and, cumulatively, something less than zero subsequent to the merger of Berkshire Fine Spinning and Hathaway Manufacturing. Since 1964, net worth has been built to $92.9 million, or $94.92 per share. We have acquired total, or virtually total ownership of six businesses through negotiated purchases for cash (or cash and notes) from private owners, started four others, purchased a 31½% interest in a large affiliated enterprise and reduced the number of outstanding shares of Berkshire Hathaway to 979,569. Overall, equity per share has compounded at an annual rate of slightly over 15%.

While 1975 was a major disappointment, efforts will continue to develop growing and diversified sources of earnings. Our objective is a conservatively financed and highly liquid business – possessing extra margins of balance sheet strength consistent with the fiduciary obligations inherent in the banking and insurance industries – which will produce a long term rate of return on equity capital exceeding that of American industry as a whole.

Warren E. Buffett, Chairman

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
KIEWIT PLAZA
OMAHA, NEBRASKA 68131

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. and consolidated subsidiaries as of January 3, 1976 and December 28, 1974, the balance sheets of the Berkshire Hathaway Inc. - Insurance Group as of December 31, 1975 and 1974, and the related consolidated statements of earnings and retained earnings and changes in financial position of Berkshire Hathaway Inc. for the 53 weeks ended January 3, 1976 and the 52 weeks ended December 28, 1974 and the statements of income and unassigned surplus and changes in financial position of the Berkshire Hathaway Inc. - Insurance Group for the years ended December 31, 1975 and 1974. Except as stated in the following paragraph, 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.

Blue Chip Stamps, an investee of Berkshire Hathaway Inc., as described in note 5 to consolidated financial statements, was examined by other auditors for its most recent fiscal year ended March 1, 1975. Unaudited earnings of Blue Chip Stamps for the nine months ended November 29, 1975 was the basis in part for the amount of equity in earnings of Blue Chip Stamps recorded by Berkshire Hathaway Inc. Under the terms of our engagement, we did not examine evidence in support of the unaudited earnings and accordingly do not express an opinion as to the equity of $2,002,652 in earnings of Blue Chip Stamps for 1975.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had the earnings of Blue Chip Stamps been audited for the nine months ended November 29, 1975, the aforementioned consolidated financial statements present fairly the financial position of Berkshire Hathaway Inc. and consolidated subsidiaries at January 3, 1976 and December 28, 1974 and the Berkshire Hathaway Inc. - Insurance Group at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the respective years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 26, 1976

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	*Jan. 3, 1976*	*Dec. 28, 1974*
Cash	$ 6,044,526	$ 4,230,559
Investments, other than affiliates (notes 3 and 4):		
U. S. Treasury Bills and other short-term obligations, at cost which approximates market	16,175,265	11,108,163
Bonds, at amortized cost	78,760,945	71,530,651
Preferred stocks, at cost	2,558,275	2,855,185
Common stocks of unaffiliated companies, at cost	39,341,135	50,669,865
Total investments, other than affiliates	136,835,620	136,163,864
Investments in affiliates (notes 5 and 6):		
Common stock of Blue Chip Stamps	18,777,479	16,923,998
Unconsolidated bank subsidiary	23,424,329	22,416,879
Other unconsolidated subsidiaries	1,120,333	1,187,333
Total investments in affiliates	43,322,141	40,528,210
Recoverable Federal income taxes	4,400,000	2,800,734
Accounts receivable from customers, agents and others, net (note 7)	19,710,105	17,891,227
Inventories (note 8)	8,135,615	5,999,552
Real estate, equipment, furniture and leasehold improvements, at cost less allowance for depreciation and amortization (note 9)	3,722,242	3,913,473
Deferred insurance premium acquisition costs	2,950,000	4,400,000
Other assets	621,168	285,954
	$225,741,417	$216,213,573

LIABILITIES AND STOCKHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 73,033,492	$ 72,761,097
Unearned premiums	22,344,290	21,704,867
Funds held under reinsurance treaties	2,939,462	2,857,284
Amounts due for purchase of securities	679,990	294,101
Accounts payable and accrued expenses	5,790,070	4,435,325
Income taxes:		
Current	178,546	163,809
Deferred	2,518,786	3,043,800
7½% debentures due 1987 (note 10)	505,820	555,780
Sundry installment promissory notes (note 11)	3,602,480	1,274,437
8% senior notes due 1993 (note 12)	20,000,000	20,000,000
Excess of net assets of consolidated subsidiaries over cost of investment	579,070	579,070
Other liabilities	679,219	345,376
	132,851,225	128,014,946
Stockholders' equity:		
Common stock of $5 par value. Authorized 1,100,000 shares; issued and outstanding 979,569 shares	4,897,845	4,897,845
Retained earnings (note 12)	87,992,347	83,300,782
Total stockholders' equity	92,890,192	88,198,627
Commitment and contingent liability (notes 14 and 17)		
	$225,741,417	$216,213,573

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

	Fiscal Year 1975	Fiscal Year 1974
Income items:		
Insurance premiums earned	$ 58,335,706	$ 60,573,729
Net sales of textile products	32,833,372	32,591,874
Interest and dividend income	8,918,240	8,029,876
Real estate income	287,314	286,307
	100,374,632	101,481,786
Cost and expense items:		
Insurance losses and loss adjustment expenses	47,237,737	47,119,846
Cost of textile products sold	28,234,179	27,429,277
Insurance underwriting expenses	21,744,891	20,345,744
Selling, administrative and other expenses	4,192,399	3,640,720
Interest expense	1,845,396	1,717,944
	103,254,602	100,253,531
Earnings (loss) from insurance underwriting and manufacturing operations before applicable income taxes	(2,879,970)	1,228,255
Income tax credit applicable to operating earnings (loss) (note 13)	4,140,910	2,010,321
Earnings before equity in net earnings of other companies and realized investment losses	1,260,940	3,238,576
Equity in net earnings of bank subsidiary	3,450,000	4,093,000
Equity in net earnings of Blue Chip Stamps	2,002,652	1,052,000
Earnings before realized investment losses	6,713,592	8,383,576
Realized investment losses	(2,888,062)	(1,908,093)
Applicable income tax credit	866,035	567,678
Net realized investment (losses)	(2,022,027)	(1,340,415)
Net unrealized appreciation (depreciation) in market values of preferred and common stocks of unaffiliated companies of $17,148,000 in 1975 and ($4,356,000) in 1974 have not been included in the determination of net earnings.		
Net earnings	4,691,565	7,043,161
Retained earnings at beginning of year	83,300,782	76,257,621
Retained earnings at end of year	$ 87,992,347	$ 83,300,782
Earnings per share of common stock, based on 979,569 shares outstanding:		
Earnings before realized investment (losses)	$ 6.85	$ 8.56
Realized investment (losses)	(2.06)	(1.37)
Net earnings	$ 4.79	$ 7.19

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Fiscal Year 1975	Fiscal Year 1974
Funds provided:		
From operations:		
Net earnings	$ 4,691,565	$ 7,043,161
Charges (credits) to earnings not requiring (providing) funds:		
Equity in undistributed earnings of bank subsidiary	(1,007,450)	(1,406,345)
Equity in undistributed earnings of Blue Chip Stamps	(1,853,481)	(889,410)
Accretion of discount on bonds	(384,278)	(442,153)
Depreciation and amortization	536,632	538,063
Decrease in deferred insurance premium acquisition costs	1,450,000	840,000
Increase in recoverable income taxes	(1,599,266)	(2,800,734)
Increase in accounts receivable from customers, agents and others	(32,731)	(3,834,653)
Decrease in inventories	507,771	1,137,124
Increase in unpaid losses and loss adjustment expenses	272,395	11,085,329
Increase in unearned premiums	639,423	422,887
Increase in funds held under reinsurance treaties	82,178	1,539,079
Increase (decrease) in accounts payable and accrued expenses	378,721	(291,284)
Decrease in liability for income taxes	(510,277)	(352,116)
Other, net	45,309	(329,243)
	(1,475,054)	5,216,544
Funds provided from operations	3,216,511	12,259,705
Dividends received from unconsolidated subsidiary	82,000	191,500
Proceeds from issuance of long-term debt	1,150,000	1,305,623
	$ 4,448,511	$13,756,828
Funds used:		
Subsidiaries acquired (note 2):		
Cash	210,577	–
Accounts receivable	1,786,147	–
Inventories	2,643,834	–
Other assets	46,680	–
Accounts payable and accrued expenses	(1,361,913)	–
Notes payable	(1,665,000)	–
	1,660,325	–
Additions to equipment, furniture and lease-hold improvements	345,401	783,531
Repayment of debt	536,917	73,946
Cost of net purchase (sale) of investments:		
U. S. Treasury Bills	5,067,102	9,707,728
Bonds	6,846,016	(1,985,528)
Preferred stocks	(296,910)	556,837
Common stocks of unaffiliated companies	(11,328,730)	913,087
Common stock of Blue Chip Stamps	–	2,317,313
Investment in unconsolidated subsidiary	15,000	45,000
	302,478	11,554,437
Increase in cash	1,603,390	1,344,914
	$ 4,448,511	$13,756,828

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 3, 1976 and December 28, 1974

(1) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The accounts of Berkshire Hathaway Inc., the parent Company, are consolidated with the accounts of wholly-owned subsidiaries engaged in the textile business, and the accounts of subsidiary insurance companies (The "Insurance Group"), wholly-owned by Berkshire Hathaway Inc.

The parent Company's investment in The Illinois National Bank & Trust Co. of Rockford is accounted for on the equity basis.

Immaterial subsidiaries are not consolidated and investments therein are carried at cost less dividends received from such subsidiaries.

The accounts of the parent Company and its consolidated noninsurance subsidiaries are maintained on the basis of a fiscal year ending on the Saturday nearest to December 31, while the accounts of the Insurance Group are maintained on the basis of the calendar year. Fiscal year 1975 comprised 53 weeks operations of the textile business.

(b) Investment in Securities, Other than Affiliates

Investments in bonds are stated at amortized cost; investments in preferred and common stocks other than affiliates are carried at the lower of cost or market value at December 31, 1975 and at cost at December 31, 1974. The investments in equity securities are held by the Insurance Group and are stated at cost. These investments generally consist of a relatively few issues acquired with a general view to holding as long-term investments. In view of the fact that market value quotations fluctuate daily, management considers the cost method as most appropriate for such long-term investments, and has consistently applied such method.

However, pursuant to the dictates of Statement of Financial Accounting Standards No. 12, the Company has changed its method of accounting for these investments whereby they are reflected at the lower of cost or market value at December 31, 1975. There was no effect of this change at December 31, 1975 since market value exceeded cost on an aggregate basis. Any future adjustment of the carrying value will be reflected through a direct charge or credit to stockholders' equity.

(c) Investment in Blue Chip Stamps

The investment in Blue Chip Stamps ("Blue Chip") is accounted for on the equity basis. Deferred income taxes are provided for with respect to undistributed earnings of Blue Chip under the assumption that such earnings will ultimately be distributed as taxable dividends. Blue Chip determines income on the basis of a fiscal year ending on or about February 28. Berkshire Hathaway Inc. reflects its equity in the earnings of Blue Chip on the basis of that company's twelve months ending on or about November 30.

(d) Insurance Premiums

Insurance premiums are recognized as revenues ratably over the term of the policies. Unearned premiums are computed on the monthly pro rata basis and are stated after deduction for reinsurance placed with reinsurers in the amount of $2,885,610 at December 31, 1975 and $4,583,628 at December 31, 1974. Premium acquisition costs such as commissions, premium taxes and certain other underwriting expenses are, pursuant to statutory insurance accounting rules, charged against income when incurred. However, for financial statement purposes, a portion of such costs are deferred and charged against income as the related premiums are earned.

(e) Losses and Loss Adjustment Expenses

The Insurance Group provides 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 $6,094,384 at December 31, 1975 and $5,518,385 at December 31, 1974.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(f) *Real Estate, Equipment, Furniture and Leasehold Improvements*

These items of property (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 of textile properties acquired after 1965; the straight-line method is applied for other items. Maintenance, repairs and renewals of a minor nature are generally charged to operations as incurred.

(g) *Inventories*

Inventories relate to the textile operations and are stated at cost, determined for the parent Company under the last-in, first-out method at both December 31, 1975 and December 31, 1974; cost of inventories of textile subsidiaries are determined under the first-in, first-out method.

(h) *Income Taxes*

A consolidated Federal income tax return is filed by the parent Company and its eligible subsidiaries. The recoverable amount reflected in the consolidated balance sheets includes the apportioned Federal tax amounts of the companies whose accounts are consolidated.

A provision for deferred taxes is made in recognition of timing differences created by the manner in which the Insurance Group accounts for certain income and expense items for financial reporting purposes and the accounting treatment of these items for income tax purposes.

Investment tax credits on qualifying property and equipment acquisitions are applied as a reduction of income tax expense in the year realized.

(2) Acquisition of Waumbec Mills Incorporated

On April 28, 1975, the parent Company purchased all of the outstanding capital stock of Waumbec Mills Incorporated ("Waumbec"), Manchester, New Hampshire. Waumbec is engaged in manufacturing, distributing and selling woven fabrics. A wholly-owned subsidiary of Waumbec engages at the same location in the finishing of textile fabrics. The acquisition of Waumbec has been accounted for as a purchase, and results of operations from date of acquisition are included in the consolidated statements of earnings for 1975.

The cost of Waumbec to the Company, including direct acquisition costs, was $1,660,325; installment promissory notes of principal amount of $1,150,000, which bear interest at 8% per annum, were issued by the parent Company in partial consideration of the purchase price with the balance paid in cash.

The net book value of assets less liabilities of Waumbec was in excess of the purchase price; such excess was applied in accordance with the Accounting Principles Board Opinion No. 16 to eliminate the net property, plant and equipment accounts of Waumbec and its subsidiary as they existed at the purchase date. As a result of that acquisition adjustment, no depreciation expense with respect to the acquired properties (which as to Waumbec's prior basis of accountability amounted to $239,000 during the period of Berkshire Hathaway's ownership in 1975), has been charged to earnings, nor will such depreciation be chargeable to future consolidated earnings.

Waumbec and its subsidiary as of the date of acquisition had unused net operating loss carryovers, as defined by the Internal Revenue Code, of approximately $2.6 million. To the extent that future tax benefits are derived from such carryovers, they will be accounted for as "negative goodwill" to be amortized into consolidated income in future periods which will not coincide with the periods in which benefits, if any, are realized. Such benefits will arise only if Waumbec and its subsidiary have future taxable income, and then only to the extent that such income exceeds aggregate net losses for tax purposes, if any, of other members of the consolidated group. Management of Berkshire Hathaway Inc. believes some tax benefits might be realized, though their effect on income in any given future accounting period would not be material in amount.

Had the purchase of Waumbec been consummated on the same basis as of the beginning of 1974, certain items in the consolidated statements of earnings on a pro forma basis would have been as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

	1975	*1974*
Net sales of textile products	$ 35,965,000	$ 45,900,000
Total income items	103,507,000	114,780,000
Earnings before equity in net earnings of other companies and realized investment losses	608,000	3,567,000
Net earnings	4,039,000	7,372,000
Net earnings per share	4.12	7.53

(3) Bonds and Common Stocks Deposited with Others

Common stocks with a cost of $2,619,268 (market value $2,437,500) at December 31, 1975 and bonds with amortized cost of $20,911,305 and $15,294,910 at December 31, 1975 and 1974, respectively, were deposited in trust with various regulatory authorities or others.

(4) Investment in Securities of Unaffiliated Companies

A summary of the aggregate cost and approximate market value of investments in securities of unaffiliated companies at December 31, 1975 and 1974 is as follows:

	1975		*1974*	
	Cost	*Market*	*Cost*	*Market*
Bonds	$78,760,945	$74,487,055	$71,530,651	$58,907,900
Equity securities:				
Preferred stocks	2,558,275	2,886,871	2,855,185	1,842,817
Common stocks	39,341,135	39,280,357	50,669,865	34,802,358
	$41,899,410	$42,167,228	$53,525,050	$36,645,175

At December 31, 1975, with respect to equity securities, gross unrealized gains were $3,795,267 and gross unrealized losses, $3,527,448. A net realized loss of $2,888,062 (before tax benefit) on the sale of securities was included in the determination of net income for 1975. The cost of securities sold is generally determined on a first-in, first-out basis.

(5) Investment in Blue Chip Stamps

The carrying value of the investment in Blue Chip Stamps ("Blue Chip") represents the cost, less amortization of the net excess of cost over equity in net assets at dates of acquisition, plus equity in undistributed earnings. Deferred taxes of $337,786 and $191,800 at December 31, 1975 and 1974, respectively, have been provided with respect to the equity in undistributed earnings assuming their ultimate distribution as a taxable dividend.

The investment in Blue Chip is summarized as follows:

	December 31,	
	1975	*1974*
Shares owned	1,325,233	1,325,233
Percentage of total outstanding shares	25.6%	25.6%
Cost, represented by:		
Underlying net asset values at dates of acquisition	$13,084,112	$13,084,112
Net excess cost, less amortization of $1,353,994, 1975 and $1,179,873, 1974	696,482	870,603
	13,780,594	13,954,715
Equity in post-acquisition undistributed earnings	4,996,885	2,969,283
	$18,777,479	$16,923,998

The excess of cost over equity in net assets is being amortized over eight years from the beginning of 1972. Amortization was $174,121 for 1975 and $384,200 for 1974.

As indicated above, Berkshire Hathaway Inc. and its subsidiaries own approximately 26% of Blue Chip; these holdings plus holdings of other persons who may be considered affiliates aggregate over 50% of Blue Chip's outstanding shares.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

Blue Chip Stamps, a California corporation, and its subsidiaries are engaged in four lines of business: (1) Blue Chip provides a trading stamp service to retail merchants and their customers in California and Nevada. (2) A division, Blue Chip Incentives, on a nationwide basis, develops incentive programs for businesses and also develops, for oil companies and other large issuers of credit cards, complete merchandise packages for their credit card holders. (3) A subsidiary, See's Candy Shops, Incorporated, produces quality candy and confectionary products in fully equipped kitchens in Los Angeles and South San Francisco. The candy is sold fresh to the public in approximately 170 company-operated shops in ten western states including Hawaii. (4) A 64%-owned, unconsolidated subsidiary, Wesco Financial Corporation, owns all of the outstanding stock of Mutual Savings and Loan Association. Mutual's head office is in Pasadena, and its fifteen other locations are also in Southern California.

The financial statements of Blue Chip as of March 1, 1975, and for the 52 weeks then ended (audited), and as of November 29, 1975 and for the 52 weeks then ended (unaudited) reflect the following:

BLUE CHIP STAMPS
Consolidated Balance Sheets

	($000 omitted) Mar. 1, 1975	Nov. 29, 1975 (Unaudited)
Assets		
Cash	$ 1,506	$ 2,607
Marketable securities, at cost (market March 1—$59,594; November 29—$62,600)	77,541	76,095
Inventories	11,767	13,824
Property, fixtures and equipment, net	8,273	8,339
Investment in Wesco Financial Corporation	26,307	27,911
Excess of cost over equity in net assets of consolidated subsidiary	15,883	15,595
Other assets	12,218	13,083
	$153,495	$157,454
Liabilities and Stockholders' Equity		
Liability for unredeemed trading stamps	$ 72,183	$ 70,962
6¾% subordinated debentures due 1978	6,512	6,392
Other liabilities	7,491	8,853
Stockholders' equity	67,309	71,247
	$153,495	$157,454

BLUE CHIP STAMPS
Consolidated Earnings Summaries

	($000 omitted) 52 weeks ended Mar. 1, 1975	52 weeks ended Nov. 29, 1975 (Unaudited)
Stamp service revenues	$ 25,564	$ 21,502
Merchandise promotions and incentive sales	11,022	12,804
Candy sales	42,907	47,582
Other revenues	9,872	6,657
Total revenues	$ 89,365	$ 88,545
Earnings before securities gains (losses) and extraordinary credit	$ 7,508	$ 7,568
Per share	1.45	1.46
Net earnings	8,665	9,183
Per share	1.67	1.77

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

Had the provisions of statement of Financial Accounting Standards No. 12 been effective with respect to the preceding presentations, Blue Chip's marketable securities would have been carried in the November 29, 1975 balance sheet at market value which amount was, as indicated, $13,495,000 less than cost. Such amount would have been applied as a reduction of stockholders' equity of Blue Chip Stamps, and Berkshire Hathaway Inc. would have recorded its proportionate share of such reduction, or $3,455,000 as a reduction of its stockholders' equity at January 3, 1976. Of such amount, $2,580,000 would have applied as a reduction of capital and surplus of the Insurance Group as of December 31, 1975.

Blue Chip financial statements for their fiscal year ended March 1, 1975 (and for certain prior years) revealed significant litigation proceedings against the Company. The Company stated with regard to certain of these proceedings that a possible result could be to "compel it to discontinue issuance of trading stamps." Additional proceedings involve substantial contingent liabilities; the accountants' opinion covering the financial statements of Blue Chip Stamps as of March 1, 1975 and for the fiscal year then ended, as well as that for certain preceding years, was given subject to the effect, if any, of the legal proceedings referred to.

(6) Investments in Unconsolidated Subsidiaries

The investment in the unconsolidated bank subsidiary represents approximately 98% of the outstanding stock of The Illinois National Bank & Trust Co. of Rockford. The equity method is used in accounting for this investment. See note 14 regarding divestiture of this investment. Financial statements of The Illinois National Bank & Trust Co. of Rockford and subsidiary are presented elsewhere herein.

The carrying values of $24,544,662 at January 3, 1976 and $23,604,212 at December 28, 1974 for all unconsolidated subsidiaries were approximately $2,500,000 in excess of the parent Company's equity in the net assets as reflected in the financial statements of the subsidiaries at those dates. This excess cost originated prior to November 1, 1970 and is not being amortized since it is considered by management to have continuing value over an indefinite period.

(7) Receivables

Accounts receivable from customers, agents and others was made up of the following:

	December 31, 1975	December 31, 1974
Insurance Group:		
Agents' balances and premiums in course of collection	$ 6,949,958	$ 9,583,769
Investment income due and accrued	1,649,292	1,438,492
Reinsurance recoverable on loss payments	4,520,912	2,459,093
Amounts due from sale of securities	23,084	31,955
	13,143,246	13,513,309
Textile business trade accounts receivable (less allowance for doubtful accounts, 1975—$362,095; 1974—$331,394)	6,566,859	4,377,918
	$19,710,105	$17,891,227

(8) Inventories

A summary of inventories follows:

	Jan. 3, 1976	Dec. 28, 1974
Raw materials and supplies	$1,717,825	$ 832,210
Stock in process	2,987,238	1,425,670
Griege and finished cloth	3,430,552	3,741,672
	$8,135,615	$5,999,552

Cost of inventories of the parent Company are determined by the last-in, first-out ("LIFO") method. Cost of inventories of subsidiaries are determined by first-in, first-out ("FIFO") method. Cost using FIFO for all inventories would have exceeded balance sheet carrying amounts by $1,261,642 and $1,234,436 at January 3, 1976 and December 28, 1974, respectively.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(9) Real Estate, Equipment, Furniture and Leasehold Improvements

The composition of plant and equipment is shown below:

January 3, 1976	*Properties of textile operations*	*Properties of Insurance Group*	*Total*
Land	$ 84,860	$ 83,847	$ 168,707
Buildings	2,409,214	1,260,989	3,670,203
Machinery and equipment	13,035,988	—	13,035,988
Furniture and fixtures and leasehold improvements	772,810	1,141,562	1,914,372
	16,302,872	2,486,398	18,789,270
Less accumulated depreciation and amortization	14,106,876	960,152	15,067,028
	$ 2,195,996	$1,526,246	$ 3,722,242
December 28, 1974			
Land	$ 84,860	$ 83,847	$ 168,707
Buildings	2,409,214	1,254,363	3,663,577
Machinery and equipment	12,734,171	—	12,734,171
Furniture and fixtures and leasehold improvements	834,992	1,053,380	1,888,372
	16,063,237	2,391,590	18,454,827
Less accumulated depreciation and amortization	13,730,358	810,996	14,541,354
	$ 2,332,879	$1,580,594	$ 3,913,473

(10) 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 parent Company for money borrowed. The debentures may be redeemed at par at the Company's option. The indenture under which the debentures were issued requires the parent Company to redeem $42,800 principal amount of the debentures, through a sinking fund, annually on August 1 through 1986.

(11) Sundry Installment Promissory Notes

This caption includes the following:

	December 31, 1975	*December 31, 1974*
Parent Company:		
8% note issued May 1974, repayable in monthly installments of $13,071 including interest, through February 1988	$1,217,480	$1,274,437
8% notes issued April 1975, repayable in annual installments of $287,500 plus interest, in each of the years 1977 through 1980	1,150,000	—
Obligations of subsidiary acquired in 1975:		
6% note issued 1973, repayable in semiannual installments of $80,000 plus interest through August 1, 1978	480,000	—
Note issued 1973, principal repayable in annual installments of $70,000 through May 1, 1983, plus interest at 5% through April 30, 1978 and 6% thereafter*	560,000	—
8% note issued in April 1975 with a fixed due date of April 30, 1980, contingently due earlier*	195,000	—
	$3,602,480	$1,274,437

*Guaranteed by parent Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(12) 8% Senior Notes due 1993

The parent Company in 1973 issued $20,000,000 8% Senior notes with final maturity March 1, 1993. The 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 parent Company may also prepay the notes at any time, in full or in part, at a premium declining ratably from the current rate of approximately 7% to par in 1992. The parent Company agreed it will not affect any optional prepayment priôr 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 parent Company agreed, among other things, as to both the parent Company and restricted subsidiaries, as defined, to limitations as to permissible outstanding funded debt and subordinated funded debt and to a limitation on mortgage debt except as to after-acquired property. Further, the parent 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 loan agreement), in excess of stated formula amounts. Retained earnings of approximately $26,000,000 as of January 3, 1976 are unrestricted by this provision; the remainder is restricted.

The loan agreement also contains limiting terms relating to sales of the Company's assets, mergers and 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 parent 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 parent Company.

(13) Income Taxes

Net recoverable income taxes credited to 1975 earnings represent a current expense credit of $4,313,045 and a deferred expense credit of $525,014, composed of the following:

	U.S. Federal	*Foreign, state and local*	*Total*
Totals:			
Credit (expense) applicable to operating loss	$4,528,690	$(131,521)	$4,397,169
(Charge) applicable to equity in earnings of Blue Chip Stamps	(168,886)	–	(168,886)
Credit applicable to realized investment losses	609,776	–	609,776
	$4,969,580	$(131,521)	$4,838,059
Current credit (expense) applicable to:			
Operating loss	$3,857,690	$(131,521)	$3,726,169
Dividends from Blue Chip Stamps	(22,900)	–	(22,900)
Realized investment losses	609,776	–	609,776
	4,444,566	(131,521)	4,313,045
Deferred credit (expense) applicable to:			
Change in deferred insurance premium acquisition costs	696,000	–	696,000
Accreted discount on tax free bonds	(281,259)	–	(281,259)
Undistributed income of Blue Chip Stamps	(145,986)	–	(145,986)
Cumulative accreted discount on tax free bonds sold	104,185	–	104,185
Benefit of capital loss carryover	152,074	–	152,074
	525,014	–	525,014
Total credit (expense)	$4,969,580	$(131,521)	$4,838,059

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

A before tax net loss of $146,494 was realized in 1975. A reconciliation of the tax credit from such net loss at the statutory rate to the above credit follows:

	Amount
Tax credit at 48% statutory rate	$ 70,000
Increases (decreases) resulting from:	
Tax-exempt interest income	2,137,000
85% dividends received credit:	
On dividends from unaffiliated companies	978,000
On equity in earnings of Blue Chip Stamps	957,000
100% exclusion relating to equity in earnings of The Illinois National Bank	1,656,000
Capital loss rate differential (30% vs. 48%)	(520,000)
Tax benefit to unconsolidated subsidiary	(319,000)
Other, net	(120,941)
Total tax credits	$4,838,059

As of December 31, 1975, taxes paid and recoverable in the event of future operating losses were minimal. Unused net operating loss carryovers in acquired subsidiaries exist in the amount of $2,600,000 expiring in 1977, 1978 and 1979. These can only be offset against taxable income earned by the acquired subsidiaries, and any tax benefits realized therefrom would be accounted for as a reduction of purchase price resulting in their amortization into income over a period not to exceed forty years.

Net recoverable income taxes credited to 1974 earnings were made up as follows:

	U.S. Federal	*Foreign, state and local*	*Total*
Totals:			
Credit (charge) applicable to operating earnings	$2,187,851	$(177,530)	$2,010,321
(Charge) applicable to equity in earnings of Blue Chip Stamps	(112,090)	—	(112,090)
Credit applicable to realized investment losses	567,678	—	567,678
	$2,643,439	$(177,530)	$2,465,909
Currently recoverable (payable):			
From net operating loss from insurance underwriting and manufacturing operations	$1,842,483	$(177,530)	$1,664,953
On dividends from Blue Chip Stamps	(20,290)	—	(20,290)
From carryback of realized investment losses	567,678	—	567,678
Total current	2,389,871	(177,530)	2,212,341
Deferred credit (expense):			
On equity in undistributed earnings of Blue Chip Stamps	(91,800)	—	(91,800)
On net accreted discount on bonds	(75,632)	—	(75,632)
Credit for tax effect of reduction in deferred insurance premium acquisition costs	421,000	—	421,000
Total deferred	253,568	—	253,568
Total income tax credits	$2,643,439	$(177,530)	$2,465,909

Total net income after taking into account realized investment losses, but before income taxes, was $4,577.252. Income tax expense of approximately $2,197,000 would result if computed by applying the statutory U.S. Federal income tax rate of 48% to income before taxes. A reconciliation of the difference is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

	Amount
Tax expense at statutory rate	$(2,197,000)
Decreases (increases) resulting from:	
Tax-exempt interest income	2,082,000
100% exclusion relating to equity in earnings of The Illinois National Bank	1,965,000
85% dividends received credit:	
On dividends from unaffiliated companies	1,065,000
On equity in earnings of Blue Chip Stamps	632,000
Amortization of excess of cost over net assets of subsidiary and investee (not deductible for tax purposes)	(230,000)
Capital loss rate differential (30% vs. 48%)	(343,000)
Tax benefits to unconsolidated subsidiary	(620,000)
Miscellaneous	111,909
Total tax credits	$2,465,909

(14) "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 effect such divestiture, and so long as the Company controls the bank it is subject to the restrictions imposed upon it by the Bank Holding Company Act.

(15) "Savings and Loan Holding Company" Status

The Company, as a result of its investment in Blue Chip Stamps which in turn holds controlling interest in a California savings and loan association, is a savings and loan holding company under the Savings and Loan Holding Company Amendments of 1967. As such, the Company is subject to the restrictions and regulatory requirements imposed upon it by the Savings and Loan Holding Company Act.

(16) Subsequent Event

In early January 1976, National Fire & Marine Insurance Company acquired for approximately $2 million all of the outstanding capital stock of Kerkling Reinsurance Corporation ("Kerkling"), a Nebraska company engaged since its inception in 1970 in the underwriting of reinsurance risks. Its business has been derived essentially through the reinsurance department of National Indemnity Company. Kerkling's annual premium volume has been less than $1 million annually; its total assets at December 31, 1975 approximated $4 million. The purchase price for this corporation was book value, adjusted to generally accepted accounting principles.

In a related transaction on the same date, Berkshire Hathaway Inc. acquired substantially all of the other net assets of Kerkling's parent company. These acquired assets consisted of all of the outstanding stock of Transportation Facilities, Inc., a corporation operating a small insurance brokerage business, plus the net assets comprising a business engaged in the manufacture and sale of branded chemical products used in the automotive after market. The latter were acquired through a newly formed subsidiary of Berkshire Hathaway Inc., K & W Products, Inc. The acquired manufacturing facilities are located in Los Angeles, California and Bloomington, Indiana; K & W products are sold nationwide. Sales volume of this business approximated $2.5 million in 1975. Purchase price for these assets approximated $2.25 million, of which approximately $1 million was funded by issuance by Berkshire Hathaway Inc. of 9% installment promissory notes. The notes issued have maturities extending to 1987.

(17) Litigation

The company, together with a number of subsidiaries, officers, directors and employees of the Company and certain subsidiaries, was named as a defendant in a lawsuit filed in mid 1975 alleging numerous causes of action and seeking damages of several million dollars. Since the filing of the complaint, interrogatories have been served upon the plaintiff but the plaintiff has refused to answer such interrogatories, has refused to testify in pretrial proceedings relating to performance of certain of its obligations, and has conducted no discovery in this matter. In the opinion of counsel for the Company, the Company will not be affected materially by the final outcome of the proceeding.

Berkshire Hathaway Inc.
INSURANCE GROUP

BALANCE SHEETS

	December 31, 1975	December 31, 1974
ASSETS		
Investments — other than investments in affiliates (notes 3 and 4):		
Bonds, at amortized cost	$ 78,760,945	$ 71,530,651
Preferred stocks — at cost	2,558,275	2,855,185
Common stocks — at cost	39,341,135	50,669,865
U. S. Treasury Bills — at cost which approximates market	13,912,843	9,138,663
Total investments — other than investments in affiliates	134,573,198	134,194,364
Cash	2,000,940	1,513,636
Investment in Blue Chip Stamps (note C)	15,400,558	14,370,980
Accrued investment income	1,649,292	1,438,492
Premiums receivable and agents' balances	6,949,956	9,583,769
Reinsurance recoverable on paid losses	4,520,912	2,459,093
Property and equipment, at cost less accumulated depreciation (note 9)	1,526,246	1,580,594
Deferred premium acquisition costs	2,950,000	4,400,000
Recoverable Federal income taxes	4,100,000	2,600,734
Other assets	387,403	196,560
	$174,058,505	$172,338,222
LIABILITIES, CAPITAL STOCK AND SURPLUS		
Losses and loss adjustment expenses	73,033,492	72,761,097
Unearned premiums	22,344,290	21,704,867
Funds held under reinsurance treaties	2,939,462	2,857,284
Deferred income taxes	2,472,002	3,034,000
Other liabilities	2,322,089	1,750,074
	103,111,335	102,107,322
Capital stock and surplus:		
Common stock of National Indemnity Company of $10 par value. Authorized 750,000 shares; issued 550,000 shares	5,500,000	5,500,000
Common stock of National Fire & Marine Insurance Company of $100 par value. Authorized 50,000 shares; issued 25,000 shares	2,500,000	2,500,000
Paid-in surplus	20,601,250	20,601,250
Unassigned surplus (note D)	42,345,920	41,629,650
Total capital stock and surplus	70,947,170	70,230,900
	$174,058,505	$172,338.222

See accompanying notes to financial statements.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF INCOME AND UNASSIGNED SURPLUS

	Year Ended December 31, 1975	Year Ended December 31, 1974
Underwriting income:		
Premiums written	$58,975,130	$60,996,616
Increase in unearned premiums	(639,424)	(422,887)
Premiums earned	58,335,706	60,573,729
Losses and claims	39,285,324	38,615,906
Loss adjustment expenses	7,952,413	8,503,940
Underwriting expenses (note E)	21,744,891	20,345,744
	68,982,628	67,465,590
Underwriting loss	(10,646,922)	(6,891,861)
Investment income:		
Interest on bonds	6,036,808	5,103,543
Dividends on stock of unaffiliated companies	2,456,103	2,811,980
Real estate income	287,314	286,307
	8,780,225	8,201,830
Less investment expenses	338,918	322,010
Net investment income	8,441,307	7,879,820
Other expense	121,451	95,708
Income (loss) before income taxes and items below	(2,327,066)	892,251
Applicable income tax credit (note F)	3,924,410	2,184,761
Income before items below	1,597,344	3,077,012
Equity in earnings of Blue Chip Stamps	1,140,953	791,985
Income before realized losses on investments	2,738,297	3,868,997
Realized loss on investments	(2,888,062)	(1,908,093)
Applicable income tax credit (note F)	866,035	567,678
Net realized loss on investments (note G)	(2,022,027)	(1,340,415)
Net unrealized appreciation (depreciation) in market values of preferred and common stocks of unaffiliated companies of $17,148,000 in 1975 and ($4,356,000) in 1974 have not been included in the determination of net income.		
Net income	716,270	2,528,582
Unassigned surplus at beginning of year	41,629,650	39,101,068
Unassigned surplus at end of year	$42,345,920	$41,629,650

See accompanying notes to financial statements.

Berkshire Hathaway Inc.
INSURANCE GROUP

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended December 31, 1975	1974
Funds provided:		
From operations:		
Net income	$ 716,270	$ 2,528,582
Charges (credits) to income not requiring (providing) funds:		
Equity in undistributed earnings of Blue Chip Stamps	(1,029,578)	(653,706)
Accretion of discount on bonds	(384,278)	(442,153)
Depreciation	152,155	147,972
Increase in unpaid losses and loss expense	272,395	11,085,329
Increase in unearned premiums	639,423	422,887
Increase in funds held under reinsurance treaties	82,178	1,539,079
Decrease (increase) in agents' balances and premiums in course of collection	2,633,813	(2,691,992)
Increase in reinsurance recoverable on loss payments	(2,061,819)	(1,960,169)
Decrease in deferred acquisition costs	1,450,000	840,000
Decrease in liability for income taxes	(561,998)	(705,670)
Increase in recoverable income taxes	(1,499,266)	(2,600,734)
Other, net	170,372	(115,130)
	(136,603)	4,865,713
Funds provided from operations	579,667	7,394,295
Net sale of investments	5,444	—
	$ 585,111	$ 7,394,295
Funds used:		
Purchase of furniture and equipment	97,807	123,394
Net purchase of investments	—	7,222,624
Increase in cash	487,304	48,277
	$ 585,111	$ 7,394,295
Net purchase (sale) of investments:		
U. S. Treasury Bills	4,774,180	7,738,228
Bonds	6,846,016	(1,985,528)
Preferred stocks	(296,910)	556,837
Common stocks of unaffiliated companies	(11,328,730)	913,087
Net cost of investments (sold) purchased	$ (5,444)	$ 7,222,624

See accompanying notes to financial statements.

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS
December 31, 1975 and 1974

(A) Note References

Numerical note references are to the notes to consolidated financial statements of Berkshire Hathaway Inc. and consolidated subsidiaries. Note 1 to such statements includes a summary of significant accounting policies and practices of the Insurance Group.

(B) Basis of Presentation

The financial statements of Berkshire Hathaway Inc. – Insurance Group include the accounts of wholly-owned subsidiaries of Berkshire Hathaway Inc. which are engaged in fire and casualty insurance underwriting. The statements are presented on a combined basis with significant intercompany transactions and balances eliminated, and in accordance with generally accepted accounting principles (GAAP) which differ in some respects from principles prescribed or permitted by insurance regulatory authorities (statutory methods) in accordance with which the companies maintain their records. A reconciliation of the aggregate capital stock and surplus ("Surplus as regards Policyholders") as determined under the statutory method to that determined and reported herewith in accordance with GAAP is as follows:

	December 31, 1975	December 31, 1974
Statutory surplus as regards policyholders	$55,406,942	$37,201,793
Excess of NAIC market valuations over cost valuations of investments in equity securities (excluding stock of Blue Chip Stamps)	(267,819)	–
Excess of cost over NAIC market valuations of investments in equity securities (excluding stock of Blue Chip Stamps)	–	16,449,675
Excess of carrying value of investment in Blue Chip Stamps (determined under GAAP pursuant to the equity method) over NAIC market valuation	9,216,289	9,176,194
Deferred insurance premium acquisition costs	2,950,000	4,400,000
Excess statutory liability loss reserves	756,343	1,850,644
Net recoverable from unauthorized reinsurers	2,426,692	1,788,012
Sundry nonadmitted assets	2,930,725	1,042,892
Income tax effect and adjustments	(2,472,002)	(1,678,310)
Capital stock and surplus per accompanying financial statements	$70,947,170	$70,230,900

Statutory net income is reconciled to GAAP net income as follows:

	1975	1974
Statutory net income	$1,814,693	$2,354,072
Decrease in deferred acquisition costs	(1,450,000)	(840,000)
Equity in undistributed earnings of Blue Chip Stamps, net of amortization of excess cost	1,029,579	653,706
Amortization of excess cost of investment in Home and Automobile Insurance Company	–	(93,886)
Income tax effects and adjustments	(678,002)	454,690
Net income per accompanying financial statements	$ 716,270	$2,528,582

Continued

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS, *Continued*

(C) Investment in Blue Chip Stamps

The investment in Blue Chip Stamps by the companies comprising the Insurance Group represented 989,483 shares, or approximately 19% of that company's total outstanding shares at the end of both 1975 and 1974. The carrying value was comprised of the following:

	December 31, 1975	December 31, 1974
Cost, represented by:		
Underlying net asset values at dates of acquisition	$ 9,115,779	$ 9,115,779
Excess cost, net of amortization of $1,764,181, 1975 and $1,279,853, 1974	1,937,314	2,421,642
	11,053,093	11,537,421
Equity in post-acquisition undistributed earnings	4,347,465	2,833,559
	$15,400,558	$14,370,980

The excess cost over underlying net assets is being amortized over eight years from the beginning of 1972. Amortization charges against earnings of the Insurance Group was $484,328 in 1975 and $484,180 in 1974.

See also note 5 to consolidated financial statements of Berkshire Hathaway Inc. and consolidated subsidiaries.

(D) Stockholders' Equity

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

(E) Underwriting Expenses

The following expenses made up underwriting expenses:

	1975	1974
Commissions and brokerage	$13,512,566	$13,016,977
Salaries and other compensation	3,027,683	2,816,024
Taxes, licenses and fees	1,508,145	1,396,162
Other underwriting expenses	2,246,497	2,276,581
Total statutory underwriting expenses	20,294,891	19,505,744
Add decrease in deferred acquisition costs	1,450,000	840,000
	$21,744,891	$20,345,744

Continued

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS, *Continued*

(F) Federal Income Taxes

Federal income tax credits (expense) are made up of the following:

	1975	1974
Totals:		
Credit applicable to operating earnings	$3,924,410	$2,184,761
(Charge) applicable to equity in earnings of Blue Chip Stamps	(126,102)	(99,200)
Credit applicable to realized investment losses	866,035	567,678
Total credits	$4,664,343	$2,653,239
Current tax credits and (expense) relating to:		
Net operating loss for tax purposes of insurance underwriting operations	$3,509,669	$1,839,393
Dividends received from Blue Chip Stamps	(17,100)	(17,200)
Realized investment gains (losses)	609,776	567,678
Total current	4,102,345	2,389,871
Deferred tax credit and (expense) relating to:		
Equity in undistributed earnings of Blue Chip Stamps	(109,002)	(82,000)
Accreted discount on bonds	(177,074)	(75,632)
Credit for tax effect of reduction in deferred acquisition costs	696,000	421,000
Benefit of capital loss carryforward	152,074	—
Total deferred	561,998	263,368
Total credits	$4,664,343	$2,653,239

Total net loss after taking into account realized investment losses, but before income taxes, was $3,948,073 for 1975 and $124,657 for 1974. Income tax credits of approximately $1,895,000 for 1975 and $60,000 for 1974 would result if computed by applying the statutory U. S. Federal income tax rate of 48% to such losses before taxes. A reconciliation of the differences is as follows:

	1975	1974
Tax credits at statutory rate	$1,895,000	$ 60,000
Increase (reduction) in credits resulting from:		
Tax-exempt interest	2,137,000	2,082,000
85% dividends received credit relating to:		
Dividends received from unaffiliated companies	978,000	1,065,000
Equity in earnings of Blue Chip Stamps	715,000	561,000
Amortization of excess of cost over net assets of subsidiary and investee (not deductible for tax purposes)	(232,000)	(277,000)
Tax benefit to affiliate	(319,000)	(620,000)
Capital loss tax rate differential	(520,000)	(343,000)
Miscellaneous	10,343	125,239
Total credits	$4,664,343	$2,653,239

Continued

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS, *Continued*

(G) Investment Gains and Losses

A summary of realized and unrealized investment gains (losses) for 1975 and 1974 is as follows:

	1975			
	Gross	*Applicable tax*	*Net*	*Unrealized*
Bonds	$ 239,041	$ (71,712)	$ 167,329	$ —
Preferred stocks	28,450	(8,535)	19,915	1,044,000
Common stocks	(3,155,553)	946,282	(2,209,271)	16,104,000
	$ (2,888,062)	$866,035	$ (2,022,027)	$17,148,000

	1974			
	Gross	*Applicable tax*	*Net*	*Unrealized*
Bonds	$ 91,817	$ (27,317)	$ 64,500	$ —
Preferred stocks	(138,579)	41,229	(97,350)	(901,000)
Common stocks	(1,861,331)	553,766	(1,307,565)	(3,455,000)
	$ (1,908,093)	$567,678	$ (1,340,415)	$ (4,356,000)

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
206 WEST STATE STREET, SUITE 700
ROCKFORD, ILLINOIS 61101

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

We have examined the consolidated balance sheets of the Illinois National Bank & Trust Co. of Rockford and subsidiary as of December 31, 1975 and 1974 and the related consolidated statements of earnings, changes in stockholders' equity and changes in financial position for the years 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 aforementioned consolidated financial statements present fairly the financial position of the Illinois National Bank & Trust Co. of Rockford and subsidiary at December 31, 1975 and 1974 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

January 14, 1976

Berkshire Hathaway Inc.
BANK SUBSIDIARY

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

CONSOLIDATED BALANCE SHEETS

	December 31, 1975	December 31, 1974
ASSETS		
Cash and due from banks	$ 18,797,271	$ 21,543,577
Investment securities (note 2):		
United States Government obligations	24,180,903	565,107
United States Government agencies	15,576,778	10,050,113
Obligations of states and political subdivisions	46,769,523	45,857,638
Other securities	4,327,888	3,845,970
Federal funds sold	—	5,000,000
Loans (notes 3 and 6)	58,081,252	70,133,624
Bank premises and equipment (note 4)	966,626	1,008,749
Accrued interest receivable	2,040,487	1,812,021
Other assets	514,603	1,044,645
	$171,255,331	$160,861,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits	$ 53,477,577	$ 53,177,813
Time deposits	93,501,325	85,519,225
Total deposits	146,978,902	138,697,038
Federal funds purchased	1,000,000	—
Accrued taxes and other liabilities (notes 5 and 6)	1,303,422	1,222,737
Total liabilities	149,282,324	139,919,775
Stockholders' equity:		
Common stock of $20 par value. Authorized and issued 250,000 shares	5,000,000	5,000,000
Surplus	5,000,000	5,000,000
Undivided profits (note 6)	10,972,007	9,940,669
Reserve for contingencies	1,001,000	1,001,000
Total stockholders' equity	21,973,007	20,941,669
	$171,255,331	$160,861,444

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 EARNINGS

	Years ended December 31, 1975	1974
Operating income:		
Interest and fees on loans	$ 5,711,826	$ 6,607,862
Income on Federal funds sold	213,649	361,452
Interest and dividends on:		
United States Government obligations	700,630	42,986
United States Government agencies	913,779	898,579
Obligations of states and political subdivisions	2,796,479	2,797,632
Other securities and time deposits	460,635	284,283
Total interest income	10,796,998	10,992,794
Trust fees	503,178	434,201
Service charges on deposit accounts	133,645	139,060
Other	583,229	559,578
Total operating income	12,017,050	12,125,633
Operating expenses:		
Interest on deposits	5,190,802	4,954,302
Interest on borrowed money	3,795	14,106
Total interest	5,194,597	4,968,408
Salaries	1,642,956	1,551,511
Employee benefits (note 7)	292,981	246,573
Occupancy, net (note 4)	246,770	257,229
Furniture and equipment (note 4)	246,233	248,078
Provision for loan losses (note 6)	11,900	19,300
Other	766,203	592,443
Total operating expenses	8,401,640	7,883,542
Earnings before income taxes and securities gains	3,615,410	4,242,091
Applicable income taxes, net (note 5)	136,502	220,256
Earnings before securities gains	3,478,908	4,021,835
Securities gains, net of related taxes of $2,185 in 1975 and $7,001 in 1974 (note 5)	52,430	168,022
Net earnings	$ 3,531,338	$ 4,189,857
Earnings per share:		
Earnings before securities gains	$13.92	$16.09
Securities gains	.21	.67
Net earnings	$14.13	$16.76

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 STOCKHOLDERS' EQUITY

	Common stock	*Surplus*	*Undivided profits (note 6)*	*Reserve for contingencies*
Balance, December 31, 1973	$5,000,000	$5,000,000	$ 8,500,812	$1,001,000
Net earnings	—	—	4,189,857	—
Cash dividends — $11 per share	—	—	(2,750,000)	—
Balance, December 31, 1974	5,000,000	5,000,000	9,940,669	1,001,000
Net earnings	—	—	3,531,338	—
Cash dividends — $10 per share	—	—	(2,500,000)	—
Balance, December 31, 1975	$5,000,000	$5,000,000	$10,972,007	$1,001,000

See accompanying notes to consolidated financial statements of bank subsidiary.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years ended December 31, 1975	*1974*
Funds provided:		
From operations:		
Net earnings	$ 3,531,338	$ 4,189,857
Depreciation (including direct leased equipment)	210,303	240,711
Provision for loan losses	11,900	19,300
Deferred income taxes	53,633	236,917
Provided from operations	3,807,174	4,686,785
Increase in:		
Deposits	8,281,864	1,530,545
Federal funds purchased	1,000,000	—
Decrease in:		
Loans	12,040,472	—
Federal funds sold	5,000,000	—
Investment securities	—	2,106,915
Cash and due from banks	2,746,306	5,140,076
Other, net	283,376	—
Total funds provided	$33,159,192	$13,464,321
Funds used:		
Increase in earning assets:		
Loans	—	4,865,062
Federal funds sold	—	5,000,000
Investment securities	30,536,264	—
Additions to bank premises and equipment, net	79,428	44,891
Increase in direct leased equipment	43,500	—
Cash dividends	2,500,000	2,750,000
Other, net	—	804,368
Total funds used	$33,159,192	$13,464,321

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, 1975 and 1974

(1) Significant Accounting Policies

The accounting policies of The Illinois National Bank & Trust Co. of Rockford (a 97.7% owned 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 accounting policies:

Consolidation

The consolidated financial statements include those of the Bank and its wholly-owned subsidiary. All significant intercompany transactions are eliminated in consolidation.

Investment Securities

Investment securities are stated at cost, adjusted for amortization of premium. Accretion of discount is not reflected in the accompanying statements and would not be material. Gains or losses on sales of investment securities are recognized only upon realization and are shown separately in the statements of earnings.

Consumer Credit Loans

Consumer credit loans are generally made on a discount basis. Unearned discount is taken into earnings over the terms of the respective loans using a method that approximates straight-line.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method for building and automobiles, and on an accelerated method for improvements and other equipment. Rates of depreciation are based on the following: buildings, 40 years; improvements and other equipment, 3-8 years.

Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged against operations as incurred.

Income Taxes

The Bank utilizes the accrual method of accounting for financial reporting purposes, but determines current taxable income on a cash basis. Investment tax credits are treated as a reduction of the provision for Federal income taxes in the year realized.

Provision for and Reserve for Loan Losses

The provision for loan losses is based on past loan loss experience, management's evaluation of the loan portfolio under current economic conditions, and such other factors as in management's best judgment, deserve current recognition in estimating loan losses.

(2) Investment Securities

A summary of investments by major classifications is as follows:

	Dec. 31, 1975 (In thousands)			*Dec. 31, 1974 (In thousands)*		
	Par value	*Book value*	*Market value*	*Par value*	*Book value*	*Market value*
U. S. Government—direct	$24,565	$24,181	$24,456	$ 565	$ 565	$ 567
U. S. Government—agencies	15,550	15,577	15,605	10,050	10,050	10,066
State and local municipalities	47,680	46,769	44,474	46,474	45,858	43,778
Other	5,029	4,327	4,252	4,312	3,846	3,550
	$92,824	$90,854	$88,787	$61,401	$60,319	$57,961

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

The market value decline in investment securities is considered to be a temporary condition, in view of the fact that management presently intends to hold the securities to maturity or until any loss recognized would not materially affect the results of operations.

Investment securities with a book value of $7,552,917 and $7,575,779 at December 31, 1975 and 1974, respectively, were pledged to secure public deposits and for other purposes.

(3) Loans

A summary of the major classifications of loans at December 31, 1975 and 1974 is as follows:

	1975	*1974*
Commercial loans	$27,331,810	$35,706,525
Consumer credit loans (less unearned discount of $2,286,776 in 1975 and $2,722,089 in 1974)	12,179,579	15,042,339
Floor plan loans	5,701,588	6,211,502
Real estate loans	13,576,010	13,893,176
	58,788,987	70,853,542
Less allowance for loan losses	707,735	719,918
	$58,081,252	$70,133,624

(4) Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation of $1,995,311 and $1,919,822 at December 31, 1975 and 1974, respectively. Depreciation expense totaled $109,324 for 1975 and $146,576 for 1974.

(5) Income Taxes

Accrued taxes and other liabilities in the accompanying balance sheets include deferred taxes of $596,502 and $542,869 at December 31, 1975 and 1974, respectively. Such deferred taxes result from timing differences arising from reporting taxable income on the cash basis. The Bank and its subsidiary join in the filing of a consolidated Federal income tax return with the parent company, Berkshire Hathaway Inc. The tax benefit of deductions by the parent has been passed to the Bank, as shown in the following schedules.

Taxes applicable to net earnings were as follows:

	1975	*1974*
Tax provision applicable to earnings before securities gains	$431,667	$759,929
Tax provision applicable to securities gains	25,867	88,380
	457,534	848,309
Less tax benefit from parent corporation applicable to:		
Earnings before securities gains	295,165	539,673
Securities gains	23,682	81,379
	318,847	621,052
Applicable income taxes, net	$138,687	$227,257

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

The components of consolidated income tax expense are as follows:

	1975	1974
Current income taxes:		
Federal	$314,523	$486,701
Less tax benefit from parent applicable to:		
Taxes currently payable	314,523	486,701
Recovery of prior taxes paid through net operating loss carryback	4,324	134,351
Total benefit from parent	318,847	621,052
	(4,324)	(134,351)
State	89,378	124,691
Total current income taxes	85,054	(9,660)
Deferred income taxes:		
Federal	60,517	222,635
State	(6,884)	14,282
Total deferred income taxes	53,633	236,917
Applicable income taxes, net	$138,687	$227,257

The sources of timing differences resulting in deferred income taxes and the tax effect of each were as follows:

	1975	1974
Accrued earnings and expense not reported for income tax purposes until collected or paid, net	$ 59,593	$185,795
Loan loss deductions for tax purposes in excess of (less than) that provided for financial reporting purposes	(5,960)	51,122
	$ 53,633	$236,917

The total income tax expense for 1975 amounted to $138,687, an effective rate of 3.8% ($227,257 and 5.1% in 1974). The reasons for the difference between the effective tax rate and the corporate Federal income tax rate of 48% are as follows:

	1975		1974	
	Amount	*Percent of pretax earnings*	*Amount*	*Percent of pretax earnings*
Tax expense at statutory rate	$1,761,612	48.0%	$2,120,215	48.0%
Increase (reduction) in taxes resulting from:				
Tax-exempt interest	(1,342,310)	(36.6)	(1,342,863)	(30.4)
State income taxes, net of Federal income tax benefits	42,896	1.2	72,266	1.6
Tax benefit from parent	(318,847)	(8.7)	(621,052)	(14.1)
Other—net	(4,664)	(.1)	(1,309)	—
Actual tax expense	$ 138,687	3.8%	$ 227,257	5.1%

It is not expected that the cash outlay for income taxes for any year through 1978 will exceed the income tax expense for such year.

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(6) Allowance for Loan Losses

For the years ended December 31, 1975 and 1974, there are certain changes in the method of presenting loans and the allowance for loan losses for financial statement purposes. Prior to such dates the valuation portion of the allowance for loan losses was included with the deferred tax and contingency portion of the allowance and shown with liabilities. At December 31, 1975 and 1974, loans are stated net of the valuation portion of the allowance for loan losses, the deferred tax portion ($211,543 for 1975 and $217,503 for 1974) has been included in other liabilities and the contingency portion ($307,802 for 1975 and $313,742 for 1974) has been included in undivided profits.

The following is a summary of activity in the valuation portion of the allowance for loan losses:

	1975	*1974*
Balance at beginning of year	$719,918	$734,495
Recoveries on loans previously charged off	27,179	7,299
Provision for loan losses	11,900	19,300
	758,997	761,094
Less loans charged off	51,262	41,176
Balance at end of year	$707,735	$719,918

(7) 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. Based upon the most recent actuarial report available (as of January 1, 1975), the pension fund assets exceeded the actuarial computed value of vested benefits and there was no unfunded past service cost liability. The Bank's policy is to fund pension costs as accrued. The total expense was $159,351 for 1975 and $128,247 for 1974.

The effect of the Retirement Income Security Act of 1974 on the Bank's pension expense provision and unfunded vested benefits, if any, has not been determined, and it is management's opinion that such effect will not be material to future years' earnings.

LINES OF BUSINESS

Sources of Revenues:

Revenues reflected in the consolidated financial statements include those from (1) premiums earnings and investment income of the Insurance Group, plus (2) sales revenues from the textile business plus a minor amount of investment income of the parent company. The following table summarizes the total revenues derived from these two categories for the past five years, in thousands of dollars:

	1971	1972	1973	1974	1975
Insurance	$66,050	$66,556	$60,526	$ 68,776	$67,116
Textile	26,092	27,772	33,479	32,706	33,259
	$92,142	$94,328	$94,005	$101,482	$100,375

Sources of Net Earnings:

The unconsolidated bank subsidiary and the investment in Blue Chip Stamps represent additional significant sources of income for the Company. Sources of total net earnings on a pre-tax basis with total tax effects to the Company and its consolidated subsidiaries reflected as a separate item, were as follows for the past five years:

	(Thousands of Dollars)				
	1971	1972	1973	1974	1975
Insurance	$6,372	$10,701	$10,249	$ 892	$(2,327)
Textile	233	1,697	2,837	2,660	1,715
Unconsolidated bank subsidiary	2,192	2,700	2,782	4,093	3,450
Blue Chip Stamps	68	142	1,124	1,164	2,172
Interest and corporate administrative expenses	(648)	(770)	(1,966)	(2,324)	(2,268)
Realized investment gain (loss)	1,028	1,359	1,331	(1,908)	(2,888)
Total pre-tax income	9,245	15,829	16,357	4,577	(146)
Less: Total income taxes (credits)	1,559	3,703	3,497	(2,466)	(4,838)
Net Earnings	$7,686	$12,126	$12,860	$ 7,043	$ 4,692

Berkshire Hathaway Inc.

FIVE YEAR SUMMARY OF OPERATIONS

	1971	1972	1973	1974	1975
	(Dollars in thousands, except per share amounts)				
Insurance premiums written	$66,455	$57,950	$50,372	$60,997	$58,975
Insurance premiums earned	60,867	59,627	52,929	60,474	58,336
Net sales of textile products	26,011	27,742	33,411	32,592	32,883
Interest and dividend income	5,043	6,648	7,378	8.030	8,918
Insurance underwriting gain (loss)	1,409	4,284	3,319	(6,892)	(10,647)
Gross profit from sales of textile products	2,566	4,087	5.105	5.163	4,599
Interest expense	595	584	1,605	1,718	1,845
Income taxes (credit) applicable to insurance underwriting and textile operations	1.245	3,241	2,979	(2,010)	(4,141)
Net earnings from insurance underwriting and textile operations	4,712	8,387	8,141	3,239	1.261
Equity in net earnings of bank subsidiary	2,192	2,700	2,782	4,093	3,450
Equity in net earnings of Blue Chip Stamps	63	111	1,008	1,052	2,003
Earnings before realized investment gains (losses) and extraordinary items	6,967	11,198	11,931	8,383	6,714
Realized investment gains (losses) net of income taxes	719	928	929	(1,340)	(2,022)
Net earnings	7,686	12,126	12,860	7,043	4,692
Average shares outstanding	979,569	979,569	979,569	979,569	979,569
Per share:					
Earnings before realized investment gains (losses) and extraordinary items	$7.11	$11.43	$12.18	$8.56	$6.85
Net earnings	7.85	12.38	13.13	7.19	4.79

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Insurance Premiums Earned and Insurance Underwriting Gain (Loss)

Combined loss and expense ratios (which are the sum of the ratio of losses and loss expenses incurred to premiums earned plus the ratio of underwriting expenses, on a statutory basis, to premiums written) have been as follows for the Insurance Group for the past five years.

	NET PREMIUMS		*RATIOS*		
	Written	*Earned*	*Losses and Loss Adj. Exp./ Earned Prem.*	*Underwriting Expenses/ Written Prem.*	*Combined Loss and Expense Ratio*
	(In thousands)				
1971	$66,455	$60,867	67.0	30.1	97.1
1972	57,950	59,627	62.0	29.7	91.7
1973	50,372	52,929	62.0	32.5	94.5
1974	60,997	60,574	77.8	32.0	109.8
1975	58,975	58,336	81.0	34.4	115.4

The combined loss and expense ratio is the traditional measure of underwriting results of property and casualty companies. In any year when that ratio exceeds 100, it generally indicates that unprofitable business has been underwritten.

The following table sets forth the net premiums written and earned by the Insurance Group in each of the past three years:

Operational Area		*1973*	*1974*	*1975*
		(Thousands of Dollars)		
Specialized Auto, General Liability and Other(1)	Written	$28,617	$36,738	$37,860
	Earned	29,969	34,436	38,144
Reinsurance(2)	Written	10,184	12,204	9,893
	Earned	11,996	12,938	10,188
Urban Auto(3)	Written	6,571	6,613	3,072
	Earned	6,120	7,902	3,332
Home State Companies(4)	Written	5,000	5,442	8,150
	Earned	4,844	5,298	6,672
Totals	Written	$50,372	$60,997	$58,975
	Earned	$52,929	$60,574	$58,336

(1) National Indemnity Company and National Fire & Marine Insurance Company less the Reinsurance Department of National Indemnity.

(2) Reinsurance Department of National Indemnity.

(3) Home and Automobile Insurance Company.

(4) Corporations organized in the jurisdictions of Nebraska, Minnesota, Texas and Iowa underwriting standard and preferred classes of fire and casualty insurance in those states.

MANAGEMENT'S DISCUSSION, *Continued*

The total underwriting gain or loss for the Insurance Group for the past three years is shown in the following table:

	(Thousands of Dollars)					
	1973		1974		1975	
	Statutory	*GAAP*	*Statutory*	*GAAP*	*Statutory*	*GAAP*
Specialized auto, general liability and other	$4,623	$4,409	$(2,119)	$(1,939)	$(5,201)	$ (6,728)
Reinsurance	715	353	(1,470)	(2,068)	(1,955)	(2,194)
Urban Auto	(834)	(878)	(1,761)	(2,183)	(941)	(848)
Home State	(801)	(565)	(702)	(702)	(1,100)	(877)
	$3,703	$3,319	$(6,052)	$(6,892)	$(9,197)	$(10,647)

The only difference between the Statutory and GAAP underwriting results is the change in amount of premium acquisition costs (underwriting expenses, i.e., commissions, etc.) which is deferred under GAAP. In each of the above years, the amount of such costs deferred at year-end decreased from the preceding year-end. The decreases were generally in expectation of unfavorable underwriting results from certain portions of the in-force book of business.

The premium rates at which Berkshire's Insurance Group, and, indeed, the entire property and casualty insurance industry, wrote its business in 1973, 1974 and 1975 were inadequate; rate increases did not keep pace with rates of inflation. Both monetary inflation and social inflation have impacted insurers. Social inflation is used here to encompass both higher and relatively more frequent jury awards to claimants as well as increased crime rates which increase the frequency of property loss claims.

The traditional businesses of National Indemnity and National Fire and Marine, as well as Berkshire's reinsurance business are preponderantly casualty type businesses. In casualty lines, losses incurred represent largely those of third-parties (as opposed to "first-party" losses, i. e., those sustained directly by the insured). For casualty business, the elapsed time between writing of coverages and settlement of claims tends to be longer than that for property lines of insurance. As a result, casualty underwriting loss ratios suffer more in highly inflationary times than do the ratios for property lines underwriting.

The venture by Home and Automobile Insurance Company into Florida resulted in the extremely high losses in 1974, in relation to earned premiums, of the Urban Auto business. In the traditional Cook County, Illinois business, rate increases were effected in both 1974 and 1975; premium volume (and thus, loss exposure) declined significantly but loss ratios did not. Home and Auto's management, rates, and underwriting practices have been restructured with a view to restoring underwriting profitability to this business; it is much too soon to know the results of these changes.

Operations of the Home State companies other than Cornhusker Casualty Company have to date yielded only underwriting losses. The Iowa operation completed only its second full year of operation in 1975 and has not yet reached viable size. Improvement was noted in the Texas operation in 1975; underwriting ratios deteriorated in the Minnesota operation. While the underwriting losses of the Home State companies increased in total dollars in 1975 over 1974, the overall loss ratio actually declined on higher 1975 volume.

Net Sales and Gross Profit from Sales of Textile Products

Consolidated net sales of $33.4 million – 1973, $32.6 million – 1974, and $32.8 million – 1975 give an appearance of stability in the textile operations; however, the 1975 figures require explanation inasmuch as they include $9.3 million from the Waumbec operation acquired during the year. Thus, a more revealing comparision shows sales from what comprised the textile operation in 1974 declined in 1975 by 28%. Both demand and price for our goods declined drastically, starting their downward trend in the fourth quarter of 1974 and continuing well into 1975, from the recent record high levels of early 1974. Some market recovery was noted in late 1975, which, combined with some gross profit realized from sale of Waumbec's products, stringent cost control efforts exerted by management of the textile operations, and the fact of relatively low fixed costs assignable to the operations, prevented a more significant decline in gross profits than that which occurred. Gross profit from sale of textile products at $4,599,000 in 1975 was 11% less in total than that realized in 1974.

Interest and Dividend Income

Interest and dividend income is earned almost entirely by the Insurance Group. The continuing increase in this category of income through 1974 was the result of increased investments; in 1975, the average yield on investments also increased. Interest and dividend income is related to average investments for the past five years in the following table, which excludes the investment in and dividends received from Blue Chip Stamps, accounted for by the equity method.

	Average Investments at cost	*Interest and Dividend Income*	*Average Per Cent Earned*
	(Amounts in Thousands)		
1971	79,117	5,043	6.37
1972	103,217	6,648	6.44
1973	117,516	7,378	6.28
1974	131,347	8,030	6.11
1975	136,500	8,918	6.53

The average per cent earned declined in 1973 and 1974 as a result of the increase in those years in the average investments in preferred and common stocks relative to the average investment in bonds, the converse was true in 1975; the income yield on the bonds tends to exceed that on the stocks. Investments for the past five years are categorized in the following table, at the average of their carrying values at the beginning and end of each year:

	Bonds, Treasury bills and other short-term obligations	*Preferred and common stocks*	*Total*
1971	68,906	10,211	79,117
1972	87,175	16,042	103,217
1973	81,311	36,205	117,516
1974	78,557	52,790	131,347
1975	88,787	47,713	136,500

Income Taxes (Credit) Applicable to Insurance Underwriting and Textile Operations

Each year there is a significant difference between pre-tax income reported in the financial statements, and income subject to tax. The difference arises principally from certain dividends received credits and from the fact that a considerable portion of income of the Insurance Group is produced by tax exempt bonds. For both 1974 and 1975 these items exceeded the pre-tax earnings from insurance underwriting and manufacturing operations and all other items of taxable income so that "net operating losses", as defined by the Internal Revenue Code, were reported for tax purposes. Berkshire Hathaway Inc. and its includible subsidiaries join in the filing of a consolidated Federal income tax return; the 1974 and 1975 consolidated net operating losses have been carried back to recover income taxes paid by members of the group for 1971, 1972 and 1973.

There are virtually no remaining paid and recoverable taxes which might benefit future net operating losses, if any.

MANAGEMENT'S DISCUSSION, *Continued*

Equity in Net Earnings of Bank Subsidiary

Berkshire's equity in net earnings of the Illinois National Bank and Trust Co. of Rockford ("the bank") represent approximately 98% of the bank's earnings. Financial statements of the bank are included elsewhere herein.

Income of the bank before income taxes and before securities transactions for the past three years is summarized below, in thousands of dollars:

	1973	*1974*	*1975*
Interest income	$9,324	$10,993	$10,797
Interest expense	4,351	4,969	5,195
Net interest earnings	4,973	6,024	5,602
Non-interest income	1,080	1,133	1,220
	6,053	7,157	6,822
Non-interest expenses	3,220	2,915	3,207
Income before taxes and before securities transactions	$2,833	$ 4,242	$ 3,615

1974 Compared to 1973

Loan demand was strong throughout 1974 and was accompanied by record high interest rates. Accordingly, interest income increased over 1973 as a result of both increased volume of earning assets and a higher yield thereon. Increased reliance on interest bearing time deposits as a source of funds and on increased average rate paid thereon caused the rise in interest expense in 1974.

Non-interest expense items declined in total in 1974 primarily as the result of a change instituted by local taxing authorities in assessing to Berkshire, as a shareholder of the bank, certain capital stock taxes previously assessed to the bank. In addition to elimination in 1974 of this particular expense item, an expense credit of $154,000 resulted in 1974 from reversal of this item previously accrued for 1973. While bank earnings increased as a result of this action by the taxing authorities, the net effect of this change was of no benefit to Berkshire, since taxes not theretofore paid by Berkshire appear as part of Berkshire's 1974 and 1975 selling and administrative expenses.

1975 Compared to 1974

Outstanding loans declined in 1975, resulting in less total interest income than in 1974. Interest bearing time deposits continued to increase resulting in higher interest costs. The combination resulted in a decline of $422,000 in net interest earnings in 1975 from the prior year.

The property tax expense credit in 1974 to "non interest" expense, discussed previously above, explains the major portion of the difference in that captioned item between 1974 and 1975. It is noted that non-interest expense of $3,207,000 compares not highly unfavorably with the second year prior (1973), when such captioned item totaled $3,220,000 including the capital stock tax.

Equity in Net Earnings of Blue Chip Stamps

Berkshire's equity in net earnings of Blue Chip Stamps as computed by the equity method for each of the past three years, based on the twelve month's operations of Blue Chip ended on or about November 30, have been as follows:

	1973	1974	1975
		(Amounts in Thousands)	
Equity in net earnings	$1,605	$1,548	$2,346
Applicable income taxes	(116)	(112)	(169)
Amortization of excess of cost over equity in net assets	(481)	(384)	(174)
Net equity in earnings	$1,008	$1,052	$2,003

The average number of shares of Blue Chip Stamps owned by Berkshire has increased in each of the past three years. Average shares owned in 1973, 1974 and 1975 were, respectively, 934,000, 1,144,670, and 1,325,233. Stated on the basis of per-average-share-owned, the above table is as follows:

	1973	1974	1975
Equity in net earnings	$1.72	$1.35	$1.77
Applicable income taxes	(.12)	(.10)	(.13)
Amortization of excess of cost over equity in net assets	(.52)	(.33)	(.13)
Net equity in earnings	$1.08	$0.92	$1.51

Realized Investment Gains (Losses)

Realized investment losses in 1975 aggregated $2,888,000 with a tax credit of $866,000 reducing the after-tax realized investment loss to $2,022,000. In 1974 and 1973 realized investment gains (losses) before taxes were, respectively, ($1,908,000) and $1,332,000; after taxes, ($1,340,000) and $929,000. Realization of investment gains or losses is determined by prevailing investment strategy as applied under changing economic conditions.

Berkshire Hathaway Inc.

DIRECTORS AND EXECUTIVE OFFICERS

WARREN E. BUFFETT, *Director and Chairman of the Board*
Chief Executive Officer of the Company

KENNETH V. CHACE, *Director*
President of the Company and Chief Operating Officer of the Textile Operations of the Company

MALCOLM G. CHACE, JR., *Director*
Retired, Former Chairman of the Board of Directors

J. VERNE MCKENZIE, *Director*
Vice President, Secretary and Treasurer of the Company

COMMON STOCK PRICES

The common stock of Berkshire Hathaway Inc. is traded in the over the counter market. The high and low bid prices for the stock in each quarter of 1974 and 1975 is set forth in the following table. The quotations represent prices between dealers and do not include retail markup, markdown or commission. They do not represent actual transactions

		High	*Low*
1974	1st Quarter	76	72
	2nd Quarter	76	64
	3rd Quarter	64	49
	4th Quarter	49	40
1975	1st Quarter	51	38
	2nd Quarter	51	45
	3rd Quarter	60	41
	4th Quarter	43	38

The Company has not paid a dividend in the past two years.