SEC FILE NO 0-7413 10--02 SIC 221 B 40 86 00 000

BERKSHIRE HATHAWAY INC **10-K**

OTHER

CARD 1 DISCLOSURE INC WASHINGTON D. C. 20016 FOR 12/29/79

109 - 694 - 032 - 805

THE ORIGINAL DOCUMENT FROM WHICH THIS
MICROFORM WAS PRODUCED WAS DESTROYED IN
THE ORDINARY COURSE OF BUSINESS BY THE SEC

NAME: BERKSHIRE HATHAWAY INC /DE/ PUBLIC

SEC FILE NO: 0-7413 PAGE COUNT: 0093 BATCH NO.: 7205 DATE: 03/28/80

FORM: 10-K PER. OF RPT.: 12/29/79 OPERATOR ID: 835975 INSPECTOR ID: 835975

TERM ID: T82 ENTRY DATE: 03/28/80 TIME: 18.33.20 MODE: UPDATE

BERKSHIRE HATHAWAY INC. DEL. CO: B408600000
97 COVE STREET
NEW BEDFORD, MASS. 02744
SEC FILE NO: 0-7413 EXCH: OTHER
IRS NO: 04-2254452 CUSIP: 0846717
FISCAL YEAR ENDS: 12/31 SIC NO: 221

ARS	FOR:	12/30/78	
PROXY	DATED:	05/03/79	
PRSPCT	EFF:	11/27/78	
REGST S14	FILED:	11/20/78	
10-K	FOR:	12/31/77	AMENDMENT 1
10-K	FOR:	12/30/78	
10-Q	FOR	07/01/78	
10-Q	FOR	09/30/78	
10-Q	FOR	03/31/79	
8-K	FOR:	12/31/78	

COPYRIGHT © 1979 by DISCLOSURE Incorporated. ALL RIGHTS RESERVED

100

ORIGINAL

B408600
6112

PROCESSED BY DISCLOSURE INCORPORATED
RECEIVED APR 1 1980

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.
20549

SECURITIES AND EXCHANGE COMMISSION
FEE RECEIVED
MAR 28 1980
OFFICE OF
FILINGS & REPORTS

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 29, 1979. Commission File No. 0-7413

BERKSHIRE HATHAWAY INC.
(Exact name of registrant as specified in its charter)

Delaware	04 2254452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
97 Cove Street, New Bedford, Massachusetts	02741
(Address of principal executive office)	(Zip Code)

Registrant's telephone number including area code 617 997-4561

Securities registered pursuant to Section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock - $5 Par Value
(Title of Class)

Indicated by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for the past 90 days.

Yes X No ____

Indicate number of shares outstanding of each of the issuer's classes of common stock, as of December 29, 1979.

Common stock - 1,027,145 shares

Page 1 of 93 pages.
Index to Exhibits at sequentially numbered page 51.

PART I

Item 1. Business

Berkshire Hathaway Inc. ("Berkshire", or "The Company", or "The Registrant") was incorporated in Massachusetts in 1889 and reincorporated by merger in Delaware in 1973. There was no material change in the nature of the business done by The Registrant together with its subsidiaries during 1979.

Business segments of The Company (including those operated by subsidiaries) include:

a) underwriting of property and casualty insurance--conducted through wholly-owned or substantially wholly-owned subsidiaries, referred to throughout this Report as the "Insurance Group".

b) manufacturing and selling of woven textile products.

c) retailing of popularly priced women's and children's apparel.

d) through an approximately 60% ownership, at December 29, 1979, of Blue Chip Stamps, a California corporation:

   (i) production and sale of candy and other confectionery products
   (ii) publishing a newspaper in Buffalo, N. Y.
   (iii) offering promotional services.

The Illinois National Bank and Trust Co. of Rockford, a commercial bank, is an approximately 98% owned subsidiary of The Company.

Wesco Financial Corporation is an approximately 80% owned subsidiary of Blue Chip Stamps. (As stated above, The Company at December 29, 1979 owned approximately 60% of Blue Chip, so The Company's economic interest in Wesco is approximately 48%).

Insurance Business

The Company entered the property and casualty insurance business in 1967 when it purchased all or substantially all of the outstanding stock of National Fire & Marine Insurance Company and National Indemnity Company, companion carriers sharing a home office in Omaha, Nebraska, and specializing in non-standard automobile and general liability insurance. The insurance business has been internally expanded by adding to National Indemnity an Omaha based reinsurance underwriting operation, and a Los Angeles based workers' compensation operation, and by formation of six "Home-State" multiple line subsidiaries of National Indemnity which write standard and preferred classes of business in their domiciliary states of Colorado, Iowa, Kansas, Minnesota, Nebraska and Texas. The insurance business has been externally expanded by purchase in 1970 of Home and Automobile Insurance Company, a Chicago based company which specialized in non-standard private passenger automobile coverages, and by purchase in late 1977 of Cypress Insurance Company, a Pasadena, California based workers' compensation insurance provider.

Columbia Insurance Company has since 1971 participated with National Indemnity in its reinsurance operation; Southern Casualty Insurance Company, a subsidiary purchased by Columbia in 1974, writes a relatively low volume (less than $2 million annual premium volume) of workers' compensation insurance in Louisiana. These companies are included in the Insurance Group as a result of the merger into The Company on December 30, 1978 of Diversified Retailing Company, Inc.

The insurance business generates significant amounts of investment income, both from capital funds committed to the operation and policyholders' funds derived from unearned premiums and loss reserves.

Approximately 900 persons are employed by the Insurance Group.

Item 1. Business (Continued)

Textile Business

The Company owns a weaving mill in New Bedford, Massachusetts, and maintains textile products sales offices in New York City and Los Angeles; additionally, a wholly-owned subsidiary of The Company operates a weaving mill and possesses textile finishing capabilities in Manchester, New Hampshire; a Canadian subsidiary maintains a textile products sales office and warehouse in Toronto, Canada.

Products of the textile business include curtain and bedspread materials, apparel fabrics and industrial fabrics. Sales are through employees to home fabric jobbers and converters, menswear converters, industrial fabrics and apparel fabrics converters, custom and ready-made curtain manufacturers, bedspread manufacturers, retail chain and department stores and mail order houses.

In the conduct of its textile business, Berkshire employs approximately 1,500 persons. Approximately 1,300 hourly paid employees are represented by the Amalgamated Clothing and Textile Workers Union (Textile Division) and are employed under contracts expiring in 1980. Negotiations are in progress for renewal of these contracts.

Retail Business

This business is conducted through Associated Retail Stores, Inc., a wholly-owned subsidiary. Associated's headquarters and central warehouse are in Long Island City, New York; it had 77 retail outlets at December 29, 1979, ranging in size from 2,000 square feet to 60,000 square feet of selling and non-selling floor area with the aggregate floor area for all stores approximating 970,000 square feet. The stores are located in eight midwestern and northeastern states and are operated under a variety of locally known trade names including "York", "Amy", "Goodwin's", "Gaytime", "Fashion Outlet", "Madison's", "Yorkster", "Lanes", "Tops and Bottoms", and "Bonds".

Associated regularly employs a total of approximately 1,450 full and part-time employees and employs approximately 200 additional employees on a seasonal basis. Approximately 230 of Associated's regular employees are engaged in warehousing and office activities and in management and administration. Sales, office and warehouse personnel are paid on an hourly rate basis. Approximately 85% of Associated's employees bargain collectively through various unions representing retailing employees and through an unaffiliated bargaining unit representing the central warehouse and office employees, and are covered by union contracts expiring at various times through June 30, 1982.

Businesses of Blue Chip Stamps

Candy Business: See Candy Shops, Incorporated (See's), a wholly-owned subsidiary of Blue Chip, produces boxed chocolates and other confectionery products of high quality in two fully equipped kitchens in California. The ingredients for its products, which include cocoa and sugar, are generally available but are subject to wide price fluctuation. See's is believed to be one of the largest candy manufacturers distributing through its own chain of retail shops; it now has 188 in twelve western and midwestern states including Hawaii. See's high quality candy contains no significant artificial preservatives and, in order to control shelf life, See's does not sell through department stores, drug stores or other similar outlets.

A substantial portion of each year's candy sales are generated during the Christmas and Easter seasons, when the high shop volume is augmented to an increasing degree by quantity sales to organizations at reduced prices. At Christmas the number of employees peaks at about three times the full time base of approximately 1,200.

(3)

Businesses of Blue Chip Stamps (continued)

Newspaper Business: Buffalo Evening News, Inc. ("the News"), whose assets, subject to certain liabilities, were purchased by Blue Chip in April 1977 through a newly organized, wholly-owned subsidiary, is publisher of the most widely read daily newspaper in upstate New York.

Late in 1977 "the News" began publishing a Sunday edition. The principal competing newspaper responded by filing an antitrust suit. See Item 5 of this Report which discloses significant legal proceedings involving the News.

Most of the News' revenues are based on advertising volume, which peaks during the fourth fiscal quarter due to holiday advertising. Newsprint is generally purchased under long-term contracts from Canadian suppliers. Supplies have been limited in recent years and prices have escalated. The newspaper employs approximately 1,100 full-time employees.

The Promotional Services Business: Blue Chip Stamps offers two principal types of promotional services: those used by business organizations to attract or retain customers (mainly a conventional trading stamp program); and those used by businesses or other entities for internal purposes (motivation programs).

Blue Chip's trading stamp service continues to be the preeminent trading stamp operation in the California-Nevada area, and a variation has been successfully introudced utilizing punch cards and certificates instead of stamps.

Blue Chip Motivation, a separate division, tailors programs for businesses using awards of merchandise and travel in order to stimulate sales or productivity, promote attendance or safety, or perform other employee motivational functions. The motivation business is competitive, and the division now concentrates its sales efforts in the West, where it can offer lower prices due to the presence of the stamp operation and the resultant economy of scale.

Approximately 200 employees are involved in promotional services activities on a full-time basis.

The Banking Business

The Illinois National Bank, approximately 98% owned by The Company, is currently one of the three largest in terms of deposits and capital accounts of the banks which conduct business in Rockford, Illinois. Located eighty-five miles northwest of Chicago, Rockford is the second largest city in Illinois, having a population of approximately 150,000. Because the Illinois banking statutes prohibit branch banking, operations of the Illinois National Bank are conducted from its main banking building located in downtown Rockford. The bank operates motor drive-in teller stations across the street from the main bank building and a newly constructed drive-in facility located approximately two miles from the main bank.

The Illinois National Bank offers a broad range of banking services, including checking, savings and time deposit accounts, and real estate, commercial, personal and installment loans. The trust department of the bank offers an extensive variety of trust services, among which are management, custodianship, guardianship and trusteeship (corporate and personal) and estate administration services. The bank employees approximately 165 persons.

Item 1. Business (continued)

The Banking Business (continued)

Under the Federal Bank Holding Company Act, as amended in 1970, The Company must divest of control of this entity by January 1, 1981. Prior to 1979, management of The Company had expected to accomplish the required divestiture by means of a spin-off of the shares of the bank to shareholders of The Company. Present views of the Federal Reserve Board make this manner of divestiture appear less attractive and, alternatively, all or a major portion of this investment may be sold in 1980. Equity in the bank's earnings has been relatively significant to The Company for the past ten years; full replacement of this earning power from any proceeds The Company might realize from a sale is considered improbable.

Wesco Financial Corporation

A copy of Item 1 of the Annual Report Form 10-K for the year ended December 31, 1979 filed by Wesco Financial Corporation is attached to this report as Exhibit C and incorporated herein by reference.

In The Company's consolidated financial statements included in this Report, Wesco is treated as an unconsolidated subsidiary.

Business Segment Data

Data as to business segments, covering the last five years, is included as Note 15 to the consolidated financial statements of The Company included in Item 12 of this Report.

Item 2. Summary of Operations

The information set forth on proof pages 32 to 36 of the Registrant's printed annual report to the stockholders for the year ended December 29, 1979, attached as Exhibit B, is incorporated herein by reference.

Item 3. Properties

Berkshire owns its textile manufacturing facilities located in New Bedford, Massachusetts and Manchester, New Hampshire. Facilities include buildings providing approximately 1 million square feet of manufacturing floor space in New Bedford and 500,000 square feet in Manchester. In the textile operations, it leases warehouse and sales office space in Los Angeles, California and Toronto, Ontario, and sales office space in New York City. The longest of these leases expires February 29, 1984.

National Indemnity owns its home office building in Omaha, Nebraska, a six story structure built for National Indemnity in 1967, affording about 35,000 square feet of office space, which is also the headquarters for National Fire & Marine. National Indemnity also owns an adjoining single story building which provides 9,600 square feet of additional office space, and leases lesser amounts of space under various leases, the longest of which expires in 1990.

Home and Auto has entered into a lease for approximately 23,000 square feet of office space at 111 West Jackson Boulevard, in the Chicago Loop, which expires in 1989. Home and Auto also leases, on a short-term basis, lesser areas which are occupied as branch offices.

The Home State Companies occupy their office space under various leases, the longest of which expires within five years.

Cypress Insurance Company owns the one story office building it occupies in South Pasadena, California. The structure, approximately 11 years old, provides 5,300 square feet of office space. Cypress occupies a smaller San Francisco office under a lease expiring in 1982.

Associated owns properties occupied by 10 of its retail stores in Chicago, Milwaukee, Philadelphia, Chester, Pennsylvania, and Gary, Indiana. All other Associated store premises are held under leases expiring at various dates through 1993. Associated's executive, purchasing and administrative offices, together with its central 80,000 square foot warehouse unit, are located in New York City, leased for a term expiring December 31, 1981. Aggregate minimum rental commitments under Associated's leases are set out in Note 11 to the consolidated financial statements of the Registrant included in Item 12.

The Illinois National Bank owns its main banking building in downtown Rockford, Illinois. The bank also owns a building containing a motor-bank and a 275 car parking facility across the street from the main bank building plus two garage buildings used for record storage, employee parking, and storage and reconditioning space for repossessed automobiles. A remote teller facility is located about 2 miles from the main downtown bank building on land owned by the Illinois National Bank.

Item 4. Parent and Subsidiaries

REGISTRANT: Berkshire Hathaway Inc., a Delaware corporation (a) (b)

INSURANCE GROUP: (b) (c)

National Fire & Marine Insurance Company, a Nebraska corporation; 100% Owned by Registrant.

Totally held subsidiaries of National Fire & Marine Insurance Company are:
Central Fire and Casualty Company, a Nebraska corporation;
Cypress Insurance Company, a California corporation.

National Indemnity Company, a Nebraska corporation; 99.9% owned by Registrant.

Totally held subsidiaries of National Indemnity Company are:
Cornhusker Casualty Company, a Nebraska corporation;
Lakeland Fire and Casualty Company, a Minnesota corporation;
Texas United Insurance Company, a Texas corporation;
The Insurance Company of Iowa, an Iowa corporation;
Home and Automobile Insurance Company, an Illinois corporation;
Kansas Fire & Casualty Company, a Kansas corporation;
Continental Divide Insurance Company, a Colorado corporation.

Columbia Insurance Company, a Nebraska corporation;

Southern Casualty Insurance Company, a Louisiana corporation; 99.6% owned by Columbia Insurance Company.

Bourne Mills of Canada, Ltd. (b); organized under the laws of the Province of Ontario, Canada; 100% owned by Registrant.

Waumbec Mills Incorporated (b); a New Hampshire corporation; 100% owned by Registrant.

The Illinois National Bank & Trust Co. of Rockford (a); A National Banking Association organized under the National Banking Act, 97.7% owned by Registrant.

Brown Building Corporation (d); an Illinois corporation; 100% owned by The Illinois National Bank & Trust Co. of Rockford.

Associated Retail Stores, Inc. (b); an Illinois corporation; 100% owned by Registrant.

Blue Chip Stamps (b); a California corporation; 59.6% owned by Registrant and subsidiaries.

See's Candy Shops, Incorporated (b), a California corporation; 100% owned by Blue Chip Stamps.

See's Candies, Inc. (b) a California corporation; 100% owned by See's Candy Shops, Incorporated.

Buffalo Evening News, Inc. (b), a New York corporation; 100% owned by Blue Chip Stamps.

Wesco Financial Corporation (a), a Delaware corporation; 80.1% owned by Blue Chip Stamps.

Mutual Savings and Loan Association (e), a California corporation; 100% owned by Wesco Financial Corporation.

Precision Steel Warehouse, Inc. (e); a Illinois corporation; 100% owned by Wesco Financial Corporation.

Precision Brand Products, Inc. (e); a Delaware corporation; 100% owned by Precision Steel Warehouse, Inc.

Precision Steel Warehouse, Inc. - Charlotte Service Center (e); a Delaware corporation; 100% owned by Precision Steel Warehouse, Inc.

DuPage Manufacturing Company (e), an Illinois corporation; 100% owned by Precision Steel Warehouse, Inc.

Insignificant subsidiaries (not consolidated, carried by Registrant at cost): Registrant has eight additional subsidiaries, the names of which are omitted since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

(a) Separate financial statements are filed
(b) Included in consolidated financial statements
(c) Group financial statements are additionally filed for insurance subsidiaries
(d) Consolidated with The Illinois National Bank & Trust Co. of Rockford
(e) Consolidated with Wesco Financial Corporation

Warren E. Buffett, Chairman of the Board of the Registrant, may be regarded as the Parent of The Registrant. He owned directly 448,322 or approximately 43.6% of the Registrant's 1,027,145 shares of stock outstanding at December 29, 1979. Susan T. Buffett, wife of Warren E. Buffett, owned an additional 3.1% (32,049 shares) of the Registrant's outstanding shares. A trust of which Mr. Buffett is a Trustee but in which he has no beneficial economic interest owned an additional 0.5% of the outstanding shares of the Registrant.

7

Item 5. Legal Proceedings

(a) Buffalo Courier-Express, Inc. v. Buffalo Evening News, Inc., United States District Court, Western District of New York, Civil Action No. CIV-77-582 filed October 28, 1977.

This action was filed by the principal competitor of the Buffalo Evening News (published by the Company's subsidiary, Buffalo Evening News, Inc.) in the Buffalo metropolitan area under federal antitrust laws and sought to enjoin certain practices allegedly engaged in by the News in connection with its proposed initiation of publication of a Sunday edition in place of its Saturday weekend edition and publication of Saturday and holiday editions, thus providing competition for the existing Sunday edition of the Courier-Express. In addition to seeking an injunction, the complaint seeks treble damages in an unspecified amount, attorneys' fees and costs. The District Court issued a preliminary injunction against the Buffalo Evening News, Inc., and later adjudged the Buffalo Evening News, Inc. in contempt of the preliminary injunction. On April 16, 1979, the Court of Appeals for the Second Circuit reversed the preliminary injunction and the contempt holding. In the main action in the trial court the defendant, Buffalo Evening News, Inc., has filed an answer and counterclaim denying all liability and seeking affirmative relief of treble damages in an unspecified amount, injunction, attorneys' fees and costs against plaintiff on the ground, among others, that plaintiff seeks to monopolize the Sunday newspaper business in the Buffalo metropolitan area in violation of the federal antitrust laws. No trial date, pre-trial date, or discovery cut-off date has been set by the court. If the plaintiff is successful in the kinds of permanent injunctions it is seeking, the Buffalo Evening News probably will be forced to cease operations and liquidate; however, with discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

(b) Blue Chip Stamps, one of its subsidiaries, and certain of the directors of Blue Chip Stamps and the subsidiary have been named as defendants in certain actions relating to a short-form merger of the subsidiary. These actions include three appraisal actions, as well as two other actions, Pearl J. Deutsch, individually and on behalf of all others similarly situated, v. Blue Chip Stamps, et al., Los Angeles Superior Court No. CA 000524 (a purported class action), and Pearl J. Deutsch, on behalf of See's Candy Shops, Inc. v. Blue Chip Stamps, et al., Los Angeles Superior Court No. C 262140 (a purported derivative action).

The Deutsch actions seek, among other things, rescission of the short-form merger of the subsidiary and payment to the minority shareholders of the subsidiary of all dividends paid Blue Chip Stamps by the subsidiary.

Blue Chip Stamps has indicated it would not expect that rescission of the merger, even if granted, would have a material effect upon it, since Blue Chip Stamps would still own 99.12% of See's Candy Shops, Incorporated. Counsel for Blue Chip Stamps in this matter has indicated that they believe it is unlikely that Blue Chip Stamps or See's Candy Shops, Incorporated will suffer a loss that is material to Blue Chip Stamps as a result of the claims to monetary relief asserted in these actions.

(c) Legal proceedings involving Wesco: A copy of Item 5 of the Annual Report Form 10-K for the year ended December 31, 1979 filed by Wesco Financial Corporation is attached to this report as Exhibit D, and is incorporated herein by reference.

Item 6. Increases and Decreases in Outstanding Securities and Long-term Debt.

None

Item 7. Changes in Securities and Changes in Security for Registered Securities.

None

Item 8. Defaults Upon Senior Securities.

None

Item 9. Approximate Number of Equity Securities Holders.

(1) Title of Class	(2) Number of Record Holders as of December 29, 1979
Common Stock - $5 Par Value	1,150

Item 10. Submission of Matters to a Vote of Security Holders.

None

Item 11. Indemnification of Directors and Officers.

Section 10 of the By-Laws of the Registrant provides for the indemnification of directors and officers of the Registrant under certain circumstances. Subject to the terms contained therein, said Section generally provides that (a) the Registrant shall indemnify a director or officer from liabilities incurred in such capacity and expenses reasonably incurred in defense of such liabilities (other than in actions by or in the right of the Registrant) if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Registrant, and, with respect to any criminal action, had no reasonable cause to believe his conduct was unlawful, (b) the Registrant shall indemnify a director or officer from expenses reasonably incurred in connection with the defense or settlement of an action by or in the right of the Registrant if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Registrant, provided that if the person is adjudged liable for negligence or misconduct in the performance of his duty to the Registrant, he shall be indemnified only to the extent the applicable court determines he is fairly and reasonably entitled to indemnity for such expenses, and (c) to the extent a director or officer has been successful in the defense of any action referred to in (a) or (b), the Registrant shall indemnify him against expenses reasonably incurred in connection therewith.

Section 145 of the Delaware General Corporation Law permits indemnification by the Registrant of its directors and officers in a manner similar to that provided in the Registrant's By-Laws, except that the Delaware Corporation Law is permissive, whereas the Registrant's By-Laws make indemnification mandatory.

9

Item 12. Financial Statements, Exhibits Filed, and Reports on Form 8-K.

(a) 1. Financial Statements: see index to financial statements on page 11.

2. Exhibits:

Exhibit A. Consolidated Financial Statements of the Registrant for the years ended December 29, 1979 and December 30, 1978 (Pages 12 to 26 of the Registrants 1979 Annual Report to Stockholders).

Exhibit B. The Registrants Summary of Operations and Management Discussion of the Summary of Operations (Pages 32 to 36 of the Registrants 1979 Annual Report to Stockholders).

Exhibit C. Item 1 of the Annual Report Form 10-K of Wesco Financial Corporation for the year ended December 31, 1979.

Exhibit D. Item 5 of the Annual Report Form 10-K of Wesco Financial Corporation for the year ended December 31, 1979.

Exhibit E. Consolidated Financial Statements of Wesco Financial Corporation for the years ended December 31, 1979 and 1978 together with the Independent Accountants' Reports thereon.

(b) Reports on Form 8-K: None

Executive Officers of the Registrant

Following is a list of the Company's executive officers:

Name	Age	Positions	Held Office Since*
Warren E. Buffett	49	Chairman of the Board	1970
Kenneth V. Chace	64	President	1965
J. Verne McKenzie	51	Vice President, Treasurer, Secretary	1966

*Includes period during which office was held with the Massachusetts corporation predecessor of the Registrant.

Each executive officer serves, in accordance with the by-laws of the Registrant, until the first meeting of the Board of Directors following the next annual meeting of stockholders and until his respective successor is chosen and qualified or until he sooner dies, resigns, is removed or becomes disqualified.

PART II

Items 13 to 15 are omitted since the Registrant will file with the Commission a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the close of the year covered by this Report.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

BERKSHIRE HATHAWAY INC.

Date: 3/26/80

J. Verne McKenzie

J. Verne McKenzie
Vice President and Treasurer

(11)

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Index to Financial Statements

*Contained in Pages 12 to 26 of 1979 Annual Report to the Stockholders of the Company which pages are incorporated herein by reference and filed as Exhibit A.

Wesco Financial Corporation:

A copy of Item 12 of the Annual Report Form 10-K for the year ended December 31, 1979 filed by Wesco Financial Corporation is incorporated herein by reference and filed as Exhibit E.

Financial Statements of Subsidiaries not Consolidated, other than The Illinois National Bank & Trust Co. of Rockford, are omitted. Investments in and advances to such subsidiaries by the Registrant and the Registrant's other subsidiaries did not exceed 10 percent of the total consolidated assets of the Registrant at December 29, 1979; the total sales and revenues of such subsidiaries in 1979 did not exceed 10 percent of 1979 consolidated sales and revenues of the Registrant; the Registrant's equity in income before taxes and extraordinary items of such subsidiaries was less than 10 percent of the average for the last five years of such income of the Registrant and its consolidated subsidiaries.

All other Schedules are omitted because the information required therein is not applicable or is given in the financial statements or the notes thereto.

The 1979 Annual Report and the Proxy material with respect to the 1980 Annual Meeting of Stockholders have not been sent to stockholders but will be furnished to them subsequent to the filing of the Annual Report on this form.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the financial statements and related supporting schedules of Berkshire Hathaway Inc. and consolidated subsidiaries and Berkshire Hathaway Inc. as listed in the accompanying index. Our examinations were 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. We did not examine the financial statements of Blue Chip Stamps, 1979 and 1978, and Wesco Financial Corporation, 1979 only, the assets relating to such as reflected in the accompanying consolidated financial statements constitute 26 percent and 25 percent and total revenues constituting 35 percent and 32 percent of the consolidated totals for 1979 and 1978, respectively. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Blue Chip Stamps and Wesco Financial Corporation (1979 only), is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned financial statements present fairly the financial position of Berkshire Hathaway Inc. and consolidated subsidiaries at December 29, 1979 and December 30, 1978 and the results of their operations and changes in their financial position for the years then ended and the financial position of Berkshire Hathaway Inc. at December 29, 1979 and December 30, 1978 and the results of its operations and changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change, with which we concur, as explained in note 1 to the consolidated financial statements; and the supporting schedules, in our opinion, present fairly the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Peat, Marwick, Mitchell & Co.

Omaha, Nebraska
February 28, 1980

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Supplemental Notes to Consolidated Financial Statements
December 29, 1979 and December 30, 1978
(dollars in thousands)

A) Parent Company Financial Information

Balance Sheets	Dec. 29, 1979	Dec. 30, 1978
Assets:		
Investment in subsidiaries (includes unrealized appreciation of marketable equity securities held by insurance subsidiaries)	$367,747	279,501
Cash and U. S. Treasury bills	1,113	2,913
Accounts receivable and inventories of parent company's textile business	14,853	13,672
Other assets	3,083	2,620
	$386,796	298,706
Liabilities and stockholders' equity:		
Accounts payable and accrued expenses	$ 4,557	5,118
Senior notes	25,857	27,000
Other notes and debentures	10,556	11,279
Current and deferred income taxes	863	1,063
	41,833	44,460
Stockholders' equity (See consolidated balance sheet)	344,963	254,246
	$386,796	298,706

Statements of Earnings	1979	1978
Income:		
Dividends and interest from subsidiaries	$ 8,395	9,387
Equity in undistributed earnings of subsidiaries	36,267	31,804
Gross profit from textile product sales	4,838	4,141
Other income	107	31
	49,607	45,363
Costs and expenses:		
Administrative and selling expense	$ 3,591	3,628
Interest expense	3,172	2,740
Income taxes (credit)	27	(247)
	6,790	6,121
Net earnings	$ 42,817	39,242

15

Supplemental Notes to Consolidated Financial Statements
December 29, 1979 and December 30, 1978
(dollars in thousands)

A) Parent Company Financial Information (continued)

Statements of Changes in Financial Position

	1979	1978
Funds provided:		
From operations:		
Net Earnings	$ 42,817	39,242
Charges (credits) not requiring (providing) funds:		
Depreciation and amortization of property and equipment	360	390
Increase in receivables and inventories	(1,181)	(443)
Equity in undistributed earnings of subsidiaries	(36,267)	(31,804)
Increase (decrease) in accounts payable	(561)	240
Increase (decrease) in income tax liabilities	(200)	286
Decrease (increase) in other assets	(2)	121
	4,966	8,032
Proceeds from issuance of debt	—	43
Decrease in cash	2,774	—
	$ 7,740	8,075
Funds used:		
Investment in U. S. Treasury bills	$ 974	—
Purchase of property and equipment	821	279
Retirement of debt	1,866	2,426
Investment in and advances to subsidiaries	4,079	2,035
Purchase of treasury stock	—	574
	7,740	5,314
Increase in cash	—	2,761
	$ 7,740	8,075

B) Compensating Balance Arrangements with Banks

The Company has a $10,000 line of credit with a bank for which it has agreed to maintain average balances with the bank of 5% of the line plus 10% of outstanding borrowings under the line. The approximate daily average amount of borrowings under the line in 1979 was $234. The average annual interest cost of the borrowings was 11.75%. The maximum short-term borrowings under the line at any month end in 1979 was $1,500, with no outstanding borrowings thereunder at December 29, 1979. In 1978, the Company paid 8.21% interest with respect to $1,910 average borrowings, the maximum borrowings at any month-end were $3,500, and there were no outstanding borrowings at December 30, 1978.

Blue Chip has a line of credit arrangement with another bank providing for borrowings of up to $5,000 for which it has agreed to maintain compensating balances of $250. Short-term borrowings from this bank by Blue Chip are required to be collateralized by securities with a market value of at least 150% of the amount of the borrowings. Blue Chip's maximum outstanding short-term borrowings were $6,500 in 1979 and $8,000 in 1978, including amounts in addition to the credit line arrangement. Blue Chip's daily average short-term borrowings were $735 in 1979 and $1,432 in 1978, at average annual interest rates, respectively, of 15.16% and 10.5%. Blue Chip had no short-term borrowings outstanding at the end of either 1979 or 1978.

Supplemental Notes to Consolidated Financial Statements
December 29, 1979 and December 30, 1978
(dollars in thousands)

C) Supplementary Information

At December 29, 1979 187,138 shares of common stock of the Company's $5 par value common stock was held in treasury by the company, of which 136,637 shares were held by the parent company and 50,501 shares were held by affiliates in the Insurance Group. In the accompanying Consolidated Financial Statements all these shares are reflected as treasury stock, at cost to the acquiring company; in the Financial Statements of the Insurance Group the shares held by those affiliates are reflected in the balance sheet at cost. None of the shares are reserved for options, warrants, conversion or other rights.

Inventories used in the computation of cost of manufactured products sold for 1979 and 1978 are as follows:

December 31, 1977	$23,776
December 30, 1978	23,029
December 29, 1979	25,704

Certain items of expense that exceeded 1% of revenues in the Consolidated Statements of earnings were as follows:

	1979	1978
Maintenance and repair	$4,780	5,213
Taxes other than income taxes:		
Payroll	6,917	5,753
Other	4,724	1,752
Advertising costs	1,934	1,547

17

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the financial statements and related supporting schedules of the Berkshire Hathaway Inc. - Insurance Group as listed in the accompanying index. Our examinations were 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. We did not examine the financial statements of Blue Chip Stamps, an investee of the Insurance Group. The Insurance Group's investment in Blue Chip Stamps at December 31, 1979 and 1978 was $35,355,000 and $31,442,000, respectively, and its equity in net earnings of Blue Chip Stamps was $3,960,000 and $3,230,000 for the years 1979 and 1978, respectively. The financial statements of Blue Chip Stamps were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Blue Chip Stamps, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned financial statements present fairly the financial position of the Berkshire Hathaway Inc. - Insurance Group at December 31, 1979 and 1978 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, after restatement for the change, with which we concur, as explained in note 1 to the consolidated financial statements; and the supporting schedules, in our opinion, present fairly the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Peat, Marwick, Mitchell & Co.

Omaha, Nebraska
February 28, 1980

(18)

BERKSHIRE HATHAWAY INC.
Insurance Group

Balance Sheets
(dollars in thousands)

Assets	December 31, 1979	1978*
Investments - other than investment in affiliate:		
Bonds, at amortized cost (market, 1979 - $171,466, 1978 - $155,540)	$185,564	157,651
Marketable equity securities, at market (note C)	336,680	220,929
Invested cash, U. S. Treasury Bills and other short-term investments, at cost which approximates market	9,054	43,068
Total investments - other than investment in affiliated (note D)	531,298	421,648
Investment in Blue Chip Stamps, an affiliate (note E)	35,355	31,442
Cash	3,128	2,570
Premiums and agents' balances receivable	20,546	18,896
Reinsurance recoverable on paid losses	5,965	5,413
Accrued investment income and due for security sales	7,009	4,424
Property and equipment, at cost less accumulated depreciation of $1,956, 1979; $1,541, 1978	3,386	2,757
Deferred premium acquisition costs	13,652	13,846
Other assets, including $2,948 investment, at cost, in 50,501 shares of Berkshire Hathaway Inc.	3,082	3,432
	$623,421	504,428

Liabilities, Capital Stock and Surplus	1979	1978*
Losses and loss adjustment expenses	$197,698	180,870
Unearned premiums	73,604	69,368
Current income taxes	5,006	4,591
Deferred income taxes	50,696	34,962
Other liabilities	13,570	10,472
	340,574	300,263
Capital stock and surplus:		
National Indemnity Company, $10 par value. Authorized 750,000 shares; issued 550,000 shares	5,500	5,500
National Fire and Marine Insurance Company, $100 par value. Authorized 50,000 shares; issued 25,000 shares	2,500	2,500
Columbia Insurance Company, $100 par value. Authorized and issued 20,000 shares	2,000	2,000
Paid-in surplus	24,457	24,457
Unrealized appreciation of marketable equity securities, net of provision for applicable income taxes (note C)	108,913	61,014
Unassigned surplus (note F)	139,477	108,694
Total capital stock and surplus	282,847	204,165
Contingency (note E)		
	$623,421	504,428

*1978 restated - see note 1(B) to consolidated financial statements of Berkshire Hathaway Inc.

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.
Insurance Group

Statements of Income and Unassigned Surplus
(dollars in thousands)

	Year ended December 31, 1979	1978
Underwriting income:		
Premiums written	$186,185	198,313
Increase in unearned premiums	4,235	12,240
Premiums earned	181,950	186,073
Losses and claims	101,438	108,642
Loss adjustment expenses	18,899	23,621
Underwriting expenses (note G)	57,870	50,809
	178,207	183,072
Underwriting gain	3,743	3,001
Investment income:		
Interest on bonds	13,536	9,671
Dividends on stocks of unaffiliated companies	10,818	8,214
Interest on short-term investments and other interest	52	2,059
	24,406	19,944
Less investment expenses	182	239
Net investment income	24,224	19,705
Income before income taxes and items below	27,967	22,706
Applicable income tax expense (note H)	5,405	4,681
Income before items below	22,562	18,025
Equity in earnings of Blue Chip Stamps, an affiliate (note E)	3,960	3,230
Income before realized gain on investments	26,522	21,255
Realized gain on investments	8,698	12,873
Applicable income tax expense (note H)	2,457	4,000
Net realized gain on investments (note I)	6,241	8,873
Net unrealized appreciation in market values of preferred and common stocks of unaffiliated companies of $64,105 in 1979 and $12,628 in 1978 has been excluded from the determination of net income.		
Net income	32,763	30,128
Unassigned surplus at beginning of year	108,694	84,041
Dividends paid to stockholders	(1,980)	(5,475)
Unassigned surplus at end of year	139,477	108,694

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.
Insurance Group

Statements of Changes in Financial Position
(dollars in thousands)

	Year ended December 31, 1979	1978
Funds provided:		
From operations:		
Net income	$32,763	30,128
Charges (credits) to income not requiring (providing) funds:		
Equity in undistributed earnings of Blue Chip Stamps	(3,913)	(3,175)
Accretion of discount on bonds	(1,178)	(1,000)
Depreciation	459	304
Increase in unpaid losses and loss expenses	16,828	41,409
Increase in unearned premiums	4,236	12,240
Increase in premiums receivable and agent balances	(1,650)	(5,854)
Decrease (increase) in deferred acquisition costs	194	(2,994)
Increase (decrease) in liability for income taxes applicable to earnings	(57)	5,710
Increase in accrued investment income, etc.	(2,585)	(1,533)
Other	2,896	851
Funds provided from operations	47,993	76,086
Decrease in cash	---	2,037
	47,993	78,123
Funds used:		
Purchases of property, furniture, fixtures and equipment	$ 1,088	897
Net purchase of investments*	44,367	71,751
Dividends paid	1,980	5,475
Increase in cash	558	---
	$47,993	78,123
*Net purchase of investments:		
U. S. Treasury Bills	(34,014)	20,930
Bonds	26,735	23,772
Preferred stocks	2,620	715
Common stocks of unaffiliated companies	49,026	24,929
Common stock of Blue Chip Stamps	---	1,405
Net purchase of investments	$44,367	71,751

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.
Insurance Group

Notes to Financial Statements
(dollars in thousands)

(A) Significant Accounting Policies

See note 1 to the consolidated financial statements of Berkshire which includes a summary of significant accounting policies and practices of the Insurance Group.

(B) Basis of Presentation

The financial statements of the Insurance Group are presented on a combined basis with significant intercompany transactions and balances eliminated, and in accordance with generally accepted accounting principles (GAAP). Such principles differ in some respects from principles prescribed or permitted by insurance regulatory authorities (statutory method) 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, 1979	1978
Statutory surplus as regards policyholders	296,208	215,095
Provision for Federal Income taxes on excess of NAIC market valuations over cost valuations of investments in equity securities (excluding stock of Blue Chip Stamps)	(42,355)	(26,149)
Excess of amortized cost of bonds over NAIC market valuations (NAIC values over amortized cost)	238	(1,350)
Excess of carrying value of investment in Blue Chip Stamps (determined under GAAP pursuant to the equity method) over NAIC market valuation	4,144	6,615
Excess of NAIC market valuation at December 31, 1978 over cost of investment in common stock of Berkshire Hathaway Inc.	---	(4,728)
Investment in common stock of Berkshire Hathaway Inc. at cost, not admitted under statutory method	2,948	---
Provision under GAAP for policyholder dividends and unbilled premiums	(1,041)	(3)
Deferred insurance premium acquisition costs	13,652	13,846
Excess statutory liability loss reserves	9,669	4,399
Net recoverable from unauthorized reinsurers	2,003	2,093
Sundry nonadmitted assets	4,679	4,386
Income tax effects and adjustments	(7,298)	(10,039)
Capital stock and surplus per accompanying financial statements	$282,847	204,165

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

	December 31, 1979	1978
Statutory net income	27,502	27,537
Increase (decrease) in deferred acquisition costs	(194)	2,994
Equity in undistributed earnings of Blue Chip Stamps, net of amortization of excess cost	3,913	3,175
Increase in earned but unbilled premiums	112	60
Increase in unpaid policyholders dividends	(1,178)	(3)
Income tax effects and adjustments	2,608	(3,635)
Net income - GAAP	$32,763	30,128

(Continued)

Notes to Financial Statements
(dollars in thousands)

(C) Investments - Other Than Investment in Affiliates

A summary of the Insurance Group's aggregate cost and aggregate market value of investments in marketable equity securities follows:

	December 31, 1979		December 31, 1978	
	Cost	Market	Cost	Market
Preferred stocks	6,343	5,772	24,080	32,757
Common stocks	179,070	330,908	109,686	188,172
Total marketable equity securities	185,413	336,680	133,766	220,929

The excess of the aggregate market value over aggregate cost represented unrealized gains less unrealized losses as follows:

	December 31, 1979	1978
Unrealized gains	$152,293	87,691
Unrealized losses	1,026	528
Net excess of market over cost	$151,267	87,163

Marketable equity securities are carried in the balance sheets at market value (see note 1(b) to the consolidated financial statements of Berkshire Hathaway Inc.) A liability for deferred income taxes, computed at capital gains rates, is included in the balance sheet with respect to the net excess of market value over cost of marketable equity securities. This provision amounted to $42,355 at December 31, 1979 and $26,149 at December 31, 1978.

(D) Certain Significant Investments

Investments by the Insurance Group in persons, other than affiliates, with market value greater than 2% of the aggregate market value of total investments other than affiliate were as follows at December 29, 1979:

	Approximate Market Value
Aluminum Company of America	$21,302
American Broadcasting Companies, Inc.	9,673
Ford Motor Credit Company	19,634
General Foods	11,746
Government Employees Insurance Company	68,333
Handy & Harman	38,537
Interpublic Group of Companies, Inc.	23,736
Kaiser Aluminum and Chemical Corporation	28,320
Safeco Corporation	35,527
Tenneco Offshore Company, Inc.	12,582
Washington Post Company	39,241
F W Woolworth Company	19,394

(Continued)

Notes to Financial Statements
(dollars in thousands)

(E) Investment in Blue Chip Stamps

The investment in Blue Chip Stamps ("Blue Chip") by the companies comprising the Insurance Group represented approximately 27.4% of that company's outstanding shares at both December 29, 1979 and December 30, 1978. The investment is accounted for by the Insurance Group by the equity method. (This differs from the presentation in the consolidated financial statements of Berkshire Hathaway Inc. and subsidiaries wherein the accounts of Blue Chip are consolidated.)

Equity of the Insurance Group in net earnings of Blue Chip reflects the following for the past two years:

	December 31, 1979	December 31, 1978
Dividends received	$ 340	331
Equity in undistributed earnings	3,913	3,507
Provision for current income taxes	(23)	(24)
Provision for deferred income taxes	(270)	(252)
Amortization of excess of cost of investment over underlying net asset values	---	(332)
	$3,960	3,230

The amortization charge in 1978 of the Insurance Group represents the amount required to adjust the carrying value of the shares to their underlying book value as reported by Blue Chip as of December 30, 1978.

The balance sheets of Blue Chip as of December 29, 1979 and December 30, 1978 are summarized as follows:

BLUE CHIP STAMPS

Consolidated Balance Sheets

Assets	December 29, 1979	December 30, 1978
Cash and short-term investments	$ 15,229	19,475
Marketable equity securities, at cost (market: 1979 - $146,677; 1978 - $87,474)	122,802	86,002
Inventories	14,414	7,960
Property, fixtures and equipment, net	49,220	44,374
Investment in Mutual Savings and Loan Association	36,810	37,452
Excess of cost over equity in net assets of consolidated subsidiaries	15,146	15,615
Other assets	32,105	29,813
	$285,726	240,691
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$ 18,615	13,880
Income taxes payable	3,423	4,435
Liabilities for unredeemed trading stamps	67,524	66,832
Notes payable	48,902	23,675
Minority stockholders interest	19,085	17,405
Stockholders' equity	128,177	114,464
	$285,726	240,691

(Continued)

(dollars in thousands)

(E) Investment in Blue Chip Stamps (continued)

A footnote accompanying the 1979 financial statements of Blue Chip Stamps stated that Buffalo Evening News, Inc., a subsidiary of Blue Chip was engaged in certain legal proceedings, with counsel for Blue Chip unable at this time to express any opinion as to the likely outcome of the action. Blue Chip's investment in such subsidiary represented less than 25% of its total shareholders' equity at December 30, 1979. See note 13 of notes to consolidated financial statements of Berkshire Hathaway Inc.

Earnings of Blue Chip for the past two years are summarized below:

BLUE CHIP STAMPS

Consolidated Earnings Summaries

	52 weeks ended Dec. 29, 1979	Dec. 30, 1978
Revenues:		
Candy	$ 87,314	73,653
Newspapers	46,245	44,674
Steel products	37,510	---
Promotional services	18,277	20,322
Dividends and interest	8,009	5,474
Other	1,867	1,814
Total revenues	$199,222	145,937
Earnings before securities gains or losses	$ 14,303	13,553
Per share	2.76	2.62
Net earnings	15,526	14,280
Per share	$3.00	2.76

(F) Unassigned Surplus

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

(G) Underwriting Expenses

The following expenses comprise underwriting expenses:

	1979	1978
Commissions and brokerage	$38,966	38,977
Salaries and other compensation	7,321	5,394
Taxes, licenses and fees	3,435	3,751
Other underwriting expenses	7,954	5,681
Total statutory underwriting expenses	57,676	53,803
Decrease (increase) in deferred acquisition costs	194	(2,994)
	$57,870	50,809

(Continued)

(dollars in thousands)

(H) Federal Income Taxes

Federal income tax expense is made up of the following:

	1979	1978
Current income tax expense	$ 8,626	7,133
Deferred income tax expense	(471)	1,824
Totals	$ 8,155	8,957

The totals are applicable to:		
Operating earnings other than equity in earnings of Blue Chip	5,405	4,681
Equity in earnings of Blue Chip	293	276
Realized investment gain	2,457	4,000
	$ 8,155	8,957

The current expense is applicable to:		
Operating earnings other than equity in earnings of Blue Chip	6,146	2,950
Dividends received from Blue Chip	23	24
Realized investment gain	2,457	4,159
	$ 8,626	7,133

The deferred expense relates to the following:		
Change in deferred acquisition costs	(366)	1,438
Equity in undistributed earnings of Blue Chip	270	252
Accretion of discount on bonds, not currently taxable	318	266
Accumulated accreted discount on bonds sold	(187)	(159)
Accrued policyholder dividends payable	(530)	(276)
Unbilled revenues	24	303
	$ (471)	1,824

Income tax expense is reconciled to the Federal 46% statutory rate for 1979 and 46% rate for 1978 as follows:

	1979	1978
Income tax expense at statutory rate	$18,804	18,761
Decreases resulting from:		
Tax-exempt interest	(2,747)	(2,652)
85% dividends received credit relating to:		
Dividends from unaffiliated companies	(4,230)	(3,352)
Equity in earnings of Blue Chip Stamps	(1,663)	(1,407)
Long-term capital gain tax rate differential	(1,544)	(2,067)
Discount accretion and other	(183)	(167)
Benefit from affiliates	(282)	(159)
	$ 8,155	8,957

(Continued)

BERKSHIRE HATHAWAY INC.
Insurance Group

Notes to Financial Statements
(dollars in thousands)

(I) Investment Gain and Loss

A summary of realized and unrealized investment gain or loss of the Insurance Group for 1979 and 1978 is as follows:

	Net realized gain	Applicable income taxes	Net realized gain less income taxes	Net unrealized gain (loss)
			1979	
Bonds	$ 1,045	293	752	---
Preferred stocks	31	9	22	(9,248)
Common stocks	7,622	2,155	5,467	73,353
	$ 8,698	2,457	6,241	64,105
			1978	
Bonds	1,848	574	1,274	---
Preferred stocks	16	6	10	(5,183)
Common stocks	11,009	3,420	7,589	17,811
	$12,873	4,000	8,873	12,628

(Unaudited) The difference continuously changes between cost and market value of the securities portfolios; with respect to marketable equity securities held at December 29, 1979, the net unrealized gain, less net realized gain, computed as of a date (March 17, 1980) subsequent to year-end but prior to the date of issuance of these financial statements, decreased $43,686.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants

ACCOUNTANTS' REPORT

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

We have examined the consolidated financial statements and related supporting schedules of The Illinois National Bank & Trust Co. of Rockford and subsidiary (a 97.7% subsidiary of Berkshire Hathaway Inc.) as listed in the accompanying index. Our examinations were 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, 1979 and 1978 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; and the supporting schedules, in our opinion, present fairly the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Peat, Marwick, Mitchell & Co.

Rockford, Illinois
January 11, 1980

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Consolidated Balance Sheets

December 31, 1979 and 1978

Assets	1979	1978 (note 11)
Cash and non-interest bearing due from banks	$ 27,601,928	20,231,765
Investment securities (market value: 1979 - $97,475,000; 1978 - $111,458,000) (notes 2 and 8)	104,102,784	112,209,457
Federal funds sold	-	3,000,000
Loans (note 3)	89,650,798	80,765,828
Less:		
Unearned discount	(4,548,464)	(3,919,300)
Allowance for possible loan losses	(724,900)	(724,900)
	84,377,434	76,121,628
Bank premises and equipment (note 4)	1,820,163	1,105,719
Other assets (note 10)	3,097,146	3,145,995
	$220,999,455	215,814,564

Liabilities and Stockholders' Equity	1979	1978 (note 11)
Liabilities:		
Demand deposits	$ 53,051,059	58,132,746
Savings deposits	44,013,145	48,186,034
Time deposits (note 5)	90,158,614	78,815,613
Total deposits	187,222,818	185,134,393
Liability for borrowed funds	3,367,338	2,356,584
Accrued taxes and other liabilities (notes 6 & 10)	2,821,507	2,413,309
Total liabilities	193,411,663	189,904,286
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 8)	16,287,559	14,610,045
Reserve for contingencies (note 9)	1,300,233	1,300,233
Total stockholders' equity	27,587,792	25,910,278
	$220,999,455	215,814,564

See accompanying notes to consolidated financial statements.

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Consolidated Statements of Earnings

Years ended December 31, 1979 and 1978

	1979	1978 (note 11)
Interest income:		
Interest and fees on loans	$ 9,344,297	6,479,704
Interest and dividends on investment securities:		
Taxable interest	3,941,947	3,754,076
Interest exempt from Federal income taxes	4,405,336	4,032,161
Dividends on Federal Reserve Bank stock	18,000	18,000
Other interest income	486,248	298,069
Total interest income	18,195,828	14,582,010
Interest expense:		
Savings deposits	2,453,643	2,590,452
Time deposits in denominations less than $100,000	4,175,508	3,382,777
Time deposits in denominations of $100,000 or more	2,729,428	1,413,469
Short-term borrowings	246,405	38,288
Total interest expense	9,604,984	7,424,986
Net interest income	8,590,844	7,157,024
Provision for loan losses (note 3)	107,800	60,000
Net interest income after provision for loan losses	8,483,044	7,097,024
Other income:		
Trust fees	801,237	709,603
Other	407,408	452,034
Total other income	1,208,645	1,161,637
Other expenses:		
Salaries and employee benefits	2,360,452	2,173,834
Occupancy, net	322,571	311,427
Furniture and equipment (note 4)	246,247	212,348
Other	1,015,065	738,850
Total other expenses	3,944,335	3,436,459
Earnings before income taxes and securities losses	5,747,354	4,822,202
Income taxes, net (note 6)	601,000	459,425
Earnings before securities losses	5,146,354	4,362,777
Securities losses, net of related tax benefit of $52,000 in 1979 and $19,867 in 1978 (note 6)	68,840	19,805
Net earnings	$ 5,077,514	4,342,972
Earnings per share:		
Earnings before securities losses	$20.59	17.45
Securities losses	.28	.08
Net earnings	$20.31	17.37

See accompanying notes to consolidated financial statements.

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 1979 and 1978

	Common stock	Surplus	Undivided profits (note 8)	Reserve for Contingencies (note 9)
Balance, January 1, 1978	$5,000,000	5,000,000	13,266,149	1,301,157
Net earnings	-	-	4,342,972	-
Cash dividends - $12 per share	-	-	(3,000,000)	-
Transfer from reserve for contingencies - loan loss provision	-	-	924	(924)
Balance, December 31, 1978	5,000,000	5,000,000	14,610,045	1,300,233
Net earnings	-	-	5,077,514	-
Cash dividends - $13.60 per share	-	-	(3,400,000)	-
Balance, December 31, 1979	$5,000,000	5,000,000	16,287,559	1,300,233

See accompanying notes to consolidated financial statements.

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Consolidated Statements of Changes in Financial Position

Years ended December 31, 1979 and 1978

	1979	1978
Funds provided:		
From operations:		
Net earnings	$ 5,077,514	4,342,972
Items which did not require (provide) funds from operations:		
Depreciation	135,315	85,491
Provision for loan losses	107,800	60,000
Deferred income taxes	(55,000)	(11,786)
Discount accretion	(168,021)	(163,878)
Other	71,014	24,390
Total funds provided from operations	5,168,622	4,337,189
Increase in:		
Deposits	2,088,425	10,266,034
Liability for borrowed funds	1,010,754	2,356,584
Decrease in:		
Federal funds sold	3,000,000	4,000,000
Cash and due from banks	-	741,511
Investment securities	8,274,694	-
Other, net	463,198	708,501
Total funds provided	$20,005,693	22,409,819
Funds used:		
Increase in earning assets:		
Investment securities	-	4,876,153
Loans	8,363,606	13,913,742
Additions to bank premises and equipment, net	849,759	329,729
Cash dividends	3,400,000	3,000,000
Increase in cash and due from banks	7,370,163	-
Other, net	22,165	290,195
Total funds used	$20,005,693	22,409,819

See accompanying notes to consolidated financial statements.

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Notes to Consolidated Financial Statements

December 31, 1979 and 1978

(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 straight-line amortization of premium and effective-yield accretion of discount. Gains or losses on sales of investment securities are recognized only upon realization and are shown separately in the statements of earnings.

Unearned Discount

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, which does not differ materially from accelerated income recognition methods required by generally accepted accounting principles.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method for buildings (except the branch facility) and automobiles, and on an accelerated method for the branch facility, 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 files its income tax returns 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 Possible Loan Losses

The provision for possible 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.

Trust Fees

Trust fees are recognized as income when received. The effect of not recording fees on the accrual basis is not material to the financial statements.

(Continued)

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Notes to Consolidated Financial Statements

(2) Investment Securities

A summary of investments, by major classification, is as follows:

	December 31, 1979 (in thousands) Book value	December 31, 1979 (in thousands) Market value	December 31, 1978 (in thousands) Book value	December 31, 1978 (in thousands) Market value
U. S. Government obligations	$ 29,860	27,659	42,938	42,289
State and political subdivisions	68,783	65,247	63,577	63,204
Other	5,460	4,569	5,694	5,965
	$104,103	97,475	112,209	111,458

Investment securities with a carrying value of $7,956,149 and $7,977,564 at December 31, 1979 and 1978, respectively, were pledged to secure public deposits and for other purposes required by law.

No provision for loss has been recognized related to the decline in market values of investment securities, as management intends to hold the securities to maturity or until any loss recognized would not materially affect the results of operations.

(3) Loans

A summary of the major classifications of gross loans at December 31, 1979 and 1978, respectively, is as follows:

	1979	1978
Commercial, financial and agricultural	$43,412,635	41,477,817
Real estate - construction	2,593,620	1,347,408
Real estate - mortgage	18,782,914	16,887,489
Installment	24,861,629	21,053,114
	$89,650,798	80,765,828

Loans to officers and directors and loans made to businesses and other interests of officers and directors amounted to approximately $4,890,976 and $6,413,000 at December 31, 1979 and 1978, respectively. Such loans were made at customary terms and rates afforded other borrowers.

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

	1979	1978
Balance at beginning of year	$724,900	700,082
Recoveries on loans previously charged off	10,568	6,128
Provision for loan losses	107,800	60,000
	843,268	766,210
Less loans charged off	118,368	41,310
Balance at end of year	$724,900	724,900

(Continued)

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Notes to Consolidated Financial Statements

(4) Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation, as follows:

	1979	1978
Land and buildings	$2,543,895	2,083,659
Furniture, fixtures and equipment	1,510,432	1,126,726
	4,054,327	3,210,385
Less accumulated depreciations	2,234,164	2,104,666
	$1,820,163	1,105,719

(5) Time Deposits

A summary of time deposits, segregating the aggregate in denominations of $100,000 or more, is as follows:

	1979	1978
Time deposits in denominations less than $100,000	$57,209,556	52,306,856
Time deposits in denominations of $100,000 or more	32,949,058	26,508,757
	$90,158,614	78,815,613

(6) Income Taxes

Accrued taxes and other liabilities in the accompanying balance sheets include deferred income taxes of $811,871 and $866,871 at December 31, 1979 and 1978, respectively. Such deferred income taxes result principally 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.

Taxes applicable to net earnings were as follows:

	1979	1978
Tax provision applicable to earnings before securities losses	$601,000	459,425
Less tax benefit applicable to securities losses	52,000	19,867
	$549,000	439,558

The components of consolidated income tax expense are as follows:

	1979	1978
Current income taxes:		
Federal	$508,000	386,485
State	96,000	64,859
Total current income taxes	604,000	451,344
Deferred income taxes:		
Federal	(75,000)	(8,603)
State	20,000	(3,183)
Total deferred income tax reduction	(55,000)	(11,786)
Total income taxes	$549,000	439,558

(Continued)

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Notes to Consolidated Financial Statements

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

	1979	1978
Accrued earnings and expense not reported for income tax purpose until collected or paid, net	$(31,100)	(10,859)
Write-down of other real estate to estimated net realizable value	(23,900)	-
Loan loss deductions for tax purposes less than that provided for financial reporting purposes	-	(927)
	$(55,000)	(11,786)

The reasons for the difference between the effective tax rates and the corporate Federal income tax rate of 46% in 1979 and 48% in 1978 are as follows:

	1979		1978	
	Amount	% of pretax earnings	Amount	% of pretax earnings
Tax expense at statutory rate	$2,588,196	46.0%	$2,295,614	48.0%
Increase (reduction) in taxes resulting from:				
Tax-exempt interest, net of premium amortization	(1,976,259)	(35.1)	(1,882,558)	(39.4)
State income taxes, net of Federal income tax benefits	62,640	1.1	32,072	.7
Tax benefit attributable to consolidation with parent	(83,423)	(1.5)	-	-
Investment tax credit	(46,449)	(.8)	-	-
Other - net	4,295	.1	(5,570)	(.1)
Actual tax expense	$ 549,000	9.8%	$ 439,558	9.2%

(7) Pension and Profit Sharing Plan

The Bank has a non-contributory pension plan and a profit-sharing plan for all officers and employees. Based upon the most recent actuarial report available (as of December 31, 1978), the pension fund assets exceeded the actuarially 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 pension and profit-sharing expense was $186,680 for 1979 and $175,329 for 1978.

(Continued)

(8) Investment Securities Write-down

The regulatory reporting requirements by the Office of the Comptroller of the Currency required the Bank to remove from the Bank investment account, the value of the stock conversion privilege on convertible debentures of the Bank's investment holdings. However, the necessary accounting revision of these amounts was determined not to be in accordance with generally accepted accounting principles. The reports for calendar years 1979 and 1978 that were submitted to the Comptroller of the Currency comply with the Comptroller's ruling and exclude the conversion privilege value on debentures not sold or matured prior to December 31, 1979.

The reconciliation between the report to the Comptroller and the accompanying financial statements at December 31, 1979 and 1978 and for the years then ended follows:

	Per financial statements	Per comptroller report	Net effect of the security write-down
1979			
Balance Sheet Accounts			
Investments	$104,102,784	103,498,531	604,253
Undivided profits	$ 16,287,559	15,683,306	604,253
Statement of Earnings Accounts			
Operating income:			
Interest on investment securities - taxable	$ 3,941,947	3,956,757	(14,810)
Net earnings	$ 5,077,514	5,092,324	(14,810)
1978			
Balance Sheet Accounts			
Investments	$111,909,457	111,290,394	619,063
Undivided profits	$ 14,610,045	13,990,982	619,063
Statement of Earnings Accounts			
Operating income:			
Interest on investment securities - taxable	$ 3,754,076	3,767,186	(13,110)
Net earnings	$ 4,342,972	4,356,082	(13,110)

(Continued)

BERKSHIRE HATHAWAY INC.
Bank Subsidiary

The Illinois National Bank & Trust Co. of Rockford
and Subsidiary

Notes to Consolidated Financial Statements

(9) Reserve for Contingencies

Included in the reserve for contingencies is the portion of the tax-basis reserve for bad debts which exceeds the valuation reserve for financial statement purposes and the applicable deferred income taxes. This amounted to $299,233 at December 31, 1979 and 1978. The remaining portion of the reserve for contingencies ($1,001,000 for both 1979 and 1978) is not attributable to any specific contingency of the Bank.

(10) Standby Letters of Credit

Standby letters of credit at December 31, 1979 and 1978 totaled $741,962 and $431,999, respectively.

(11) Reclassifications

The 1978 financial statements have been reclassified to conform with 1979 presentation.

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Summary of Investments - Other Than Affiliates

December 29, 1979
(dollars in thousands)

SCHEDULE I

	Number of shares or face value of bonds	Cost*	Market Value	Balance Sheet Carrying Value
Invested cash, U. S. Treasury bills and other short term investments	-	18,172	18,172	18,172
Bonds:				
U. S. Government and government agencies and authorities		407	407	407
States, municipalities and political subdivisions		96,187	88,581	96,187
Corporate convertible bonds:				
Aluminum Co. of America	21,737	21,212	21,302	21,212
Ford Motor Credit Company	32,997	25,843	19,634	25,843
Other		39,885	39,515	39,885
Other corporate bonds		2,030	2,027	2,030
		185,564	171,466	185,564
Marketable equity securities				
Preferred stocks		6,659	6,036	6,088
Common stocks:				
Public utilities		3,884	4,821	4,821
Banks, trusts and insurance companies:				
GEICO	5,730,114	28,288	68,045	68,045
Safeco	953,750	23,867	35,527	35,527
Other		50,071	59,640	50,924
Industrial and miscellaneous				
General Foods	553,700	19,295	18,703	18,911
Handy and Harman	1,007,500	21,825	38,537	38,537
Interpublic Group of Companies	711,180	4,531	23,736	23,736
Kaiser Aluminum and Chemical	1,211,834	20,629	23,328	23,328
Washington Post	1,868,600	10,628	39,241	39,241
F. W. Woolworth Company	771,900	15,515	19,394	19,394
Other		54,898	86,058	82,806
		260,090	423,066	411,358
Investments of Wesco at December 29, 1979, not included in the above summaries, included common stocks of the above companies, as follows:				
General Foods	199,100	6,669	6,695	
Safeco	516,322	12,820	19,491	
F. W. Woolworth Co.	56,300	1,238	1,414	

*Cost represents original cost of stocks, and as to debt obligations, original cost adjusted for amortization of premiums or accretion of discount.

BERKSHIRE HATHAWAY INC.
Insurance Group

Summary of Investments - Other Than Affiliates

December 29, 1979
(dollars in thousands)

SCHEDULE I

Type of Investment	Cost*	Market	Balance Sheet Carrying Value
		Insurance Group	
Bonds and notes:			
U. S. Government and government agencies and authorities	$ 9,461	9,461	9,461
States, municipalities and political subdivisions	96,187	88,581	96,187
Convertible bonds	86,940	80,451	86,940
All other corporate	2,030	2,027	2,030
Total bonds and notes	194,618	180,520	194,618
Preferred stocks	6,343	5,772	5,772
Common stocks:			
Public utilities	3,884	4,821	4,821
Banks, trusts and insurance companies	56,040	108,310	108,310
Industrial, miscellaneous and all other	119,145	217,777	217,777
Total common stocks	179,069	330,908	330,908
Total bonds and notes and stocks	$380,030	517,200	531,298

*Cost represents original cost of stocks, and as to debt obligations, original cost adjusted for amortization of premiums or accretion of discount.

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended December 30, 1979

Name of Issuer and Stock Description	Balance at beginning of period: Number of shares	Percent	Amount	Additions: Equity in earnings	Additions: Other: Amount	Additions: Other: Description	Deductions: Dividends	Deductions: Other: Amount	Deductions: Other: Description	Balance at close of period: Number of shares	Percent	Amount
Berkshire Hathaway Inc. - Consolidated												
Subsidiaries Consolidated												
Associated Retail Stores: common stock, $6 par value	453,000	100.0%	$15,692	3,160	-	-	$2,150	-	-	453,000	100.0%	$16,702
Advances	-	-	7,237	-	-	-	-	140	Repayment	453,000	100.0%	7,097
Blue Chip Stamps common stock, $1 par value	973,326	18.8	21,571	3,106	138) 2,233)	Adjust Purchase Price Purchase 102,400 shares	242	-	-	1,075,726	20.8%	26,806
Bourne Mills of Canada Ltd.: common stock, $5 par value	2,640	100.0	436	60	-	-	-	-	-	2,640	100.0%	496
Advances	-	-	247	-	286	Advances	-	-	-	-	-	533
Columbia Insurance Company common stock, $100 par value	20,000	100.0	6,975*	475	969)	Increase Appraisal Surplus	-	-	-	20,000	100.0%	8,419
National Fire & Marine Insurance Company common stock, $100 par value	25,000	100.0	$42,087*	9,748	11,501)	Increase Appraisal Surplus	-	-	-	25,000	100.0%	$63,336

(Continued)

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended December 30, 1979 — Name of Issuer and Stock Description	Balance at beginning of period — Number of shares	Percent	Amount	Additions — Equity in earnings	Additions — Other — Amount	Additions — Other — Description	Deductions — Dividends	Deductions — Other — Amount	Deductions — Other — Description	Balance at close of period — Number of shares	Percent	Amount
Berkshire Hathaway Inc. - Consolidated												
Subsidiaries Consolidated, Continued												
National Indemnity Company common stock, $10 par value	549,690	99.9%	$151,495*	22,528	35,429	Increase Appraisal Surplus	$1,979	-	-	549,690	99.9%	$207,473
Waumbec Mills Incorporated:												
Class A, B and C common stock, no par value	7,950	100.0	2,192	(15)	651	To Deferred Credit	-	-	-	7,950	100.0%	2,828
Advances	-	-	2,946	-	949	Advances	-		-	-	-	3,895
Elimination in consolidation			250,878	39,062	52,156		4,371	140				337,585
Subsidiaries not Consolidated												
The Illinois National Bank & Trust Co. of Rockford common stock, $20 par value	244,205	97.7	27,146	4,960	-	-	3,321	-	-	244,205	97.7%	28,785
Wesco Financial Corporation common stock, $1 par value	5,703,087	80.1	49,370	9,547	-	-	2,167	-	-	5,703,087	80.1%	56,750
Other insignificant subsidiaries	-	-	1,267	-	110	Investment	-	-	-	-	-	1,377
Advances	-	-	210	-	-	-	-	210	Repayment	-	-	-
			$ 77,993	14,507	110		$5,488	210				$ 86,912

*Restated to reflect net unrealized appreciation of Marketable equity securities held by insurance subsidiaries, otherwise referred to in this schedule as "Appraisal Surplus".

(Continued)

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended
December 30, 1978

Name of Issuer and Stock Description	Balance at beginning of period: Number of shares	Percent	Amount	Additions: Equity in earnings	Other: Amount	Other: Description	Deductions: Dividends	Other: Amount	Other: Description	Balance at close of period: Number of shares	Percent	Amount
Berkshire Hathaway Inc. - Consolidated												
Subsidiaries Consolidated												
Associated Retail Stores: common stock, $6 par value	453,000	100.0%	$13,599*	1,350	7,179	Additional investment	$ –	528) 5,908*)	Purchase of parent stock Dividend of Columbia Insurance	453,000	100.0%	$15,692
Advances	–	–	7,527	–	–	–	–	290	Repayment	–	–	7,237
Blue Chip Stamps common stock, $1 par value	797,226	15.4	14,076	2,452	1,763) 3,486)	Amortization Purchase 176,100 shares	206	–	–	973,326	18.8	21,571
Bourne Mills of Canada Ltd.: common stock, $5 par value	2,640	100.0	469	56	–	–	89	–	–	2,640	100.0	436
Advances	–	–	133	–	114	Advances	–	–	–	–	–	247
Columbia Insurance Company common stock, $100 par value	–	–	–	1,080	5,908*)	Dividend from Associated Retail Stores	–	13)	Decrease Appraisal Surplus	20,000	100.0	6,975
National Fire & Marine Insurance Company common stock, $100 par value	25,000	100.0	$36,820*	5,917	2,350)	Increase Appraisal Surplus	$3,000	–	–	25,000	100.0	$42,087

S-5

43

(Continued)

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended December 30, 1978

Name of Issuer and Stock Description	Balance at beginning of period: Number of shares	Balance at beginning of period: Percent	Balance at beginning of period: Amount	Additions: Equity in earnings	Additions: Other Amount	Additions: Other Description	Deductions: Dividends	Deductions: Other Amount	Deductions: Other Description	Balance at close of period: Number of shares	Balance at close of period: Percent	Balance at close of period: Amount
Berkshire Hathaway Inc. - Consolidated												
Subsidiaries Consolidated Continued												
National Indemnity Company common stock, $10 par value	549,690	99.9%	$124,347*	23,116	6,506	Increase Appraisal Surplus	$2,474	-	-	549,690	99.9%	$151,495
Waumbec Mills Incorporated:												
Class A, B and C common stock, no par value	7,950	100.0	1,485	707	-	-	-	-	-	7,950	100.0	2,192
Advances	-	-	3,897	-	-	-	-	951	Repayment	-	-	2,946
Elimination in consolidation			202,353	34,678	27,306		5,769	7,690				250,878
Subsidiaries not Consolidated												
The Illinois National Bank & Trust Co. of Rockford common stock, $20 par value	244,255	97.7	25,839	4,242	-	-	2,931	4	Sold 50 shares	244,205	97.7	27,146
Wesco Financial Corporation common stock, $1 par value	5,703,087	80.1	43,892	7,417	-	-	1,939	-	-	5,703,087	80.1	49,370
Other insignificant subsidiaries	-	-	1,267	-	-	-	-	-	-	-	-	1,267
Advances	-	-	360	-	-	-	-	150	Repayment	-	-	210
			$ 71,358	11,659	-		$4,870	154				$ 77,993

*Restated to reflect net unrealized appreciation of Marketable equity securities held by insurance subsidiaries, otherwise referred to in this schedule as "Appraisal Surplus".

(Continued)

S-6

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended December 30, 1979	Balance at beginning of period			Additions			Deductions			Balance at close of period		
				Equity in earnings	Other		Dividends	Other				
Name of Issuer and Stock Description	Number of shares	Percent	Amount		Amount	Description		Amount	Description	Number of shares	Percent	Amount
Berkshire Hathaway Inc. - Insurance Group												
Blue Chip Stamps common stock, $1 par value	1,418,677	27.4%	$31,442	4,253	-	-	$340	-	-	1,418,677	27.4%	$35,355

45

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Investment in Affiliates
(dollars in thousands)

SCHEDULE III

52 weeks ended December 30, 1978

Name of Issuer and Stock Description	Balance at beginning of period: Number of shares	Balance at beginning of period: Percent	Balance at beginning of period: Amount	Additions: Equity in earnings	Additions: Other: Amount	Additions: Other: Description	Deductions: Dividends	Deductions: Other: Amount	Deductions: Other: Description	Balance at close of period: Number of shares	Balance at close of period: Percent	Balance at close of period: Amount
Berkshire Hathaway Inc. - Insurance Group												
Blue Chip Stamps common stock, $1 par value	1,342,677	25.9%	$26,862	3,838	1,405	Purchased 76,000 shares	$331	332	Amortization	1,418,677	27.4%	$31,442

46

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Property, Plant and Equipment
(dollars in thousands)

SCHEDULE V

Classification	Balance at beginning of period	Additions at cost	Retirements	Balance at end of period
Year ended December 29, 1979:				
Land	$ 3,778	28	-	3,806
Buildings	16,933	1,685	42	18,576
Machinery and equipment	53,721	3,262	898	56,085
Furniture, fixtures and leasehold improvements	8,358	1,818	307	9,869
	$82,790	6,793	1,247	88,336
Year ended December 30, 1978:				
Land	$ 3,795	14	31	3,778
Buildings	16,071	907	71	16,907
Machinery and equipment	52,348	3,703	1,019	55,032
Furniture, fixtures and leasehold improvements	6,150	1,085	162	7,073
	$78,364	5,709	1,283	82,790

Beginning balances for 1979 reflect amounts reclassified between asset classifications.

BERKSHIRE HATHAWAY INC. AND CONSOLIDATED SUBSIDIARIES

Accumulated Depreciation and Amortization
of Property, Plant and Equipment
(dollars in thousands)

SCHEDULE VI

Classification	Balance at beginning of period	Additions charged to expense	Retirements	Balance at end of period
Year ended December 29, 1979:				
Buildings	$ 6,648	768	22	7,394
Machinery and equipment	23,921	3,109	724	26,306
Furniture, fixtures and leasehold improvements	4,344	774	275	4,843
	$34,913	4,651	1,021	38,543
Year ended December 30, 1978:				
Buildings	$ 6,086	613	51	6,648
Machinery and equipment	21,624	3,495	744	24,375
Furniture, fixtures and leasehold improvements	3,548	493	151	3,890
	$31,258	4,601	946	34,913

Beginning balances for 1979 reflect amounts reclassified between asset classifications.

BERKSHIRE HATHAWAY INC.
Insurance Group

Premiums, Losses and Claims
(dollars in thousands)

SCHEDULE VII

Line of Business	Part I - Premiums: Beginning unearned	Net premium written	Ending unearned	Earned premiums	Part II - Losses and Claims: Losses and claims incurred	Loss expense incurred
1979						
Workmen's compensation	$ 5,431	27,927	7,299	26,059	13,852	
Liability other than auto	7,168	17,167	6,587	17,582	5,191	
Auto liability	21,686	58,591	19,742	60,534	30,992	
Auto physical damage	9,599	28,230	10,442	27,387	14,673	
Reinsurance not elsewhere classified	15,441	31,130	17,156	29,415	23,587	
All other	10,043	23,141	12,378	20,973	13,143	
	$69,368	186,186	73,604	181,950	101,438	18,899
1978						
Workmen's compensation	$ 4,445	36,863	5,431	35,877	26,125	
Liability other than auto	5,362	19,175	7,168	17,369	7,413	
Auto liability	20,395	66,651	21,686	65,360	32,136	
Auto physical damage	8,195	28,314	9,599	26,910	13,180	
Reinsurance not elsewhere classified	11,551	30,306	15,441	26,416	19,675	
All other	7,180	17,004	10,043	14,141	10,113	
	$57,128	198,313	69,368	186,073	108,642	23,621

5

BERKSHIRE HATHAWAY INC.

Bank Subsidiary

Illinois National Bank & Trust Company of
Rockford and Subsidiary
December 31, 1979

SCHEDULE I - AMOUNTS RECEIVABLE FROM CERTAIN PERSONS

Col. A	Col. B	Col. C	Col. D		Col. E	
			Deductions		Bal. at end of Period	
			(1)	(2)	(1)	(2)
Name of Debtor	Balance Jan. 1, 1979	Additions	Amounts collected	Amounts written off	Current	Non Current
Clayton R. Gaylord, Director (Note 1)	$ 306,944	$1,942,366	$1,561,776	$ -0-	$ 562,534	$125,000
Philip E. McDonald, Director (Note 2)	$1,919,897	$2,652,986	$3,489,840	$ -0-	$1,083,043	$ -0-

Note (1)	$287,370 due	11/15/88,	9.25%,	10 yrs.,	Secured by Trust Deed
	$ 12,103 due*	4/25/82,	9.0%,	5 yrs.,	Secured by Irrigation Equipment
	$ 13,061 due	5/21/81,	12.0%,	240 days,	Assignment of Beneficial Interest in Trust Account
	$125,000 due*	12/24/79,	13.25%,	90 days,	Unsecured
	$250,000 due*	1/24/80,	15.0%,	90 days,	Unsecured
Note (2)	$4[illegible],000 due*	3/3/80,	15.5%,	90 days,	Unsecured
	$634,848 due*	12/10/83,	7.0%,	10 yrs.,	Monthly Installments of $15,215, Secured by Trust Deed
	$ 48,195 due	9/21/83,	8.0%,	10 yrs.,	Monthly Installments of $641, Secured by Trust Deed

*Loan to a corporation of which the director is the beneficial owner of more than 10%.

Index to Exhibits Filed

		Sequentially Numbered on Original Filed
Exhibit A.	Consolidated Financial Statements of the Registrant for the years ended December 29, 1979 and December 30, 1978 (Pages 12 to 26 of the Registrant's 1979 Annual Report to Stockholders).	52-66
Exhibit B.	The Registrant's Summary of Operations and Management Discussion of the Summary of Operations (Pages 32 to 36 of the Registrant's 1979 Annual Report to Stockholders).	67-71
Exhibit C.	Item 1 of the Annual Report Form 10-K of Wesco Financial Corporation for the year ended December 31, 1979 (Pages 4, 5 and 6 of December 31, 1979 combined Annual Report and Form 10-K to Stockholders of Wesco Financial Corporation).	72-74
Exhibit D.	Item 5 of the Annual Report Form 10-K of Wesco Financial Corporation for the year ended December 31, 1979 (Part of pages 11 and 12 of December 31, 1979 combined Annual Report and Form 10-K to Stockholders of Wesco Financial Corporation).	75-76
Exhibit E.	Item 12 excluding Exhibits of Annual Report Form 10-K for the year ended December 31, 1979 of Wesco Financial Corporation - plus consents of Independent Certified Public Accountants (Part of page 12, and pages 13 through 26 of December 31, 1979 combined Annual Report and Form 10-K to Stockholders of Wesco Financial Corporation - plus Accountants' consents).	77-78

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

ASSETS	Dec. 29, 1979	Dec. 30, 1978*
Cash	$ 14,924	$ 13,001
Investments, other than investments in affiliates:		
Bonds, at amortized cost (market, 1979 — $171,466; 1978 — $155,541)	185,564	157,651
Marketable equity securities (note 3)	411,358	283,185
Invested cash, U.S. Treasury bills and other short-term investments, at cost which approximates market	18,172	61,056
Total investments, other than affiliates	615,094	501,892
Investments in affiliates:		
The Illinois National Bank & Trust Co. of Rockford (note 4)	28,785	27,146
Wesco Financial Corporation (note 5)	56,750	49,370
Other unconsolidated subsidiaries	1,377	1,477
Total investments in affiliates	86,912	77,993
Accounts receivable from customers, agents and others (note 6)	52,231	45,283
Inventories (note 7)	25,704	23,029
Real estate, equipment, furniture and leasehold improvements, at cost less allowance for depreciation and amortization (note 8)	49,793	47,877
Deferred insurance premium acquisition costs	13,652	13,846
Other assets	33,955	34,691
	$892,265	$757,612

LIABILITIES AND STOCKHOLDERS' EQUITY	Dec. 29, 1979	Dec. 30, 1978*
Losses and loss adjustment expenses	$197,697	$180,870
Unearned premiums	73,604	69,368
Liability for unredeemed trading stamps	67,524	66,832
Accounts payable, accruals and other liabilities	38,792	33,983
Current income taxes	10,411	10,768
Deferred income taxes	52,079	36,034
Long term debt (note 9)	55,099	57,071
Minority shareholders' interest	52,097	48,520
	547,303	503,446
Stockholders' equity:		
Common stock of $5 par value. Authorized 1,250,000 shares; issued 1,214,283 shares including 187,138 shares in treasury	6,071	6,071
Capital in excess of par value	3,517	3,517
Unrealized appreciation of marketable equity securities, net of provision for applicable income taxes	108,913	60,934
Retained earnings (note 9)	238,332	195,515
	356,833	266,037
Less common stock in treasury, at cost	11,871	11,871
Total stockholders' equity	344,962	254,166
Commitment and contingent liability (notes 4, 11 and 13)		
	$892,265	$757,612

*1978 restated — see note 1(b).

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands except for per share amounts)

	Year ended Dec. 29, 1979	Dec. 30, 1978
Income items:		
Insurance premiums earned	$181,949	$186,073
Net sales and operating revenues of manufacturing, merchandising and service operations	247,952	235,576
Interest and dividend income	30,440	24,293
Equity in operating earnings of unconsolidated subsidiaries	13,744	11,659
	474,085	457,601
Cost and expense items:		
Insurance losses and loss adjustment expenses	120,337	132,263
Cost of products and services sold	158,710	151,521
Insurance underwriting expenses	57,870	50,810
Selling, general and administrative expenses	79,839	71,172
Interest and financing costs	5,729	5,058
	422,485	410,824
Earnings from consolidated operations including minority interests, before applicable income taxes and realized investment gain	51,600	46,777
Income taxes applicable to above (note 10)	9,796	10,735
Earnings from consolidated operations including minority interests, before realized investment gain	41,804	36,042
Minority interest in above	5,883	6,058
Earnings before realized investment gain	35,921	29,984
Realized investment gain	10,148	13,987
Applicable income taxes	(2,732)	(4,416)
Applicable minority interest	(520)	(313)
Realized investment gain, net of income taxes and minority interest	6,896	9,258
Net unrealized appreciation in market value of marketable equity securities amounting to $75,951 in 1979 and $14,665 in 1978 has not been included in the determination of net earnings.		
Net earnings	$ 42,817	$ 39,242
Average shares of common stock outstanding	1,027,145	1,028,684
Earnings per share:		
Earnings before realized investment gain	$ 34.97	$ 29.15
Realized investment gain	6.71	9.00
Net earnings	$ 41.68	$ 38.15

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(dollars in thousands)

	Year ended Dec. 29, 1979	Dec. 30, 1978
Retained earnings at beginning of year	$195,515	$156,273
Net earnings for the year	42,817	39,242
Retained earnings at end of year	$238,332	$195,515

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(dollars in thousands)

	Year ended Dec. 29, 1979	Year ended Dec. 30, 1978
Funds provided:		
From operations:		
Net earnings	$ 42,817	$ 39,242
Minority interest in earnings	6,403	6,371
Earnings including minority interest	49,220	45,613
Charges (credits) to earnings not requiring (providing) funds:		
Equity in undistributed earnings of unconsolidated subsidiaries, net of dividends received	(9,019)	(6,712)
Increase in unpaid insurance losses and loss adjustment expenses	16,827	41,409
Increase in unearned insurance premiums	4,236	12,240
Depreciation and amortization of property, plant and equipment, including leaseholds	4,651	4,602
Decrease (increase) in deferred insurance premium acquisitions costs	194	(2,994)
Increase in accounts receivable	(6,948)	(7,274)
Decrease (increase) in inventories	(2,675)	747
Increase (decrease) in liability for income taxes applicable to earnings	(518)	6,368
Increase in liability for unredeemed trading stamps	692	623
Increase (decrease) in accounts payable	4,809	(1,001)
Other	(574)	(1,339)
	11,675	46,669
Funds provided from operations	60,895	92,282
Proceeds from issuance of debt	—	4,791
Decrease in cash	—	995
	$ 60,895	$ 98,068
Funds used:		
Additions to property, plant and equipment, net of disposals	$ 6,567	$ 5,450
Repayment of debt	1,972	4,824
Dividends paid to minority stockholders	520	564
Purchase of shares of Blue Chip Stamps from minority (1979 102, 400 shares; 1978 252,100 shares)	2,233	4,891
Purchase of treasury stock (3532 shares)	—	574
Cost of net purchases (sales) of investments:		
U.S. Treasury bills and short-term obligations	(42,884)	25,326
Bonds	26,735	23,722
Marketable equity securities	63,929	32,867
Unconsolidated subsidiaries	(100)	(150)
Net purchase of investments	47,680	81,765
Increase in cash	1,923	—
	$ 60,895	$ 98,068

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 29, 1979 and December 30, 1978

(dollars in thousands)

(1) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (the Company) and the accounts of all significant majority-owned subsidiaries except the Illinois National Bank & Trust Co. of Rockford ("Illinois National Bank") control of which is to be divested by January 1, 1981. Subsidiaries which are consolidated include:

(1) wholly-owned companies engaged in the businesses of property/casualty insurance (the Insurance Group), textile products manufacturing, and retailing,

(2) Blue Chip Stamps ("Blue Chip"), a California corporation engaged directly in the promotional services business, approximately 60% owned by the Company and its wholly-owned subsidiaries, and

(3) Blue Chip's wholly owned subsidiaries, one of which is engaged in the newspaper business and others of which are engaged in the candy business.

The Company's investment in the Illinois National Bank is accounted for by the equity method of accounting. Blue Chip owns approximately 80% of the outstanding capital stock of Wesco Financial Corporation ("Wesco"), a holding company with subsidiaries engaged in the savings and loan business and in the steel products service business. The Company's beneficial ownership of Wesco represents slightly less than 50% of that company; accordingly, the investment in Wesco is accounted for in the accompanying Consolidated Financial Statements pursuant to the equity method of accounting.

Accounts of subsidiaries engaged in the property and casualty insurance business are maintained on the basis of a calendar year. Accounts of the Company and other principal subsidiaries are maintained on the basis of a 52-53 week fiscal year ending with respect to December 31.

(b) Change in Method of Determining Carrying Value of Investments in Marketable Equity Securities

Prior to 1979, investments in marketable equity securities were carried in the Consolidated Balance Sheet of the Company at the lower of their aggregate cost or market. This practice was changed in 1979 to a dual method whereby such investments by members of the Insurance Group are carried at market value and such investments by other members of the consolidated group are carried at the lower of their aggregate cost or market. This dual method was adopted in 1979 to conform to a revised AICPA Audit Guide applicable to property/casualty insurance companies; the accompanying December 30, 1978 Consolidated Balance Sheet has been restated to reflect this changed practice. Changes in the 1978 Consolidated Balance Sheet were (1) increase the carrying value of marketable equity securities $87,024, (2) increase the liability for deferred income taxes $26,149, (3) decrease minority shareholders' interest $59, and (4) increase stockholders' equity $60,934. The change had no effect on net income.

(c) Investment in Securities, Other Than Affiliates

Investments in bonds are stated at amortized cost.

Investments in marketable equity securities held by members of the Insurance Group are carried at market value. Investments in marketable equity securities held by subsidiaries of the Company which are not members of the Insurance Group are carried at the lower of aggregate cost or market. (See note 1(b) above.)

Blue Chip, at both December 29, 1979 and December 30, 1978, held an investment in non-voting stock of Pinkerton Holding Corporation (PHC) which is reflected in other assets at its cost of $4,163. There is no trading market for this stock. PHC's principal assets are equity securities of Pinkerton's, Inc. (PI). Blue Chip also holds non-voting securities of PI, the cost of which ($19,201) is included in marketable equity securities. Blue Chip's interest in PI, both direct and indirect (through PHC), represents a beneficial ownership in the equity of PI of approximately 34% at December 29, 1979, but because this interest is represented by non-voting stock, Blue Chip does not account for this interest pursuant to the equity method of accounting. The Company's economic interest in the equity of PI is reduced to 20%, taking into account the minority interest of Blue Chip which is outstanding.

(d) Insurance Premiums

Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on a monthly or daily pro rata basis and are stated after deduction for reinsurance placed with reinsurers in the amount of $1,530 at December 31, 1979 and $1,311 at December 31, 1978. 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.

Dividends to policyholders, primarily relating to workers' compensation coverages, are reflected in the accompanying statements of earnings as a deduction from written and earned premiums; this reduction amounted to $3,221 for 1979 and $1,344 for 1978.

(e) Losses and Loss Adjustment Expenses

The Insurance Group provides for losses and loss adjustment expenses based on (1) aggregate case basis estimates for losses reported, relating to direct premiums written, (2) estimates of incurred but not reported losses, and (3) estimates received from primary insurers with respect to assumed reinsurance. The resulting liability provision is reduced for amounts recoverable on account of reinsurance amounting to $5,632 at December 31, 1979 and $7,137 at December 31, 1978. Incurred losses and loss adjustment expenses are net of recoveries of salvage and subrogation collected or in process of collection in accordance with statutory requirements; additional amounts recoverable as salvage or on account of subrogation, relating principally to automobile physical damage coverages, are not recognized as they are considered immaterial in the aggregate.

(f) Stamp Service Accounting

Blue Chip recognizes stamp service revenues and related redemption costs upon issuance of its trading stamps. A liability account for unredeemed trading stamps is maintained consisting of management's estimates of the future cost of redemption merchandise and service; the estimates are periodically evaluated, and revised when considered warranted. The estimates are currently based on a presumption, among others, that 97% of the stamps issued before March, 1974 and 93% of those issued thereafter will ultimately be redeemed.

(g) 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, and selected new items acquired by other businesses; the straight-line method is applied for other items. Maintenance, repairs and renewals of a minor nature are generally charged to operations as incurred.

(h) Inventories

Inventories are stated at cost, determined for the Company and for Blue Chip's newspaper subsidiary under the last-in, first-out ("LIFO") method. Inventories of other members consolidated are stated at the lower of cost or market, with cost determined under the first-in, first-out or average cost methods. Replacement cost of inventories determined by the LIFO method exceeded their carrying value by $1,871 at December 29, 1979 and $1,884 at December 30, 1978.

(i) Income Taxes

The Company and its eligible (over 80% owned domestic) subsidiaries file a consolidated Federal income tax return. Blue Chip and its subsidiaries also file a consolidated Federal income tax return. Amounts included in the consolidated balance sheets for current Federal income taxes payable or recoverable include the direct or apportioned Federal taxes of the companies whose accounts are consolidated.

Provision has been made for deferred taxes with respect to equity of the Company and its wholly-owned subsidiaries in undistributed earnings of Blue Chip, on the assumption that such earnings will eventually be distributed, taxable as dividend income. The cumulative amount so provided was $2,773 at December 29, 1979 and $2,193 at December 30, 1978.

Deferred or prepaid income taxes are recognized in the accompanying consolidated financial statements with respect to certain items of income and deductions which are recognized in the financial statements in time periods that differ from those in which they are included in the income tax returns filed for the companies. The principal such "timing difference", for which deferred income taxes of $6,280 at December 29, 1979 and $6,646 at December 30, 1978 are recognized, is deferred insurance premium acquisition costs (see note 1(d) above). Other assets include prepaid income taxes of Blue Chip ammounting to $12,358 at December 29, 1979 and $11,834 at December 30, 1978 primarily in recognition of timing differences with respect to stamp redemption expenses.

The liability for deferred income taxes reflected in the consolidated balance sheets also includes $42,355 at December 29, 1979 and $26,149 at December 30, 1978, representing amounts computed at capital gain rates on the excess of market value over cost of marketable equity securities held by members of the Insurance Group.

(2) Merger of Diversified Retailing Company, Inc.

At December 30, 1978 Diversified Retailing Company, Inc. ("Diversified") was merged into the Company in a transaction accounted for as a combination of companies under common control. The accompanying financial statements as of December 30, 1978 and for the year then ended give effect to the combination of the accounts of Diversified and the Company.

57

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978

(dollars in thousands)

(3) Investments in Marketable Equity Securities

A summary of the aggregate cost and aggregate approximate market value of investments in marketable equity securities is as follows:

December 29, 1979			
Held by	Cost	Market	Carrying Value
Insurance Group	$185,413	$336,680	$336,680
Blue Chip Stamps and its wholly-owned subsidiaries	74,678	86,386	74,678
	$260,091	$423,066	$411,358

December 30, 1978			
	Cost	Market	Carrying Value
Insurance Group	$133,766	$220,929	$220,929
Blue Chip Stamps and its wholly-owned subsidiaries	62,395	62,256	62,256
	$196,161	$283,185	$283,185

The total excess of aggregate market value over aggregate cost of marketable equity securities held by all consolidated subsidiaries represented unrealized gains less unrealized losses as follows:

	Dec. 29, 1979	Dec. 30, 1978
Unrealized gains	$164,460	$ 91,315
Unrealized losses	1,485	4,291
Net unrealized gain	$162,975	$ 87,024
Net change in year	$ 75,951	$ 14,665

(Unaudited) The difference continuously changes between cost and market value of the securities portfolios; with respect to marketable equity securities held at December 29, 1979 the net unrealized gain, less net realized gain, computed as of a date (March 17, 1980) subsequent to year-end but prior to the date of issuance of these financial statements, decreased $56,767.

(4) Investment in The Illinois National Bank & Trust Co. of Rockford

The investment of the Company in Illinois National Bank represents approximately 98% of that commercial bank's outstanding stock. The equity method is used in accounting for this investment. Carrying value of the investment at December 29, 1979 exceeds underlying book value by approximately $1,836. The difference is not being amortized since it originated prior to 1970 and is considered by management to have continuing value.

As a result of its ownership of the Illinois National Bank, the Company is a bank holding company under Federal legislation enacted in 1970. The Company has filed with the Federal Reserve Board an irrevocable election to divest of control of the Illinois National Bank prior to January 1, 1981. Management of the Company is considering alternative means of accomplishing such divestiture. Prior to 1979, a spin-off of bank shares owned by the Company to the Company's shareholders was considered the most likely means; currently, however, a sale of all or a major portion of the shares of the bank appears to be another likely alternative.

(dollars in thousands)

(5) Investment in Wesco Financial Corporation

Wesco is a savings and loan holding company, approximately 80% owned by Blue Chip at December 29, 1979 and December 30, 1978. The investment in Wesco is stated at Blue Chip's cost plus Blue Chip's equity in Wesco's undistributed earnings since date of acquisition. The unamortized excess of Blue Chip's equity in net assets of Wesco over its carrying value at December 29, 1979 and December 30, 1978 was, respectively, $20,477 and $21,101. This excess is being amortized by Blue Chip over 40 years; annual amortization ($624) is reflected under the caption "equity in net earnings of unconsolidated subsidiaries" in the Statements of Earnings for 1979 and 1978.

(6) Receivables

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

	Dec. 29, 1979	*Dec. 30, 1978*
Insurance Group:		
Agents' balances and premiums in course of collection	$ 20,546	$ 18,896
Investment income due and accrued	4,244	4,425
Reinsurance recoverable on loss payments	5,965	5,413
Amounts due from sales of securities	2,765	—
	$ 33,520	$ 28,734
Trade accounts receivable of other businesses:		
Textile business	10,291	10,109
Retailing business	555	541
Candy business	1,064	1,119
Newspaper business	5,015	4,149
Promotional services business	2,069	899
Other	477	379
	19,471	17,196
Less allowance for doubtful accounts	760	647
	18,711	16,549
Total receivables	$ 52,231	$ 45,283

(7) Inventories

A summary of inventories follows:

	Dec. 29, 1979	*Dec. 30, 1978*
Textile business	$ 11,761	$ 9,773
Retailing business	5,177	4,880
Candy business	5,153	4,098
Newspaper business	695	617
Promotional services business	2,485	3,245
Other	433	416
	$ 25,704	$ 23,029

59

(dollars in thousands)

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

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

	Dec. 29, 1979	Dec. 30, 1978
Land	$ 3,806	$ 3,778
Buildings	18,576	16,907
Machinery and equipment	56,085	55,032
Furniture, fixtures and leasehold improvements	9,869	7,073
	88,336	82,790
Less accumulated depreciation and amortization	38,543	34,913
	$ 49,793	$ 47,877

(9) Long-Term Debt

At December 29, 1979 and December 30, 1978 the Company's consolidated long-term debt was as follows:

	Dec. 29, 1979	Dec. 30, 1978
Term loan payable to bank by Blue Chip, with interest payable monthly at rates based on the prime rate	$ 13,500	$ 13,500
8% Senior Notes of the Company, due 1993, with mandatory annual prepayments currently required	18,857	20,000
9¼% Senior Notes of the Company, due 1993, with mandatory annual prepayments required commencing in 1985	7,000	7,000
Other notes and debentures, due in installments of varying amounts through 2006, with interest at rates varying from 6% to 9⅝%	15,742	16,571
	$ 55,099	$ 57,071

Blue Chip's bank term loan is collateralized by all of the shares of its candy and newspaper subsidiaries.

The Senior Note Agreements include debt limitation provisions, as well as limiting terms relating to sales of assets, mergers and consolidations, and allow the noteholders to demand prepayment at par within 60 days of notice that, during the lifetime of Warren E. Buffett, his ownership of stock of the Company, together with that of certain family affliates, has decreased to less than 15% of the Company's outstanding capital stock.

The Senior Note Agreements impose a limitation upon "restricted payments" by the Company. That term includes investments by the Company in subsidiaries not bound by the terms of the Agreements, dividends and other equity distributions. The Company's investment in Blue Chip Stamps is a "restricted payment" under the terms of the Agreements. Retained earnings of approximately $179,955 as of December 29, 1979 are restricted by this provision.

Principal payments on debt outstanding at December 29, 1979 are required as follows:

	Term loan payable to bank	Senior Notes	Other notes and debentures	Total debt maturities
1980	$ —	$ 1,143	$ 828	$ 1,971
1981	3,500	1,143	519	5,162
1982	5,000	1,143	1,032	7,175
1983	5,000	1,143	392	6,535
1984	—	1,143	336	1,479
Thereafter	—	20,142	12,635	32,777
	$13,500	$25,857	$15,742	$55,099

60

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 29, 1979 and December 30, 1978
(dollars in thousands)

(10) Income Taxes

Income taxes applicable to operating earnings are reconciled in the table which follows to hypothetical amounts computed at the Federal statutory rates of 46% for 1979 and 48% for 1978.

	1979	1978
Earnings from consolidated operations including minority interests, before applicable income taxes and realized investment gain	$51,600	$46,777
Hypothetical amounts applicable to above computed at Federal statutory rates	$23,736	$22,453
Decreases, resulting from:		
Tax-exempt interest income	(2,747)	(2,652)
85% dividends received credit	(6,012)	(4,829)
100% exclusion relating to equity in net earnings of:		
Illinois National Bank	(2,282)	(2,036)
Wesco	(4,392)	(3,560)
Increases, resulting from:		
State income taxes, less Federal income tax benefit, plus Canadian income taxes	951	911
Provision relating to consolidated operating income of Blue Chip Stamps not distributed	580	522
Net other differences	(38)	(74)
Total income taxes applicable to operating earnings	$ 9,796	$ 10,735

The above income tax expense represents amounts assessed currently, adjusted for changes in amounts previously considered prepaid or deferred as follows:

	1979	1978
Current	$ 9,339	$ 8,702
Change in prepaid	431	(219)
Change in deferred liability arising from operations	26	2,252
	$ 9,796	$ 10,735

The change in prepaid income taxes relates to timing differences primarily in reporting Blue Chip's stamp redemption expenses. The change in the deferred liability arising from operations relates to the following:

	1979	1978
Undistributed income of Blue Chip Stamps	$ 580	$ 522
Deferred insurance premium acquisition costs	(366)	1,437
Accretion of discount on bonds	318	266
Policyholder dividends and unbilled revenues	(506)	27
	$ 26	$ 2,252

Income taxes applicable to realized investment gains are essentially equal to amounts computed at the Federal statutory rate of 28% (1979) and 30% (1978) applicable to long-term capital gains.

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 29, 1979 and December 30, 1978
(dollars in thousands)

(11) Lease Commitments

The Company's retailing subsidiary (Associated Retail Stores, Inc.) and Blue Chip and its subsidiaries had significant lease commitments outstanding at December 30, 1978, the minimum rentals under which were as follows at December 29, 1979:

Year	*Associated*	*Blue Chip*	*Total*
1980	$ 1,406	2,762	4,168
1981	1,341	2,193	3,534
1982	1,034	1,902	2,936
1983	851	1,638	2,489
1984	588	1,378	1,966
Thereafter	2,221	4,780	7,001

Leases of the Company and its consolidated subsidiaries in effect at December 29, 1979 are classified as operating leases; there were no capital lease commitments pertaining to real property; any such commitments with respect to equipment leases entered into are considered immaterial. Total rental expense charged to consolidated net earnings was $9,026 for 1979 and $7,486 for 1978, including contingent real estate rentals in excess of stated minimum amounting to $2,699 for 1979 and $2,157 for 1978.

(12) Pension Plans

Employees of the Company and its consolidated subsidiaries who meet certain eligibility requirements are covered under either employer-sponsored or union-sponsored pension, profit-sharing or savings plans. Total pension expense charged to consolidated earnings was $2,454 for 1979 and $2,587 for 1978, which includes, as to certain of the plans, amortization of prior service costs over a 30-year period. The Company and its subsidiaries generally fund pension costs accrued. Based on the most recent actuarial valuations, the market value of the assets of certain employer-sponsored pension plans was $2,760 less than the actuarially computed value of vested benefits under those plans; however, the aggregate market value of the assets of all employer-sponsored plans, plus amounts accrued for contributions thereto, exceeded the aggregate of vested benefits at the valuation dates by approximately $4,610. Unamortized past service costs with respect to certain of the plans approximated $5,750.

(13) Litigation

On October 28, 1977 the Buffalo Courier-Express, Inc., a principal competitor of Blue Chip's subsidiary, Buffalo Evening News, Inc., filed an action against such subsidiary in the United States District Court under Federal antitrust laws seeking to enjoin certain practices allegedly engaged in by the News in connection with the proposed initiation of a Sunday edition in place of its Saturday weekend edition and publication of Saturday and holiday editions, thus providing competition for the existing Sunday edition of the Courier-Express. In addition to seeking an injunction, the complaint seeks treble damages in an unspecified amount, attorneys' fees and costs. The defendant has filed an answer and counterclaim denying all liability and seeking affirmative relief of treble damages in an unspecified amount, injunction, attorneys' fees and costs against plaintiff on the ground, among others, that plaintiff seeks to monopolize the Sunday newspaper business in the Buffalo metropolitan area in violation of the Federal antitrust laws. If the plaintiff is successful in obtaining the kinds of permanent injunctions it is seeking, the News probably will be forced to cease operations and liquidate; however, with discovery incomplete, the outcome of the action and defendant's potential exposure, if any, are uncertain.

It is the opinion of management of Berkshire Hathaway Inc. that the ultimate outcome of this liquidation will not have a materially adverse effect on the consolidated financial position of the Company, notwithstanding its potentially severe impact upon the News.

62

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978

(dollars in thousands except for per share amounts)

(14) Quarterly Results (Unaudited)

A summary of earnings by quarter for each of the past two years is presented in the following table. This information is unaudited.

1979	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Income items	$104,269	$117,623	$108,450	$143,743
Costs and expenses, except income taxes	93,806	100,655	100,750	127,274
Income taxes	1,559	4,275	763	3,199
Minority interest	809	1,657	261	3,156
	96,174	106,587	101,774	133,629
Earnings before realized investment gain	8,095	11,036	6,676	10,114
Realized investment gain	1,306	841	1,117	3,632
Net earnings	$ 9,401	$ 11,877	$ 7,793	$ 13,746
Per share:				
Earnings before realized investment gain	$ 7.88	$ 10.74	$ 6.50	$ 9.85
Realized investment gain	1.27	.82	1.09	3.53
Net earnings	$ 9.15	$ 11.56	$ 7.59	$ 13.38
1978				
Income items	$111,255	$107,624	$105,101	$133,621
Costs and expenses, except income taxes	100,789	98,461	98,017	113,557
Income taxes	2,376	1,476	1,169	5,714
Minority interest	1,350	1,173	342	3,193
	104,515	101,110	99,528	122,464
Earnings before realized investment gain	6,740	6,514	5,573	11,157
Realized investment gain	3,278	917	1,240	3,823
Net earnings	$ 10,018	$ 7,431	$ 6,813	$ 14,980
Per share:				
Earnings before realized investment gain	$ 6.54	$ 6.32	$ 5.42	$ 10.86
Realized investment gain	3.18	.89	1.21	3.72
Net earnings	$ 9.72	$ 7.21	$ 6.63	$ 14.58

63

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978
(dollars in thousands)

(15) Consolidated Segment Data

The tables below reflect data for the past five years broken down as to business segments. The accounts of Blue Chip Stamps are reflected on a consolidated basis commencing with 1977; prior to 1977, when the Company owned less than 50% of Blue Chip, the equity method of accounting was applied to the Company's investment in that company. Segments below captioned "Candy", "Promotional Services", and "Newspaper" are segments of Blue Chip; that company purchased the newspaper business in 1977.

I. Revenues of Consolidated Companies

	1975	1976	1977	1978	1979
Insurance*	$ 70,028	$ 95,846	$156,149	$206,017	$206,356
Textiles	32,833	44,644	45,498	52,674	49,862
Retailing	35,303	39,113	42,106	40,762	42,709
Candy	—	—	63,115	73,954	88,189
Promotional services	—	—	22,225	24,841	23,628
Newspaper	—	—	31,833	44,791	46,414
Other	426	2,807	2,709	2,903	3,183
Total revenues of consolidated companies	$138,590	$182,410	$363,635	$445,942	$460,341

*Revenues of the Insurance segment includes investment income of the Insurance Group. See Table VI below.

II. Operating Profit Before Taxes Including Minority Interest *(Parentheses Denotes Loss)*

Operating profit is total revenue less total expense identified with each segment. In computing operating profit identified with segments, none of the following items has been added or deducted: equity in income from unconsolidated subsidiaries, realized investment gain or loss, general corporate expenses and interest expense.

	1975	1976	1977	1978	1979
Identified with segments:					
Insurance*	$ (2,627)	$11,089	$18,606	$22,706	$27,966
Textiles	1,289	1,148	(620)	2,916	1,723
Retailing	2,007	2,219	2,775	2,757	2,775
Candy	—	—	12,352	12,482	12,785
Promotional services	—	—	1,147	2,151	2,397
Newspaper	—	—	751	(2,913)	(4,617)
Other	426	796	528	1,150	1,203
	1,095	15,252	35,539	41,249	44,232
Not identified with segments:					
Equity in earnings of:					
Illinois National Bank	3,450	3,750	3,550	4,242	4,960
Wesco	—	—	5,715	7,417	8,784
Blue Chip	3,194	5,107	—	—	—
Realized investment gain (loss)	(2,881)	10,061	13,309	13,987	10,148
General corporate expenses	(422)	(439)	(534)	(1,072)	(647)
Interest expense	(2,560)	(3,056)	(4,789)	(5,059)	(5,729)
Operating profit before taxes (including minority interest)	$ 1,876	$30,675	$52,790	$60,764	$61,748

*See Table VII below.

(64)

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978
(dollars in thousands)

(15) Consolidated Segment Data *(continued)*

III. Identifiable Assets at Year End

	1975	1976	1977	1978	1979
Identified with segments:					
Insurance	$164,443*	$261,752*	$377,954*	$470,023*	$585,103
Textiles	17,821	20,621	22,191	22,606	25,139
Retailing	10,195	9,965	14,272	14,235	14,520
Candy	—	—	39,183	44,177	47,923
Promotional services	—	—	77,233	84,783	93,646
Newspaper	—	—	39,798	38,542	35,663
Other	—	1,973	4,198	2,147	2,246
	192,459	294,311	574,829	676,513	804,240
Not identified with segments:					
Investment in Illinois National Bank	23,424	24,732	25,839	27,146	28,785
Investment in Wesco	—	—	43,892	49,370	56,750
Investment in Blue Chip	32,042	42,684	—	—	—
Corporate cash and short-term investments	6,266	1,518	491	3,106	1,113
Investment in unconsolidated subsidiaries	1,120	880	1,627	1,477	1,377
Combined and consolidated assets at year end	$255,311*	$364,125*	$646,678*	$757,612*	$892,265

**Restated to reflect marketable equity securities of insurance segment at market*

IV. Capital Expenditures

	1975	1976	1977	1978	1979
Insurance	$ 98	$ 273	$ 539	$ 897	$ 1,133
Textiles	248	1,006	533	450	1,116
Retailing	125	118	294	247	279
Candy	—	—	2,114	2,777	3,250
Promotional services	—	—	2	130	355
Newspaper	—	—	32,437	1,131	642
Other	—	669	9	8	18
Total capital expenditures	$ 471	$ 2,066	$ 35,928	$ 5,640	$ 6,793

V. Depreciation and Amortization of Property, Plant and Equipment, Including Leaseholds

	1975	1976	1977	1978	1979
Insurance	$ 152	$ 163	$ 213	$ 305	$ 459
Textiles	385	402	482	455	486
Retailing	121	124	126	135	151
Candy	—	—	822	1,007	1,199
Promotional services	—	—	109	96	146
Newspaper	—	—	1,507	2,554	2,159
Other	—	53	49	50	51
Total depreciation and amortization	$ 658	$ 742	$ 3,308	$ 4,602	$ 4,651

65

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978
(dollars in thousands)

(15) Consolidated Segment Data *(continued)*

VI. Revenue of the Insurance Segment

	1975	1976	1977	1978	1979
Premiums earned:					
Specialized auto and general liability ...	$ 38,513	$ 50,778	$ 80,690	$ 96,126	$ 90,646
Workers' Compensation*	3,632	5,815	18,916	29,893	19,350
Reinsurance	12,407	17,220	24,100	30,160	30,864
Home State multiple lines	6,670	11,058	19,382	29,894	41,089
Total premiums earned	61,222	84,871	143,088	186,073	181,949
Investment income	8,806	10,975	13,061	19,944	24,407
Insurance segment revenues	$ 70,028	$ 95,846	$156,149	$206,017	$206,356

Workers' Compensation coverage written by the Home State Companies, as part of their multiple lines business, is not disaggregated from their total earned premiums. Earned premiums set forth above for Workers' Compensation reflect those for Southern Casualty Insurance Company and for National Indemnity Company's Workers' Compensation departments for each year presented, premiums earned by Cypress Insurance Company are additionally included for 1978 and 1979.

VII. Insurance Segment Operating Profit

	1975	1976	1977	1978	1979
Underwriting gain (loss):					
Specialized auto and general liability ...	$ (7,450)	$ 4,768	$ 7,800	$11,543	$ 7,242
Workers' Compensation	(342)	(1,093)	(1,644)	(3,944)	5,733
Reinsurance	(2,651)	(2,879)	(1,251)	(2,443)	(4,338)
Home State multiple lines	(907)	(548)	896	(2,155)	(4,895)
Total underwriting gain (loss)......	(11,350)	248	5,801	3,001	3,742
Net investment income	8,723	10,841	12,805	19,705	24,224
Insurance segment operating profit (loss) before taxes	$ (2,627)	$11,089	$18,606	$22,706	$27,966

66

Berkshire Hathaway Inc.

SUMMARY OF OPERATIONS

The following Summary should be read in conjunction with the consolidated financial statements and the notes thereto for the most recent two years, appearing elsewhere in this report. Figures in this Summary reflect consolidation of the accounts of Blue Chip Stamps for the three years ended December 29, 1979; figures for 1975 and 1976, when the Company owned less than 50% of Blue Chip, reflect the equity method of accounting for the Company's investment in Blue Chip. Net earnings are unaffected by this difference between methods of presentation; because of this difference, however, other individual items in the Summary for the first two years presented are not strictly comparable to those for the latest three years.

	1975	1976	1977	1978	1979
	. . . (dollars in thousands, except per share amounts) . . .				
Revenues of consolidated companies[1]	$ 138,590	$ 182,410	$ 363,635	$ 445,942	$ 460,341
Equity in earnings of companies not consolidated[2]	6,644	8,857	9,265	11,659	13,744
Costs and expenses, except income taxes	(140,477)	(170,653)	(333,420)	(410,824)	(422,485)
Income taxes (expense) credit	3,381	(2,478)	(9,695)	(10,735)	(9,796)
Minority interest in above items	—	—	(6,313)	(6,058)	(5,883)
Earnings before realized investment gain or loss	8,138	18,136	23,472	29,984	35,921
Realized investment gain (loss), net of applicable minority interest and income taxes	(2,017)	6,830	6,921	9,258	6,896
Net earnings	$ 6,121	$ 24,966	$ 30,393	$ 39,242	$ 42,817
Average shares outstanding	1,150,521	1,069,899	1,037,705	1,028,684	1,027,145
Per share:					
Earnings before realized investment gain or loss	$ 7.07	$ 16.95	$ 22.62	$ 29.15	$ 34.97
Net earnings	$ 5.32	$ 23.33	$ 29.29	$ 38.15	$ 41.68

[1]See Table I in note 15 to consolidated financial statements.
[2]Companies not consolidated, and the equity in earnings of each are as follows:

	1975	1976	1977	1978	1979
Illinois National Bank	$3,450	$3,750	$3,550	$4,242	$4,960
Wesco Financial Corporation			5,715	7,417	8,784
Blue Chip Stamps (See headnote)	3,194	5,107	—	—	—

(67)

Berkshire Hathaway Inc.

MANAGEMENT DISCUSSION OF THE SUMMARY OF OPERATIONS

Revenues of Consolidated Companies

These revenues as reflected in the Summary of Operations, further broken down by business segment in Table I of note 15 to the consolidated financial statements (page 24), were as follows:

1979	$460,341,000	
1978	$445,942,000	
Increase 1979 over 1978		$14,399,000
1977	$363,635,000	
Increase 1978 over 1977		$82,307,000

1979 vs. 1978

Substantially all of the net increase in revenues of consolidated companies for 1979 can be attributed to increased candy business segment revenues of $14,235,000. Approximately 60% of this increase reflects increased selling prices of candy required to cover higher costs incurred, about 40% of the increase reflects additional volume of business.

1979 Insurance premiums earned declined approximately $4.1 million from 1978; this decline was overcome for the Insurance Group by an increase of about $4.5 million in earned investment income, resulting principally from a higher level of invested funds in 1979 than in 1978.

1978 vs. 1977

The significant increase of $82.3 million in revenues of consolidated companies in 1978 over 1977 is attributable to several factors in a number of the Company's business segments. Insurance Group insurance premiums earned in 1978 increased approximately $43 million over 1977. This increase includes about $13 million in workers' compensation premiums earned by Cypress Insurance Company, new to the Group in 1978. (The Company purchased Cypress in late December, 1977.) Specialized auto and general liability premiums earned in 1978 increased over 1977 in excess of $15 million. This was in line with the cyclical nature we have noted in this subsegment of the Insurance Group — this specialty business is conducted in our Group primarily by National Indemnity Company and National Fire and Marine Insurance Company. Premiums earned by the Home State multiple lines companies increased in 1978 over 1977 approximately $10.5 million, as their market penetration continued to increase in each of their domiciliary states. The increased premium volume of the Insurance Group resulted in a higher level of invested funds, which, together with a somewhat higher yield earned on investments, caused investment income of the Group to increase approximately $7 million in 1978 as compared to 1977.

Candy business revenues increased approximately $11 million in 1978 over 1977 as a combined result of increased volume and increased prices.

Newspaper revenues of the Buffalo Evening News, owned by Blue Chip Stamps, reflect an increase in 1978 over 1977 principally because such revenues for 1977 represent those for only that part of the year subsequent to the April, 1977 purchase by Blue Chip.

Equity in Earnings of Companies Not Consolidated

	Illinois National Bank	Wesco Financial Corporation	Combined Amount
	Equity in earnings of: (dollars in thousands)		
1979	4,960	8,784	13,744
1978	4,242	7,417	11,659
1977	3,550	5,715	9,265

Net earnings of the Illinois National Bank have increased in each of the past two years, reflecting higher rates earned on somewhat higher invested assets, in addition to effective cost controls by management of the bank. As stated elsewhere in this report, the Company is required to divest of control of the Illinois National Bank by January 1, 1981.

A summary of earnings of Wesco Financial Corporation for the past three years is presented in the table below. Wesco is approximately 80% owned by Blue Chip Stamps. "Financial operations" in the table reflect operations of the parent company and of Mutual Savings and Loan Association. "Steel service" operations reflect those of Precision Steel Warehouse, Inc., acquired by Wesco in 1979.

	1977	1978	1979
	(dollars in thousands)		
Financial operating revenues	$ 44,423	$ 51,019	$ 60,773 [1]
Financial expenses, principally interest expense	(35,543)	(39,352)	(50,270)
Applicable income taxes	(2,431)	(3,186)	(2,023) [1]
Net operations income — financial operations	6,449	8,481	8,480
Net income — steel service operations	—	—	1,707
Total operating income	$ 6,449	$ 8,481	$ 10,187 [1]
Blue Chip's equity in above	$ 5,166	$ 6,793	$ 8,160
Amortization recorded by Blue Chip[2]	549	624	624
Blue Chip's equity in operating earnings of Wesco[3]	$ 5,715	$ 7,417	$ 8,784

[1] *1979 excludes $1,384,000 investment gain (primarily from sale by Wesco of an investment in common stock of Detroit International Bridge Company) and $431,000 income taxes applicable to such gain. (The Company's equity in the net gain is included in realized investment gain in the Summary of Operations.)*

[2] *Blue Chip's cost of its investment in Wesco is less than its equity in underlying book value of net assets; annual amortization of this excess book value is included in consolidated income.*

[3] *The Company's economic interest in Wesco's earnings is less than Blue Chip's equity in such earnings because of the outstanding minority interest in Blue Chip; see the discussion below under the captions of "Earnings Before Realized Investment Gain" and "Realized Investment Gain".*

The substantial increase in Wesco's net earnings in 1978 over 1977 was due to an increase in the interest "spread" (yield on loans less cost of funds) on Mutual's loans, from 1.51% for 1977 to 1.66% in 1978, and to an increased return in 1978 on other earning assets of Mutual and Wesco.

The 1979 increase over 1978 is reflective of a somewhat lower effective rate of income taxes, plus the contribution to Wesco's earnings of the steel service center business acquired by Wesco in February, 1979.

69

Earnings Before Realized Investment Gain or Loss

Operating profit before taxes by business segment for the five years ended December 29, 1979 is reflected in note 15 to the consolidated financial statements on page 24 of this report. Earnings before realized investment gain takes into account the additional items of income taxes and minority interest. Because the minority interest is significant but essentially relates only to segments operated by Blue Chip Stamps, and because the impact of income taxes upon the pre-tax income of the various segments is not proportional to such pre-tax income, a breakdown of this more inclusive total is presented below for the past three years.

	Contribution to the Company's Earnings Before Realized Investment Gain (Dollars in thousands)		
	1977	1978	1979
Business segment:			
Insurance Group	$14,377	$17,960	$22,320
Candy business*	2,974	3,049	3,448
Retailing of apparel	1,429	1,176	1,280
Textiles	(322)	1,342	848
Promotional services	892	1,382	1,624
Newspaper business*	535	(738)	(1,333)
Total of above segments	19,885	24,171	28,187
Not assigned to segments:			
Equity in earnings of companies not consolidated			
Illinois National Bank	3,550	4,242	4,960
Wesco Financial Corporation	2,683	3,775	4,793
Interst expense and net other items	(2,646)	(2,204)	(2,019)
Total earnings before realized investment gain	$23,472	$29,984	$35,921

**These are segments of Blue Chip Stamps. The Company's ownership of Blue Chip averaged approximately 51% in 1977, 55.5% in 1978 and 59% in 1979; accordingly, a decreased annual charge reflecting decreased minority interest for these segments for each successive year is reflected in the above table.*

Income taxes have been assigned in the above tabulation on the basis of economic effects; amounts so assigned may differ from tax amounts assigned to the various legal entities in accordance with tax sharing agreements effective as between members of the consolidated groups.

Insurance Group

Earnings of the Insurance Group as reflected above consists of underwriting gain plus net investment income, each after income tax effect, as follows:

	After Tax Effect (dollars in thousands)		
	Underwriting Gain	Net Investment Income	Total
1979	$2,020	$20,300	$22,320
1978	1,560	16,400	17,960
1977	3,017	11,360	14,377

MANAGEMENT DISCUSSION OF THE SUMMARY OF OPERATIONS *(Continued)*

Underwriting results for property/casualty insurance companies are most commonly measured by the "combined ratio", which is the sum of the ratio of losses and loss adjustment expenses to premiums earned plus the ratio of statutory underwriting expenses to premiums written. A combined ratio below 100 indicates an underwriting profit; above 100 indicates an underwriting loss. The combined ratio of our Insurance Group was 95.4 for 1977, 98.2 for 1978 and 97.1 for 1979.

Candy Business

Although sales of candy have increased significantly in each of the past two years, costs have correspondingly increased. Net earnings remain at consistently high levels relative to capital employed in the business.

Retailing Business

This business continues to reflect highly satisfactory profit, particularly relative to the capital employed in the operation.

Textile Business

Our textile operations in 1978 reflected significant improvement over those of 1977, both in terms of volume and profitability; the profit return was, however, considered inadequate in relation to the capital employed in the business. Efforts to further improve the operation in 1979 did not succeed; both sales and profit declined. A reduction in the scope of the textile operations at Manchester is planned.

Promotional Services

An increase in the company's equity, after taxes, in this segment of Blue Chip's business in each of the past two years reflects, in addition to a lesser minority interest, an increase in after tax investment income yield each year. Also, some decrease in the relative costs of stamp issuance by Blue Chip in 1978 was noted, as compared to 1977.

Realized Investment Gain

Realized securities gain reflects after-tax net gain on disposition of securities by the Insurance Group, Blue Chip and Wesco (each of the latter after deducting applicable minority interest) as follows:

	1977	1978	1979
	(Dollars in thousands)		
Insurance Group:			
Gain on sale of bonds	$1,124	$1,274	$ 752
Gain on sale of stocks	3,793	7,599	5,489
Net realized investment gain — Insurance Group	4,917	8,873	6,241
Blue Chip	2,004	385	246
Wesco	—	—	409
Net realized investment gain	$6,921	$9,258	$6,896

Realization of investment gains (or losses) is determined by prevailing investment strategy applied under changing economic conditions. Amounts are thus variable and unpredictable.

(71)

EXHIBIT C - TO ANNUAL REPORT FORM 10-K OF BERKSHIRE HATHAWAY INC. FOR THE YEAR ENDED DECEMBER 29, 1979

Item 1. DESCRIPTION OF BUSINESS

WESCO FINANCIAL CORPORATION. Wesco Financial Corporation (Wesco), a savings and loan holding company, was incorporated on March 18, 1959. Historically, Wesco has conducted most of its operations through its wholly-owned subsidiary, Mutual Savings and Loan Association (Mutual Savings). As of December 31, 1979, Mutual Savings had total assets of $627,260,000, operated 16 offices and ranked approximately 35th among all savings and loan associations having offices in California.

On March 25, 1980, Mutual Savings executed a contract with Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corp., providing for the sale of all of Mutual Savings' offices, except its headquarters office and a satellite office to be opened in 1980 in a new shopping plaza across the street from the headquarters office. Closing of the sale is contingent upon receipt of regulatory approvals. Under the terms of the contract, Mutual Savings will transfer net branch office deposits (approximately $300,000,000) and mortgage loans of an equal amount. It will also transfer the physical assets of the branch offices. Brentwood Savings will pay $8,086,000 and assume the savings account liabilities of the branches. Mutual Savings intends to continue operating its headquarters office and the new satellite office.

On February 28, 1979, for approximately $15.1 million, Wesco acquired all of the assets and assumed all of the liabilities of Precision Steel Warehouse, Inc. (Precision Steel) and its subsidiaries. Precision Steel is engaged in the steel service center business and also manufactures and distributes tool room specialty products and distributes hose clamps. The largest portion of Precision Steel's business is the processing of cold rolled metals, principally specialty steels, to customer order specifications.

In addition to its operating subsidiaries, Wesco invests in marketable common and preferred stocks of unaffiliated companies and owns a business block in Pasadena which includes the building in which its headquarters are located.

BUSINESS SEGMENTS. Wesco's business includes two business segments — financial and steel service. The financial business includes the savings and loan business; the operation of a business block in Pasadena; investments in marketable common and preferred stocks; and the insurance agency business of WSC Insurance Agency. The steel service business includes the service center business and tool room specialty products and hose clamp business conducted by Precision Steel. The amounts of revenue, operating profit, and identifiable assets attributable to each of these two industry segments are set forth in Item 2, Summary of Operations, and in the related financial statements and notes included under Item 12.

Financial

MUTUAL SAVINGS AND LOAN ASSOCIATION. The income of Mutual Savings is derived principally from interest charges on real estate loans and, to a lesser extent, from interest and dividends on marketable securities. Loan fees and service charges are minor sources of income. Income from real estate operations and sales of property are limited to real estate acquired through foreclosure. The principal expense item of Mutual Savings is interest on savings accounts (including money market certificates) and, to a lesser extent, interest on borrowings from the Federal Home Loan Bank (FHLB) and other sources.

LENDING ACTIVITIES. Substantially all of Mutual Savings' loans are real estate loans, principally loans secured by first trust deeds on residential and commercial properties. Its loan portfolio also includes loan participations purchased from other savings and loan associations and participations in Government National Mortgage Association (GNMA) mortgage-backed certificates. All of the loan participations serviced by other associations will be transferred to Brentwood Savings; GNMA mortgage-backed certificates will be retained. Savings account loans have increased from less than 1% of the total loan portfolio at December 31, 1976 to 5% at December 31, 1979. Savings account loans are general-purpose loans to depositors secured by their savings account balances at Mutual Savings.

In recent periods, loans originated by Mutual Savings have been primarily loans to purchase existing properties and refinancings to increase existing loans. During 1979, Mutual Savings substantially curtailed its real estate loan originations because of the high cost of savings accounts, the reduction in net savings inflow, and uncertainty as to the future direction of loan interest rates. These factors increased the potential risks of lending on a long-term basis (real estate loans) with short-term funds (savings accounts). No assurance can be given that the factors which have caused the curtailment of lending activities will be alleviated in the foreseeable future, and the sale of the branch offices will also reduce lending.

INVESTMENTS. Mutual Savings is permitted to invest up to 5% of total assets in the common stock of Federal National Mortgage Association (FNMA) and up to an additional 5% in certain marketable preferred stocks. As of December 31, 1979, the amount invested by Mutual Savings in marketable preferred stocks (all public utility issues rated A or better, most with sinking funds) was $30,624,000 (market $27,112,000). Prior to December 1979, Mutual also owned FNMA common stock in an amount approximately equal to the 5% of total assets limitation. During late 1979 and January 1980, Mutual Savings disposed of its investment in FNMA stock.

SAVINGS ACTIVITIES. Savings accounts offered by Mutual Savings vary as to terms, with the principal differences being maturity date, interest rate and manner of payment of interest. The Federal Home Loan Bank Board (FHLBB) establishes maximum permissible interest rates on all savings accounts other than those of $100,000 or more. Both money market certificates and $100,000 or more accounts have increased significantly in importance to Mutual Savings and, at December 31, 1979, represented 30% and 3%, respectively, of all savings accounts. At the headquarters office (which will be retained) they represent 21% and 3% respectively. The high cost of such accounts can be expected to have an adverse impact on savings and loan earnings.

YIELDS EARNED AND RATES PAID. Mutual Savings' earnings are largely determined by the yields earned on its loans and investments, the costs of its savings and borrowings, and the spread between such yields and costs. These factors, and developments affecting them, are discussed in Management's Discussion and Analysis of Summary of Operations in Item 2.

If the sale of branch offices to Brentwood Savings is completed, the average yield on mortgage loans retained by Mutual Savings will be significantly reduced since the contract of sale provides that Mutual Savings will transfer mortgage loans having an average yield of 10% which is well above the average yield of all mortgage loans held by Mutual Savings at December 31, 1979 (8.98%).

COMPETITION. Mutual Savings competes with numerous other financial institutions for loans and savings accounts. Although savings and loan associations have, in recent years, been insulated from some effects of direct competition by regulatory limits on maximum interest rates payable on savings by commercial banks, since 1973 Congress has had under consideration far-reaching proposals relating to financial institutions including proposals to remove interest rate ceilings. Such proposals would also expand account services for consumers, expand investment and lending alternatives available to financial institutions and effect significant changes in the tax laws governing such institutions.

REGULATION. Wesco, as a savings and loan holding company, and Mutual Savings, as a savings and loan association, are subject to regulation by the Federal Savings and Loan Insurance Corporation, the FHLBB, and the California Department of Savings and Loan. These regulations include reserve requirements, net worth requirements, liquidity requirements, reporting requirements, periodic regulatory examinations, limitations on the types of loans and other investments that can be made, and regulations affecting the acquisition or disposition of certain types of businesses.

OTHER FINANCIAL. Wesco owns, at the parent company level, a business block in downtown Pasadena, California in which the head office of Mutual Savings is located. The property is improved with a nine-story office building constructed in 1964 having a net rentable area of 123,732 square feet of which 31,612 square feet are occupied by Wesco, Mutual Savings and WSC Insurance Agency; four commercial store buildings; and a multi-story garage having space for 425 automobiles. The properties are fully leased under standard commercial leases expiring at various dates to 1988. The leases provide for annual adjustments in rent related either to the cost of operation, the cost of living, or both.

Wesco also invests in marketable common and preferred stocks of unaffiliated companies, which are discussed in Management's Discussion and Analysis of Summary of Operations in Item 2.

Wesco also has a wholly-owned subsidiary, WSC Insurance Agency, which is an insurance agency for fire, extended coverage property, casualty and mortgage life insurance. Its operations have been insignificant to Wesco.

Wesco employs approximately 170 persons in its savings and loan and other financial businesses. The headquarters office employs approximately 75 persons.

Steel Service

GENERAL. Wesco's acquisition of the business of Precision Steel Warehouse, Inc., and its wholly-owned subsidiaries (referred to collectively as Precision Steel) was completed on February 28, 1979.

BUSINESS. Through service centers located in Franklin Park, Illinois and Charlotte, North Carolina, Precision Steel is engaged in the metal service center business, processing cold rolled metal products, principally specialty metals, to customer order specifications. The principal products of the service centers are low carbon sheet and strip steel, coated metals, spring steels, stainless steel, brass and phosphorous bronze, and aluminum. Precision Steel's products are distributed and sold through direct salesmen and manufacturer's representatives. Precision Steel buys its raw materials from major domestic steel mills. Currently, the availability of raw materials is good.

DuPage Manufacturing Company, a subsidiary of Precision Steel Warehouse, Inc., which manufactured and distributed worm gear hose clamps and muffler clamps to the automotive, plumbing, marine and hardware markets, was dissolved in January 1980, and its manufacturing assets have been sold. In the future, its hose clamp product line will be purchased from outside sources and marketed under the DuPage name through the Precision Brand Products, Inc. subsidiary.

Precision Brand Products, Inc. (Precision Brand), a subsidiary of Precision Steel Warehouse, Inc., processes and distributes tool room specialty items for industrial customers, its principal product being shimstock. Precision Brand processes, packages and provides the customer with a complete tool room specialty product line. These products are sold and distributed nationwide through direct salesmen and manufacturer's representatives principally to industrial supply distribution companies, mill supply houses and manufacturing concerns. Materials are generally available and are purchased from major metal suppliers.

INVENTORIES. Precision Steel's service centers maintain extensive inventories to balance the incoming flow from major mills with requirements to meet customer demand for prompt deliveries. Typically, orders are filled and the processed metals delivered to the customer within one week. Precision Brand normally maintains inventories adequate to allow off-the-shelf service to customers.

COMPETITION. Precision Steel's service center business is highly competitive. Precision Steel not only competes with other service centers, but also with mills which supply metal to the service centers. Competition exists in the areas of price, quality, availability of products, and speed of delivery. Because it specializes in light gauge, narrow width products and is willing to sell in relatively small quantities, Precision Steel's service centers have been able to compete in geographic areas distant from their facilities.

DuPage products are in a very price-competitive field, in which it has approximately eight major direct competitors.

With its variety of products, Precision Brand holds a major position in the market for its products, especially in the shimstock market.

BACKLOG ORDERS. At December 31, 1979, backlog orders were as follows: Service Centers — $1,442,000; Precision Brand — $101,000; and DuPage — $194,000. It is expected all of these orders will be shipped during the first part of the year.

OTHER MATTERS. At December 31, 1979, Precision Steel employed 358 people, of whom approximately 55% were members of unions.

During 1979, Precision Steel's service center operations (excluding operations of DuPage Manufacturing Co. and Precision Brand Products, Inc.) accounted for revenues of $29,834,000 (29.8% of consolidated revenues).

Item 5. PENDING LEGAL PROCEEDINGS

Wesco Financial Corporation and Blue Chip Stamps have been named as defendants in two lawsuits brought by Jerry D. Luptak. Both of these cases, which relate to a tender offer made by Wesco for shares of Detroit International Bridge Company, are described below.

(1) Jerry D. Luptak v. Wesco Financial Corporation, Blue Chip Stamps, and Detroit International Bridge Company, United States District Court for the Eastern District of Michigan, No. 772460; (2) Jerry D. Luptak v. Central Cartage Co., Centra, Inc., Wesco Financial Corporation, Blue Chip Stamps, Joseph W. Bower, Robert A. Bower, Philip L. Carret, Charles J. Clark, Q.C., Arthur H. Lamborn, Roy G. Lancaster, Harold A. Ruemenapp, H. Peter Schaub, Jr. and Detroit International Bridge Company (DIBC), United States District Court for the Eastern District of Michigan, No. 870068.

In the first case, plaintiff sought injunctive relief prohibiting Wesco from proceeding with its tender offer for DIBC, requiring it to divest the shares obtained through the tender offer, and prohibiting it from voting shares of DIBC held by it. The Complaint alleged violations of federal securities laws in connection with the disclosures and alleged failures to disclose made in the offer to purchase and information statement that was circulated to DIBC shareholders, particularly, but not exclusively in connection with the description of the operation and effect of the Canadian Foreign Investment Review Act. The United States District Court for the Eastern District of Michigan, on November 2, 1977, issued an "Order Denying Motion for Preliminary Injunction and Order Dismissing Complaint". The plaintiff moved for a new trial and on December 28, 1977, the Court issued an "Order Denying Motion for New Trial and Reconsideration". Plaintiff appealed these orders to the United States Court of Appeals for the Sixth Circuit. The Sixth Circuit affirmed the decision of the lower court.

In the second case, filed on January 10, 1978, plaintiff purports to sue individually, and on behalf of all other shareholders of DIBC, and derivatively on behalf of DIBC. The Complaint alleges violations of federal securities laws in connection with the disclosures and alleged failures to disclose in the offer to purchase and information statement circulated to DIBC shareholders in connection with Wesco's tender offer. The Complaint seeks to enjoin defendants from acquiring any further shares of DIBC and from voting any shares acquired by them since September 30, 1977. It also seeks to require the return or divestment of all shares acquired since September 30, 1977, and a judgment in favor of plaintiff for "such damages as are attributable to the illegal actions of defendants".

Wesco filed a motion to dismiss plaintiff's class and derivative action and a motion for summary judgment and dismissal of complaint. The court approved Wesco's motion regarding plaintiff's class and derivative standing, refusing to certify a class and dismissing the derivative aspects of the suit. Subsequently, on July 25, 1979, the court directed that a final judgment be entered granting summary judgment to Wesco and Blue Chip Stamps with respect to all claims alleged against them in the second case, and dismissing such claims with prejudice. The Court's decision does not address the merits of the claims against Wesco Financial Corporation, but rather whether the claims had been previously disposed of in the first Luptak case. Plaintiff has appealed the Court's order to the United States Court of Appeals for the Sixth Circuit.

Wesco Financial Corporation and Blue Chip Stamps expect to continue contesting this action vigorously. All the shares of Detroit International Bridge Company owned by Wesco were sold on March 12, 1979.

76

EXHIBIT E - TO ANNUAL REPORT FORM 10-K
OF BERKSHIRE HATHAWAY INC. FOR THE YEAR
ENDED DECEMBER 29, 1979

Item 12. FINANCIAL STATEMENTS, EXHIBITS FILED AND REPORTS ON FORM 8-K

(a) Index to financial statements, schedules, and exhibits filed with this report:

Reports of Independent Accountants

Financial Statements

77

Consolidated Balance Sheet — December 31, 1979 and 1978

Consolidated Statement of Income and Retained Earnings — Years ended December 31, 1979 and 1978

Consolidated Statement of Changes in Financial Position — Years ended December 31, 1979 and 1978

Notes to Consolidated Financial Statements

Schedules

I — Marketable Securities — Other Security Investments

III — Investments in, equity in earnings of, and dividends received from affiliates and other persons

XVI — Supplementary income statement information

All other schedules have been omitted as the required information is inapplicable or is presented in the consolidated financial statements or related notes.

Parent company financial information, including Balance Sheet, Statement of Income and Retained Earnings and Statement of Changes in Financial Position are contained in Note 2 of Notes to Consolidated Financial Statements.

Exhibits*

(b) Form 8-K — February 28, 1979 reported the acquisition of Precision Steel Warehouse, Inc., filed March 12, 1979.

Form 8-K — March 12, 1979 reporting change in independent public accountants and the sale of Detroit International Bridge Company stock, filed March 26, 1979.

Form 8 — Amendment No. 1 to Item 4 of Form 8-K filed March 26, 1979 to include letter from former accountants.

* Exhibits to the Annual Report Form 10-K for the year ended December 31, 1979 of Wesco Financial Corporation are not reproduced as a part of this attachment as an Exhibit to the Form 10-K Annual Report for the year ended December 29, 1979 of Berkshire Hathaway Inc.

REPORTS OF INDEPENDENT ACCOUNTANTS

To The Board of Directors
Wesco Financial Corporation

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and changes in financial position, present fairly the financial position of Wesco Financial Corporation and its subsidiaries and Wesco Financial Corporation at December 31, 1979, and the results of their operations and the changes in their financial position for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

Our examination was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. We also examined the schedules listed in the accompanying index under Item 12 by similar auditing procedures. In our opinion, these schedules are stated fairly in all material respects in relation to the financial statements taken as a whole.

Price Waterhouse & Co.
Price Waterhouse & Co.
Los Angeles, California
March 25, 1980

The Board of Directors
Wesco Financial Corporation:

We have examined the balance sheets of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries as of December 31, 1978 and the related statements of income and retained earnings and changes in financial position for the year then ended. We have also examined schedules III and XVI for the year ended December 31, 1978. 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 financial statements present fairly the financial position of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries at December 31, 1978 and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and the supporting schedules, in our opinion, present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.
Peat, Marwick, Mitchell & Co.

Los Angeles, California
February 2, 1979
Except as to Note 17 to the consolidated financial statements which is as of March 25, 1980.

79

Consolidated Balance Sheet

December 31, 1979 and 1978

ASSETS	1979	1978
	(Thousands of dollars)	
FINANCIAL:		
Cash	$ 2,818	$ 2,316
Short-term bank obligations, at cost which approximates market	47,569	51,246
Municipal obligations, at cost, (quoted market $7,099,000 in 1979 and $7,453,000 in 1978)	6,670	6,670
Investment in common and preferred stocks, at cost (Note 4)	93,953	82,869
Loans receivable, net (Notes 5, 10 and 17)	506,224	477,597
Interest and dividends receivable and other assets	6,922	5,069
Real estate held for sale, net (Note 15)	934	1,824
Investments required by law:		
Investment in stock of Federal Home Loan Bank, at cost (Note 10)	4,918	4,489
Prepayments to FSLIC secondary reserve	3,511	3,963
Investment in affiliated company (Note 6)	—	5,076
Premises and equipment, net (Notes 7, 10 and 17)	6,255	5,175
	679,772	646,294
STEEL SERVICE:		
Cash and United States government obligations	1,413	—
Accounts receivable	4,659	—
Inventories (Note 8)	6,082	—
Property, plant and equipment, net (Note 7)	4,410	—
Other assets	329	—
	16,893	—
	$696,665	$646,294

LIABILITIES AND STOCKHOLDERS' EQUITY	1979	1978
FINANCIAL:		
Savings accounts (Notes 9 and 17)	$508,912	$488,328
Notes payable (Note 10)	79,010	59,297
Accounts payable and accrued expenses	2,437	2,930
Taxes on income (Note 11)	7,989	8,270
	598,348	558,825
STEEL SERVICE:		
Notes payable (Note 10)	307	—
Accounts payable and accrued expenses	1,870	—
Taxes on income (Note 11)	236	—
	2,413	—
Total liabilities	600,761	558,825
Commitments and contingent liabilities (Notes 12 and 14)		
Stockholders' equity (Note 13):		
Capital stock of $1 par value per share. Authorized 7,500,000 shares; issued 7,119,807 shares	7,120	7,120
Capital surplus arising from stock dividends	23,319	23,319
Retained earnings — substantially restricted	65,465	57,030
Total stockholders' equity	95,904	87,469
	$696,665	$646,294

See accompanying notes to consolidated financial statements.

80

Consolidated Statement of Income and Retained Earnings

Years ended December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars except per share amounts)	
FINANCIAL:		
Revenues:		
Interest on loans	$ 43,260	$ 34,446
Loan fees and service charges	1,930	1,808
Interest on short-term bank and municipal obligations	6,352	6,913
Dividends on common and preferred stocks	7,015	5,694
Interest and dividends on investments required by law	689	533
Net losses on sales of marketable securities	(57)	(153)
Equity in earnings of affiliate (Note 6)	71	324
Income from real estate held for sale (Note 15)	711	848
Other income, net (Note 6)	2,186	606
	62,157	51,019
Expenses:		
Interest on savings accounts	37,028	31,038
Interest on notes payable	7,106	2,722
General and administrative	6,136	5,592
	50,270	39,352
Income before provision for income taxes — Financial	11,887	11,667
Provision for income taxes (Note 11)	2,454	3,186
Net income — Financial	9,433	8,481
STEEL SERVICE (Note 3):		
Revenues:		
Sales	37,510	—
Other	373	—
	37,883	—
Costs and expenses:		
Cost of sales	30,339	—
Selling, general and administrative	4,290	—
	34,629	—
Income before provision for income taxes — Steel Service	3,254	—
Provision for income taxes (Note 11)	1,547	—
Net income — Steel Service	1,707	—
CONSOLIDATED NET INCOME	11,140	8,481
Retained earnings — beginning of year	57,030	50,970
Cash dividends declared and paid	(2,705)	(2,421)
Retained earnings — end of year	$ 65,465	$ 57,030
Net income per share based on 7,119,807 shares	$ 1.56	$ 1.19
Cash dividends per share based on 7,119,807 shares	$ .38	$ .34

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Sources (uses) of cash including short-term bank obligations, from operations.		
FINANCIAL:		
Net income	$ 9,433	$ 8,481
Add (deduct):		
Depreciation and amortization	432	511
Interest expense credited to savings accounts	26,012	24,054
Deferred income taxes	(547)	197
Recognition of unrealized profit on real property	(457)	(890)
Other, net	(805)	196
Cash provided from financial operations	34,068	32,549
Other sources of cash:		
Principal payments on real estate loans	57,390	64,980
Proceeds from borrowings	25,000	31,467
Increase in savings accounts	—	4,366
Net sale of GNMA mortgage-backed certificates	31,669	—
Proceeds from sale of affiliate, net of gain (Note 6)	5,147	—
	153,274	133,362
Other uses of cash:		
Real estate loan disbursements	54,157	142,524
Purchase of participation loans	50,002	—
Increase in loans on savings accounts	13,137	5,408
Increase in stock of Federal Home Loan Bank	—	1,152
Decrease in savings accounts	5,428	—
Increase in common and preferred stocks	11,084	24,733
Repayment of borrowings	5,287	—
Cash dividends declared and paid	2,705	2,421
Other, net	1,876	854
	143,676	177,092
STEEL SERVICE:		
Net income	1,707	—
Add:		
Depreciation and amortization	411	—
Deferred income taxes	70	—
Cash provided from steel service operations	2,188	—
Other sources of cash:		
Indebtedness assumed at acquisition	353	—
Increase in accounts payable and accrued expenses, $1,938 at acquisition	1,870	—
Increase in income taxes, $1,066 at acquisition	166	—
	4,577	—
Other uses of cash:		
Increase in property, plant and equipment, net $4,071 at acquisition	4,821	—
Increase in accounts receivable, $5,650 at acquisition	4,659	—
Increase in inventories, $5,344 at acquisition	6,082	—
Increase in other assets, $349 at acquisition	329	—
Repayment of borrowings	46	—
	15,937	—
Consolidated decrease in cash including short-term bank obligations	$ 1,762	$ 43,730

See accompanying notes to consolidated financial statements.

(82)

Notes to Consolidated Financial Statements

December 31, 1979 and 1978

(1) Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Wesco Financial Corporation (the Company) have been separately classified between the Company's two business segments of financial and steel service. Blue Chip Stamps owns 80.1% of the outstanding capital shares of the Company. All material intercompany transactions have been eliminated.

Summary of Significant Accounting Policies

The following accounting policies comprise the items unique to financial and to steel service and the policies common to both.

FINANCIAL

Principles of Consolidation and Description of Business

The financial segment of the consolidated financial statements includes the accounts of Wesco Financial Corporation and its wholly-owned subsidiaries, WSC Insurance Agency, and Mutual Savings and Loan Association (Mutual Savings) together with its wholly owned subsidiary. Operations of Mutual Savings consist primarily of accepting savings accounts from the general public and reinvesting such funds in loans secured by first liens on residential and other real estate and in marketable securities.

In addition, Wesco invests in marketable common and preferred stocks of unaffiliated companies and owns a business block in Pasadena which includes the building in which its headquarters are located.

Short-Term Bank Obligations and Marketable Securities

Short-term bank obligations, including certificates of deposit, bankers' acceptances and other bank obligations are carried at identified cost as adjusted for amortization of premium and accretion of discount.

Municipal obligations are also carried at identified cost as adjusted for amortization of premium and accretion of discounts.

Common and preferred stocks are carried at identified cost. See Note 4 for discussion of marketable equity securities.

Loan Fees

Loan fees for originating loans are deferred for amounts in excess of 1% of the loan amount plus $200 for nonconstruction loans and 2% of the loan amount plus $200 for construction loans. Deferred fees are amortized into income by use of the straight-line method over seven years.

Loan and Real Property Valuation Allowances

Valuation allowances for estimated losses on specific loans and real property are charged to income when any significant and permanent decline reduces the net realizable value of the underlying security to less than the loan or the carrying value of real property owned. Such losses on loans are usually indicated during foreclosure proceedings.

The Company considers future direct holding costs for maintenance, property taxes, insurance, direct selling expenses, costs of completion or improvement and a discount factor to give effect to the cost of money in determining the net amount of required valuation allowances.

Premises and Equipment

Premises and equipment are depreciated on the straight-line method over the estimated useful lives of the various classes of assets. The useful lives used for the principal classes of assets are:

Buildings and improvements	10 to 45 years
Furniture, fixtures and equipment	4 to 10 years
Leasehold improvements	3 to 25 years

Restricted Retained Earnings

Restricted retained earnings represent accumulated income of Mutual Savings which have been appropriated on an accrual basis for possible future losses in accordance with the more restrictive of Federal income tax requirements or savings and loan regulations. (See Note 13).

Profit on the Sale of Real Property

Profit on the sale of real property is recognized when the buy[illegible] has made a commitment to the sale and has met certain down payment and amortization requirements. In general, the down payment requirements range from 5% to 25% for improved property and from 15% to 30% for unimproved property based on the use of the property and cash flow projections. Amortization requirements include the payment on an annual level payment basis (principal and interest) over a period not to exceed from 15 to 30 years, depending on the type and use of the property, with payments commencing not later than one year from date of sale.

83

Reclassifications

Certain items in the 1978 financial statements have been reclassified to conform to the 1979 presentation.

STEEL SERVICE

Principles of Consolidation and Description of Business

The steel service segment of the consolidated financial statements includes the accounts of Precision Steel Warehouse, Inc. and its wholly owned subsidiaries, Precision Brand Products, Inc., DuPage Manufacturing Co. and Precision Steel Warehouse, Inc. - Charlotte Service Center. All investments in common stock and the related dividend income have been classified in the financial segment. Steel service is predominantly engaged in processing cold rolled metals, principally specialty steels, to customer order specifications; it also manufactures and distributes packaged tool room specialty products and hose clamps.

Inventories

Inventories are valued at the lower of cost (last-in, first-out method) or market. Market is considered to be net realizable value.

Property, Plant and Equipment

Steel service properties and equipment are depreciated on the straight-line method for machinery and equipment other than building equipment and on the declining-balance method for other depreciable assets. The useful lives used for the principal classes of assets are as follows:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Machinery and equipment	5 to 10 years

FINANCIAL AND STEEL SERVICE

Properties, Plant and Equipment

Maintenance and repairs are charged to appropriate expense accounts in the year incurred; renewals and material betterments are added to the property account balances. Cost and accumulated depreciation and amortization applicable to assets retired or otherwise disposed of are eliminated from the related accounts and the profit or loss on disposition is credited or charged to income.

Income Taxes

Beginning in 1977, the Company and its subsidiaries have been included in the consolidated Federal income tax return of Blue Chip Stamps. The provision for Federal income tax has been computed on the separate results of operations of the Company and its subsidiaries as if it filed a separate consolidated return. The Company also remits to Blue Chip Stamps the amount of income taxes which would be currently payable if it were filing a separate consolidated Federal income tax return.

If certain conditions are met, savings and loan associations, in determining taxable income, are allowed special bad debt deductions based on specified experience formulas or on a percentage of taxable income before such deduction. The bad debt deduction must be within certain limitations based on outstanding loans and the ratio of reserves and undivided profits to savings accounts. Mutual Savings reached such limitations in 1968, and a bad debt deduction for financial statement purposes has not been available since that time.

Investment tax credits, which are not material, are recognized as the tax benefits are realized.

(2) Parent Company Financial Information (Wesco Financial Corporation)

BALANCE SHEET

December 31, 1979 and 1978

ASSETS

	1979	1978
	(Thousands of dollars)	
Cash (including savings accounts with Mutual Savings)	$ 1,650	$ 1,801
Investment in common stocks, at cost (quoted market, $49,561,000 in 1979 and $24,837,000 in 1978)	38,441	23,198
Investment in preferred stocks, at cost (quoted market, $1,702,000 in 1979 and $381,000 in 1978)	2,011	409
Real estate loans receivable	600	602
Interest and dividends receivable and other assets	824	544
Income taxes refundable	387	91
Advances to Steel Service	4,200	—
Investments in subsidiaries and, in 1978, affiliated company, at equity (Note 6)	75,492	63,284
Office properties and equipment, net (Notes 7 and 10)	3,576	3,771
	$127,181	$ 93,700

LIABILITIES AND STOCKHOLDERS' EQUITY

	1979	1978
	(Thousands of dollars)	
Notes payable (Note 10)	$ 30,384	$ 5,428
Accounts payable and accrued expenses	893	784
Taxes on income		
Current	—	5
Deferred	—	14
Total liabilities	31,277	6,231
Commitments and contingent liabilities (Notes 12 and 14)		
Stockholders' equity (Note 13):		
Capital stock of $1 par value per share. Authorized 7,500,000 shares; issued 7,119,807 shares	7,120	7,120
Capital surplus arising from stock dividends	23,319	23,319
Retained earnings — substantially restricted	65,465	57,030
Total stockholders' equity	95,904	87,469
	$127,181	$ 93,700

STATEMENT OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Revenues:		
Dividends from consolidated subsidiaries	$ 8,400	$ 7,000
Dividends on common and preferred stocks	1,557	1,000
Rental of office premises, net	603	491
Dividends from affiliate (Note 6)	—	520
Interest on savings accounts in Mutual Savings	508	297
Gain on sale of affiliate (Note 6)	1,424	—
Loss on sale of other marketable securities	(40)	—
Other, net	85	93
	12,537	9,401
Expenses:		
Interest on notes payable	2,519	507
General and administrative	471	434
	2,990	941
Income before items shown below	9,547	8,460
Provision (benefit) for income taxes	(320)	139
Equity in undistributed earnings of subsidiaries and affiliate:		
Subsidiaries	1,202	356
Affiliate	71	(196)
Net income	11,140	8,481
Retained earnings — beginning of year	57,030	50,970
Cash dividends declared and paid	(2,705)	(2,421)
Retained earnings — end of year	$ 65,465	$ 57,030

STATEMENT OF CHANGES IN FINANCIAL POSITION

December 31, 1979 and 1978

	1979	1978
	(Thousands of dollars)	
Sources (uses) of cash from operations:		
Net income	$ 11,140	$ 8,481
Add (deduct):		
Depreciation and amortization	234	291
Undistributed earnings of subsidiary and affiliate	(1,273)	(160)
Other, net	(11)	(7)
Cash provided from operations	10,090	8,605
Other sources of cash:		
Proceeds from borrowings	25,000	—
Proceeds from sale of affiliate, net of gain (Note 6)	5,147	—
	40,237	8,605
Other uses of cash:		
Purchase of Precision Steel	15,082	—
Advance to Precision Steel	4,200	—
Capital contribution to Precision Steel	1,000	—
Increase in investments in marketable securities	16,845	15,094
Cash dividends declared and paid	2,705	2,421
Other, net	556	869
	40,388	18,384
Decrease in cash	$ 151	$ 9,779

(3) Acquisition of Precision Steel Warehouse, Inc.

Effective February 28, 1979, Wesco purchased the business and assets of Precision Steel Warehouse, Inc. and subsidiaries for $15,082,000 in cash and the assumption of the liabilities of Precision Steel. The transaction has been accounted for as a purchase. Assets acquired totaled $18,439,000, including $14,368,000 of current assets and $4,071,000 of property, plant and equipment. Liabilities assumed totaled $3,357,000, including current liabilities of $3,000,000. These amounts approximate the historical book values at February 28, 1979 as recorded by Precision Steel. The accompanying consolidated and parent company only statements of income for the year ended December 31, 1979 include the net income of Precision Steel since the date of acquisition.

The following data present unaudited pro forma combined income data of Wesco and Precision Steel for 1979 and 1978 as if Wesco had owned Precision Steel throughout such periods. Pro forma adjustments include additional financing costs net of applicable tax benefits.

85

	1979	1978
	(Thousands of dollars, except per share amounts)	
Total revenues	$107,826	$ 91,483
Total costs and expenses	$ 92,295	$ 77,552
Net income	$ 11,348	$ 9,689
Pro forma net income per share	$ 1.59	$ 1.36
Actual net income per share	$ 1.56	$ 1.19

The results of operations for Wesco for its fiscal year ended December 31, 1978 and for Precision Steel for its fiscal year ended June 30, 1978 have been combined for purposes of the pro forma presentation for the fiscal year ended 1978.

The above data is not necessarily indicative of what may be expected in the future.

(4) Investment in Common and Preferred Stocks

The investment in common and preferred stocks is comprised of the following:

	1979		1978	
	(Thousands of dollars)			
	Cost	Market	Cost	Market
Common stocks	$ 61,317	$ 75,830	$ 54,060	$ 58,563
Preferred stocks	32,636	28,814	28,809	28,380
	$ 93,953	$104,644	$ 82,869	$ 86,943

At December 31, 1979 and 1978 all common stocks and certain preferred stocks amounting to $15,329,000 and $13,978,000, respectively, are considered "marketable equity securities".

At December 31, 1979 there was a net unrealized gain on "marketable equity securities" of $11,457,000 including gross unrealized gains of $14,512,000 and gross unrealized losses of $3,055,000.

In January 1980, the Company sold its $15,206,000 investment in Federal National Mortgage Association common stock at a gain before income taxes of $1,439,000. At March 17, 1980 the Company had a net unrealized loss on its "marketable equity securities" of approximately $370,000.

(5) Loans Receivable

Loans receivable are summarized as follows:

	1979	1978
	(Thousands of dollars)	
Real estate loans on residential property of:		
One to four units (home loans)	$396,918	$376,151
More than four units	69,646	78,206
Other properties	15,430	17,681
	481,994	472,038
Less:		
Unearned loan fees	(465)	(513)
Unrealized profit on sales of real property	(115)	(457)
Undisbursed loan funds	(845)	(5,989)
	480,569	465,079
Loans on savings accounts	25,655	12,518
	$506,224	$477,597

Included above are:		
Loans to facilitate sales of real estate acquired in settlement of loans	$ 1,341	$ 1,466
"Slow Loans" (essentially 90 days or more delinquent)	$ 703	$ 338
Loans at variable interest rates	$ 1,105	$ —
FHA insured and VA partially guaranteed	$ 1,811	$ 2,201
Average interest rate at December 31	8.98%	8.49%

(6) Investment in Affiliate

At December 31, 1978, the Company had a 21.6% investment in the common stock of Detroit International Bridge Company. The investment was accounted for under the equity method. On March 12, 1979, all the common stock of Detroit International Bridge Company owned by the Company, was sold to an unaffiliated party. The Company realized a gain on sale of $1,424,000, which has been included in "other income, net" in the accompanying consolidated statement of income for the year ended December 31, 1979. Taxes on the gain were approximately $440,000.

(7) Property, Plant and Equipment, Net

Property, plant and equipment, at cost, less accumulated depreciation and amortization consist of the following:

	1979	1978
	(Thousands of dollars)	
Parent Company:		
Land	$ 1,386	$ 1,386
Office buildings and leasehold improvements	5,350	5,344
Furniture, fixtures and equipment	13	6
	6,749	6,736
Accumulated depreciation and amortization	(3,173)	(2,965)
	$ 3,576	$ 3,771
Consolidated:		
FINANCIAL:		
Land	$ 1,727	$ 1,654
Office buildings and leasehold improvements	7,813	6,568
Furniture, fixtures and equipment	1,483	1,317
	11,023	9,539
Accumulated depreciation and amortization	(4,768)	(4,364)
	$ 6,255	$ 5,175
STEEL SERVICE:		
Land	$ 372	$ —
Building and improvements	1,695	—
Machinery and equipment	2,739	—
	4,806	—
Accumulated depreciation and amortization	(396)	—
	$ 4,410	$ —

86

Financial depreciation and amortization expense and capital expenditures for 1979 amounted to $432,000 and $1,507,000, respectively, and for 1978 amounted to $433,000 and $229,000, respectively. Steel Service depreciation and amortization expense and capital expenditures for 1979 amounted to $398,000 and $750,000, respectively.

(8) Inventories

Inventories (relating to Precision Steel) used in computing cost of sales were as follows:

February 28, 1979	$5,344,000
December 31, 1979	$6,082,000

If the first-in, first-out method of determining inventory cost had been used by Precision Steel, inventories would have been higher by $4,182,000 at December 31, 1979.

(9) Savings Accounts

Savings account balances at December 31 are summarized as follows:

	Stated Rate	1979	%	1978	%
		(Thousands of dollars)			
Passbook	5¼-5½%	$120,827	24	$142,256	29
Bonus	5½	—	—	1,520	—
	5¾	4,821	1	8,390	2
	6	384	—	649	—
		5,205	1	10,559	2
Certificates	5¾	889	—	2,005	—
	6	5,295	1	7,491	2
	6½	18,541	4	44,126	9
	6¾	8,516	2	12,403	3
	7	373	—	421	—
	7½	90,081	18	116,170	24
	7¾	72,032	14	79,952	16
	8	15,472	3	12,955	3
Money Market Certificates	7⅞-10¾	156,646	30	55,259	11
$100,000 Minimum Certificates	7½-12¼	15,035	3	4,731	1
		382,880	75	335,513	69
		$508,912	100	$488,328	100
MATURITY					
No maturity		$126,911	25	$155,411	32
Within one year		215,909	42	136,772	28
1-2 years		50,117	10	30,053	6
2-3 years		48,511	10	52,978	11
3-4 years		38,104	7	52,459	11
4-5 years		17,075	4	32,047	6
Over 5 years		12,285	2	28,608	6
		$508,912	100	$488,328	100

The average interest rate was 8.12% at December 31, 1979 and 6.88% at December 31, 1978. This average interest rate is based upon stated interest rates without giving consideration to daily compounding of interest or forfeiture of interest because of premature withdrawals.

The weighted average stated rate of interest for the year was 7.40% in 1979 and 6.57% in 1978. The average balance outstanding based upon beginning and month-end balances used in this calculation was $508,994,000 in 1979 and $477,230,000 in 1978.

(10) Notes Payable

The following is a summary of notes payable:

1979	Parent Company	Consolidated
	(Thousands of dollars)	
FINANCIAL:		
Federal Home Loan Bank advances	$ —	$ 48,626
Notes payable, secured by main office land, buildings and assignment of leases, with interest at 9.25%	5,384	5,384
Notes payable, due 1991 with interest at 10⅛% payable June 15 and December 15	25,000	25,000
	$ 30,384	$ 79,010
STEEL SERVICE:		
Notes payable, secured by certain land and buildings, with interest at 5.5%		$ 307

1978	Parent Company	Consolidated
	(Thousands of dollars)	
FINANCIAL:		
Federal Home Loan Bank advances	$ —	$ 53,869
Notes payable, secured by main office land, buildings and assignment of leases, with interest at 9.25%	5,428	5,428
	$ 5,428	$ 59,297

Notes payable mature as follows:

	Parent Company	Consolidated
	(Thousands of dollars)	
1980	$ 47	$ 5,348
1981	51	5,357
1982	56	15,849
1983	62	21,108
1984	68	1,522
Thereafter	30,100	30,133
	$ 30,384	$ 79,317

Federal Home Loan Bank advances are secured by the investment in the stock of the Federal Home Loan Bank and by pledges of certain real estate loans amounting to $65,771,000 in 1979 and $73,453,000 in 1978. At December 31, 1979 interest rates on outstanding advances range from 7.5% to 9.5%. Average FHLB advances, based upon month-end balances were $51,540,000 and $26,304,000, and the approximate weighted average interest rates were 8.9% and 8.4% for the years ended December 31, 1979 and 1978, respectively. Additionally, the maximum advances outstanding at any month-end were $53,869,000 for both 1979 and 1978, respectively.

87

The 10⅛% Notes indenture agreement has certain covenants which restrict funded debt, dividends, liens, etc. The Company is in compliance with the covenants.

(11) Taxes on Income

The consolidated statement of income contains provisions for income taxes as follows:

	1979	1978
	(Thousands of dollars)	
Financial	$ 2,454	$ 3,186
Steel Service	1,547	—
Total provision for income taxes	$ 4,001	$ 3,186

The provision for income taxes is summarized as follows:

	1979	1978
	(Thousands of dollars)	
Current tax expense:		
Federal	$ 2,945	$ 1,739
State	1,533	1,250
	4,478	2,989
Deferred tax expense:		
Federal	(318)	141
State	(159)	56
	(477)	197
	$ 4,001	$ 3,186

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. Sources of timing differences resulting in (increase) or decrease to taxable income are as follows:

	1979	1978
	(Thousands of dollars)	
Different method for recognition of loan fees and discounts on GNMA mortgage-backed certificates	$ (826)	$ 299
Cash method used for tax purposes	451	(85)
Other timing differences	(102)	(17)
	$ (477)	$ 197

Deferred income tax included in the accompanying consolidated balance sheet amounted to $7,070,000 and $7,547,000 at December 31, 1979 and 1978, respectively.

Following is a reconciliation between the Federal statutory income tax rate and the effective income tax rate:

	1979	1978
Statutory Federal income tax rate	46.0%	48.0%
Increase (decrease) in tax rate resulting from:		
Dividends received deduction on common and preferred stock	(18.3)	(21.0)
Net gains on sales of foreclosed real property	(2.1)	(3.6)
State franchise tax, net of Federal income tax benefit	4.9	5.8
Effect of capital gain and loss rate	(2.1)	.2
Other differences	(2.0)	(2.1)
Effective income tax rate	26.4%	27.3%

The Company's federal income tax returns through 1976 have been examined by and settled with the Internal Revenue Service.

(12) Commitments and Contingent Liabilities

The Company and its subsidiaries are defendants in litigation arising in the normal course of business. In the opinion of management, such litigation will not have a material effect on the financial position or results of operations of the Company.

The Company and its subsidiaries have future minimum rental payments under noncancellable operating leases aggregating $2,610,000 as of December 31, 1979. The rentals are payable as follows: 1980 — $380,000; 1981 — $346,000; 1982 — $321,000; 1983 — $317,000; 1984 — $317,000; and $929,000 thereafter. Rental expense amounted to $398,000 and $203,000 for 1979 and 1978, respectively.

(13) Retained Earnings

The Federal Savings and Loan Insurance Corporation in connection with the insurance of savings accounts, requires savings and loan associations to maintain certain reserves which may be used only for the purpose of absorbing losses. In addition, associations must maintain certain reserves under California law. Such reserve requirements, which amounted to $34,498,000 at December 31, 1979, represent a restriction of retained earnings. These reserves are not related to amounts of losses actually anticipated and have not been charged against income. A summary of retained earnings follows:

Statutory reserve		$ 34,498
Retained earnings available for cash dividends:		
Subject to Federal income taxes		16,544
Not subject to Federal income taxes		14,423
		30,967
Retained earnings December 31, 1979		$ 65,465

Provision for Federal income taxes has not been made on the retained earnings restricted by FSLIC regulations of $34,498,000 nor on an additional amount of retained earnings of $16,544,000. If in the future such amounts are used for any purpose other than to absorb loan losses, including distributions in liquidation, the amounts used will be subject to Federal income tax at the then applicable rates. Due to differences in methods of reporting results of operations for tax return and financial statement purposes, the amount of dividends that the Company can currently pay (tax basis) is significantly lower than the financial statement amount.

88

(14) Retirement Plan

FINANCIAL:

A noncontributory retirement plan is in effect for all eligible employees of the Company and its subsidiaries. Eligibility is based on age and certain minimum working hour requirements. Employer contributions are computed utilizing the aggregate cost funding method. The Company's policy is to fund pension costs accrued. There are no unfunded prior service costs. Pension costs for 1979 and 1978 amounted to $98,000 and $123,000, respectively. Pension fund assets exceeded the actuarially computed value of vested benefits.

STEEL SERVICE:

Precision Steel and its subsidiaries contribute to pension plans covering substantially all employees. Precision Steel administers two plans, one covering nonunion salaried employees, and the other covering certain hourly union employees. Contributions are also made to two multi-employer union-administered pension plans.

Contributions for Precision Steel-administered pension plans are determined annually on the basis of independent actuarial calculations and include normal costs for both plans and amortization of prior service costs over 34 years for the salaried plan. Unfunded prior service costs were approximately $290,000 at December 31, 1979. The hourly plan is fully funded. Contributions to the union-administered plans are based on negotiated hourly rates. Precision Steel's policy is to fund costs accrued. Funded assets of all Precision Steel-administered plans exceed the value of actuarially computed vested benefits. Pension costs for the ten months ended December 31, 1979 amounted to $80,000.

(15) Real Estate Held for Sale

Real estate held for sale represents properties acquired through foreclosure by Mutual Savings net of allowance for losses of $192,000 in 1979 and 1978.

Income from real estate held for sale is:

	1979	1978
	(Thousands of dollars)	
Net gains from sales	$ 721	$ 896
Income from rentals	51	19
	772	915
Less maintenance and sales expense	(61)	(67)
	$ 711	$ 848

(16) Quarterly Information (Unaudited)

Unaudited quarterly information for the years ended December 31, 1979 and 1978 are as follows:

	Mar. 31, 1979	Jun. 30, 1979	Sept. 30, 1979	Dec. 31, 1979
	(Thouands of dollars)			
Financial revenues	$15,819	$14,928	$14,938	$16,472
Interest on savings accounts	8,698	9,112	9,153	10,065
Steel Service revenues	5,107	11,606	11,367	9,803
Cost of sales	4,103	9,262	9,224	7,750
Net income	3,296	2,569	2,415	2,860
Net income per share based on 7,119,807 shares	.46	.36	.34	.40

	Mar. 31, 1978	Jun. 30, 1978	Sept. 30, 1978	Dec. 31, 1978
	(Thouands of dollars)			
Financial revenues	$11,565	$12,923	$12,404	$14,127
Interest on savings accounts	7,537	7,619	7,850	8,032
Net income	1,520	2,613	1,746	2,602
Net income per share based on 7,119,807 shares	.21	.37	.25	.36

(17) Subsequent Event

On March 25, 1980, Mutual Savings (Mutual) executed a contract with another savings and loan association (the Association) which provides for the sale of Mutual's savings and loan business at all branches (15). Mutual will continue its savings and loan business at its headquarters' office and a satellite office to be opened in 1980 across the street from the headquarters' office. Under the terms of the contract, Mutual will sell all premises and equipment at the branches (approximate net book value of $2,500,000 at December 31, 1979), and transfer net savings accounts at the branches (approximately $300,000,000) and mortgage loans with a book value of an equal amount. The Association will pay Mutual $8,086,000 for the branch facilities, resulting in an approximate gain before income taxes and expenses of sale of $5,500,000. The transaction will result in the payment of approximately $2,000,000 in income taxes on the gain. In addition, $4,800,000 of the recorded deferred income tax liability will become currently payable. The contract provides that the mortgage loans transferred will have an average yield of 10% and it is anticipated that the loans retained by Mutual will have an average yield of approximately 7.4%.

The sale is contingent upon receipt of regulatory approvals.

89

WESCO FINANCIAL CORPORATION

Schedule III

INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS RECEIVED FROM AFFILIATES AND OTHER PERSONS

Years ended December 31, 1979 and 1978

COLUMN A	COLUMN B		COLUMN C		COLUMN D		COLUMN E		COLUMN F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Equity Taken Up in Earnings (Losses) of Affiliates and Other Persons For the Period	Other	Distribution of Earnings by Persons In Which Earnings (Losses) Were Taken Up	Other	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in Dollars	Dividends Received During the Period From Investments Not Accounted For By the Equity Method
Mutual Savings and Loan Association: Guarantee stock of $100 par value:									
1979	600(1)	$ 58,146,000	$ 7,703,000	—	$ 8,400,000	—	600(1)	$ 57,449,000	
1978	600(1)	$ 57,433,000	$ 7,313,000	—	$ 6,600,000	—	600(1)	$ 58,146,000	
WSC Insurance Agency Capital stock of $1 par value:									
1979	10,000(1)	$ 62,000	$ 30,000	—	—	—	10,000(1)	$ 92,000	
1978	10,000(1)	$ 419,000	$ 43,000	—	$ 400,000	—	10,000(1)	$ 62,000	
Detroit International Bridge Company $1 par value:									
1979	273,780(2)	$ 5,076,000	$ 71,000	—	—	$ 5,147,000(3)	—	$ —	
1978	272,908(2)	$ 5,330,000	$ 324,000	$ 20,000	$ 520,000	$ 78,000(4)	273,780(2)	$ 5,076,000	
Precision Steel Warehouse, Inc. Capital stock of $1,000 par value:									
1979	—	—	$ 1,869,000(6)	$ 16,082,000(5)	—	—	1,000(1)	$ 17,951,000	
Total									
1979		$ 63,284,000	$ 9,673,000	$ 16,082,000	$ 8,400,000	$ 5,147,000		$ 75,492,000	
1978		$ 63,182,000	$ 7,680,000	$ 20,000	$ 7,520,000	$ 78,000		$ 63,284,000	

(1) 100% of the outstanding shares.
(2) 21.6% of the outstanding shares in 1978.
(3) See note 6 to the consolidated financial statements.
(4) Amortization of excess purchase price.
(5) Includes $1,000,000 contribution to capital in addition to acquisition cost of $15,082,000 — see note 3 to consolidated financial statements.
(6) Includes $162,000 of dividend income included in Financial segment — see note 1 to consolidated financial statements.

90

WESCO FINANCIAL CORPORATION

Schedule I

MARKETABLE SECURITIES — OTHER SECURITY INVESTMENTS

December 31, 1979

COLUMN A NAME OF ISSUER AND TITLE OF EACH ISSUE	COLUMN B NUMBER OF SHARES OR PAR VALUE	COLUMN C and E COST OF EACH ISSUE AND AMOUNT ON THE BALANCE SHEET	COLUMN D VALUE BASED ON MARKET QUOTATIONS AT BALANCE SHEET DATE
Securities Issued by Govt. Agencies:			
Securities Issued by U.S. Government	1,575,000	$ 1,564,000	$ 1,564,000
Securities Issued by States and Municipalities	6,670,000	6,670,000	7,099,000
	8,245,000	$ 8,234,000	$ 8,663,000
Common Stocks:			
FNMA	1,069,100	$ 15,206,000	$ 17,239,000
Safeco Corporation	516,322	12,820,000	19,491,000
Cleveland Cliffs Iron Co.	388,200	10,545,000	12,907,000
Times Mirror Inc.	314,800	9,265,000	11,490,000
General Foods, Inc.	199,100	6,669,000	6,695,000
Issued by Others	279,100	6,812,000	8,008,000
	2,766,622	$ 61,317,000	$ 75,830,000
Preferred Stocks:			
A. T. & T.	126,800	$ 5,899,000	$ 5,048,000
So. California Edison	61,100	4,815,000	3,788,000
Pacific Gas & Electric	206,800	4,697,000	3,722,000
Michigan-Wisconsin Pipeline Co.	161,491	3,973,000	3,939,000
Issued by Others	174,410	13,252,000	12,317,000
	730,601	$ 32,636,000	$ 28,814,000

WESCO FINANCIAL CORPORATION

Schedule XVI

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended December 31,1979 and 1978

The following amounts have been charged to expenses in the statement of income:

	Year ended December 31					
	1979			1978		
	Parent Company	Steel Service	Consolidated	Parent Company	Steel Service	Consolidated
Maintenance and repairs	$ 560,000	$ 300,000	$ 964,000	$ 540,000	—	$ 617,000
Depreciation and amortization of office properties and equipment	207,000	398,000	830,000	213,000	—	433,000
Taxes, other than taxes on income:						
Payroll taxes	12,000	361,000	522,000	11,000	—	144,000
Property taxes	68,000	129,000	257,000	93,000	—	185,000
Advertising	—	318,000	954,000	—	—	489,000

91

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Berkshire Hathaway Inc. annual report on Form 10-K for the year ended December 29, 1979 of our report dated March 25, 1980 relating to the financial statements of Wesco Financial Corporation and Wesco Financial Corporation and subsidiaries for the year ended December 31, 1979. Our report appears on page 14 of the December 31, 1979 combined annual report and Form 10-K to stockholders of Wesco Financial Corporation.

Price Waterhouse & Co.

PRICE WATERHOUSE & CO.

Los Angeles, California
March 25, 1980

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Berkshire Hathaway Inc. Annual Report on Form 10-K for the year ended December 29, 1979 of our report dated February 2, 1979 except for note 17 to the consolidated financial statements which is as of March 25, 1980 relating to the financial statements of Wesco Financial Corporation and Wesco Financial Corporation and Subsidiaries for the year ended December 31, 1978. Our report appears on page 14 of the December 31, 1979 combined Annual Report and Form 10-K to stockholders of Wesco Financial Corporation.

Peat, Marwick, Mitchell & Co.

Los Angeles, California
March 25, 1980

END

93