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BERKSHIRE HATHAWAY INC.

1979

ANNUAL REPORT TO THE STOCKHOLDERS

Berkshire Hathaway Inc.
1979 Annual Report to the Stockholders

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Berkshire Hathaway Inc.

To the Shareholders of Berkshire Hathaway Inc.:

Again, we must lead off with a few words about accounting. Since our last annual report, the accounting profession has decided that equity securities owned by insurance companies must be carried on the balance sheet at market value. We previously have carried such equity securities at the lower of aggregate cost or aggregate market value. Because we have large unrealized gains in our insurance equity holdings, the result of this new policy is to increase substantially both the 1978 and 1979 yearend net worth, even after the appropriate liability is established for taxes on capital gains that would be payable should equities be sold at such market valuations.

As you know, Blue Chip Stamps, our 60% owned subsidiary, is fully consolidated in Berkshire Hathaway's financial statements. However, Blue Chip still is required to carry its equity investments at the lower of aggregate cost or aggregate market value, just as Berkshire Hathaway's insurance subsidiaries did prior to this year. Should the same equities be purchased at an identical price by an insurance subsidiary of Berkshire Hathaway and by Blue Chip Stamps, present accounting principles often would require that they end up carried on our consolidated balance sheet at two different values. (That should keep you on your toes.) Market values of Blue Chip Stamps' equity holdings are given in footnote 3 on page 18.

1979 Operating Results

We continue to feel that the ratio of operating earnings (before securities gains or losses) to shareholders' equity *with all securities valued at cost* is the most appropriate way to measure any single year's operating performance.

Measuring such results against shareholders' equity with securities valued at market could significantly distort the operating performance percentage because of wide year-to-year market value changes in the net worth figure that serves as the denominator. For example, a large decline in securities values could result in a very low "market value" net worth that, in turn, could cause mediocre operating earnings to look unrealistically good. Alternatively, the more successful that equity investments have been, the larger the net worth base becomes and the poorer the operating performance figure appears. Therefore, we will continue to report operating performance measured against beginning net worth, with securities valued at cost.

On this basis, we had a reasonably good operating performance in 1979 — but not quite as good as that of 1978 — with operating earnings amounting to 18.6% of beginning net worth. Earnings per share, of course, increased somewhat (about 20%) but we regard this as an improper figure upon which to focus. We had substantially more capital to work with in 1979 than in 1978, and our performance in utilizing that capital fell short of the earlier year, even though per-share earnings rose. "Earnings per share" will rise constantly on a dormant savings account or on a U.S. Savings Bond bearing a fixed rate of return simply because "earnings" (the stated interest rate) are continuously plowed back and added to the capital base. Thus, even a "stopped clock" can look like a growth stock if the dividend payout ratio is low.

The primary test of managerial economic performance is the achievement of a high earnings rate on equity capital employed (without undue leverage, accounting gimmickry, etc.) and not the achievement of consistent gains in earnings per share. In our view, many businesses would be better understood by their shareholder owners, as well as the general public, if managements and financial analysts modified the primary emphasis they place upon earnings per share, and upon yearly changes in that figure.

Long Term Results

In measuring long term economic performance — in contrast to yearly performance — we believe it is appropriate to recognize fully any realized capital gains or losses as well as extraordinary items, and also to utilize financial statements presenting equity securities at market value. Such capital gains or losses, either realized or unrealized, are fully as important to shareholders over a period of years as

earnings realized in a more routine manner through operations; it is just that their impact is often extremely capricious in the short run, a characteristic that makes them inappropriate as an indicator of single year managerial performance.

The book value per share of Berkshire Hathaway on September 30, 1964 (the fiscal yearend prior to the time that your present management assumed responsibility) was $19.46 per share. At yearend 1979, book value with equity holdings carried at market value was $335.85 per share. The gain in book value comes to 20.5% compounded annually. This figure, of course, is far higher than any average of our yearly operating earnings calculations, and reflects the importance of capital appreciation of insurance equity investments in determining the overall results for our shareholders. It probably also is fair to say that the quoted book value in 1964 somewhat overstated the intrinsic value of the enterprise, since the assets owned at that time on either a going concern basis or a liquidating value basis were not worth 100¢ on the dollar. (The liabilities were solid, however.)

We have achieved this result while utilizing a low amount of leverage (both financial leverage measured by debt to equity, and operating leverage measured by premium volume to capital funds of our insurance business), and also without significant issuance or repurchase of shares. Basically, we have worked with the capital with which we started. From our textile base we, or our Blue Chip and Wesco subsidiaries, have acquired total ownership of thirteen businesses through negotiated purchases from private owners for cash, and have started six others. (It's worth a mention that those who have sold to us have, almost without exception, treated us with exceptional honor and fairness, both at the time of sale and subsequently.)

But before we drown in a sea of self-congratulation, a further — and crucial — observation must be made. A few years ago, a business whose per-share net worth compounded at 20% annually would have guaranteed its owners a highly successful real investment return. Now such an outcome seems less certain. For the inflation rate, coupled with individual tax rates, will be the ultimate determinant as to whether our internal operating performance produces successful investment results — i.e., a reasonable gain in purchasing power from funds committed — for you as shareholders.

Just as the original 3% savings bond, a 5% passbook savings account or an 8% U.S. Treasury Note have, in turn, been transformed by inflation into financial instruments that chew up, rather than enhance, purchasing power over their investment lives, a business earning 20% on capital can produce a negative real return for its owners under inflationary conditions not much more severe than presently prevail.

If we should continue to achieve a 20% compounded gain — not an easy or certain result by any means — and this gain is translated into a corresponding increase in the market value of Berkshire Hathaway stock as it has been over the last fifteen years, your after-tax purchasing power gain is likely to be very close to zero at a 14% inflation rate. Most of the remaining six percentage points will go for income tax any time you wish to convert your twenty percentage points of nominal annual gain into cash.

That combination — the inflation rate plus the percentage of capital that must be paid by the owner to transfer into his own pocket the annual earnings achieved by the business (i.e., ordinary income tax on dividends and capital gains tax on retained earnings) — can be thought of as an "investor's misery index". When this index exceeds the rate of return earned on equity by the business, the investor's purchasing power (real capital) shrinks even though he consumes nothing at all. *We have no corporate solution to this problem; high inflation rates will not help us earn higher rates of return on equity.*

One friendly but sharp-eyed commentator on Berkshire has pointed out that our book value at the end of 1964 would have bought about one-half ounce of gold and, fifteen years later, after we have plowed back all earnings along with much blood, sweat and tears, the book value produced will buy about the same half ounce. A similar comparison could be drawn with Middle Eastern oil. The rub has been that government has been exceptionally able in printing money and creating promises, but is unable to print gold or create oil.

We intend to continue to do as well as we can in managing the internal affairs of the business. But you should understand that external conditions affecting the stability of currency may very well be the most important factor in determining whether there are any real rewards from your investment in Berkshire Hathaway.

Sources of Earnings

We again present a table showing the sources of Berkshire's earnings. As explained last year, Berkshire owns about 60% of Blue Chip Stamps which, in turn, owns 80% of Wesco Financial Corporation. The table shows both aggregate earnings of the various business entities, as well as Berkshire's share. All of the significant capital gains or losses attributable to any of the business entities are aggregated in the realized securities gain figure at the bottom of the table, and are not included in operating earnings.

	Earnings Before Income Taxes				*Net Earnings After Tax*	
	Total		*Berkshire Share*		*Berkshire Share*	
(in thousands of dollars)	1979	1978	1979	1978	1979	1978
Total — all entities	$68,632	$66,180	$56,427	$54,350	$42,817	$39,242
Earnings from Operations:						
Insurance Group:						
Underwriting	$ 3,742	$ 3,001	$ 3,741	$ 3,000	$ 2,214	$ 1,560
Net Investment Income	24,224	19,705	24,216	19,691	20,106	16,400
Berkshire-Waumbec textiles	1,723	2,916	1,723	2,916	848	1,342
Associated Retail Stores, Inc.	2,775	2,757	2,775	2,757	1,280	1,176
See's Candies	12,785	12,482	7,598	7,013	3,448	3,049
Buffalo Evening News	(4,617)	(2,913)	(2,744)	(1,637)	(1,333)	(738)
Blue Chip Stamps — Parent	2,397	2,133	1,425	1,198	1,624	1,382
Illinois National Bank and Trust Company	5,747	4,822	5,614	4,710	5,027	4,262
Wesco Financial Corporation — Parent	2,413	1,771	1,098	777	937	665
Mutual Savings and Loan Association	10,447	10,556	4,751	4,638	3,261	3,042
Precision Steel	3,254	—	1,480	—	723	—
Interest on Debt	(8,248)	(5,566)	(5,860)	(4,546)	(2,900)	(2,349)
Other	1,342	720	996	438	753	261
Total Earnings from Operations	$57,984	$52,384	$46,813	$40,955	$35,988	$30,052
Realized Securities Gain	10,648	13,796	9,614	13,395	6,829	9,190
Total Earnings	$68,632	$66,180	$56,427	$54,350	$42,817	$39,242

Blue Chip and Wesco are public companies with reporting requirements of their own. On pages 37-43 of this report, we have reproduced the narrative reports of the principal executives of both companies, in which they describe 1979 operations. Some of the numbers they mention in their reports are not precisely identical to those in the above table because of accounting and tax complexities. (The Yanomamo Indians employ only three numbers: one, two, and more than two. Maybe their time will come.) However, the commentary in those reports should be helpful to you in understanding the underlying economic characteristics and future prospects of the important businesses that they manage.

A copy of the full annual report of either company will be mailed to any shareholder of Berkshire upon request to Mr. Robert H. Bird for Blue Chip Stamps, 5801 South Eastern Avenue, Los Angeles, California 90040, or to Mrs. Bette Deckard for Wesco Financial Corporation, 315 East Colorado Boulevard, Pasadena, California 91109.

Textiles and Retailing

The relative significance of these two areas has diminished somewhat over the years as our insurance business has grown dramatically in size and earnings. Ben Rosner, at Associated Retail Stores, continues to pull rabbits out of the hat — big rabbits from a small hat. Year after year, he produces very large earnings relative to capital employed — realized in cash and not in increased receivables and inventories as in many other retail businesses — in a segment of the market with little growth and unexciting demographics. Ben is now 76 and, like our other "up-and-comers", Gene Abegg, 82, at Illinois National and Louis Vincenti, 74, at Wesco, regularly achieves more each year.

Our textile business also continues to produce some cash, but at a low rate compared to capital employed. This is not a reflection on the managers, but rather on the industry in which they operate. In some businesses — a network TV station, for example — it is virtually impossible to avoid earning extraordinary returns on tangible capital employed in the business. And assets in such businesses sell at equally extraordinary prices, one thousand cents or more on the dollar, a valuation reflecting the splendid, almost unavoidable, economic results obtainable. Despite a fancy price tag, the "easy" business may be the better route to go.

We can speak from experience, having tried the other route. Your Chairman made the decision a few years ago to purchase Waumbec Mills in Manchester, New Hampshire, thereby expanding our textile commitment. By any statistical test, the purchase price was an extraordinary bargain; we bought well below the working capital of the business and, in effect, got very substantial amounts of machinery and real estate for less than nothing. But the purchase was a mistake. While we labored mightily, new problems arose as fast as old problems were tamed.

Both our operating and investment experience cause us to conclude that "turn-arounds" seldom turn, and that the same energies and talent are much better employed in a good business purchased at a fair price than in a poor business purchased at a bargain price. Although a mistake, the Waumbec acquisition has not been a disaster. Certain portions of the operation are proving to be valuable additions to our decorator line (our strongest franchise) at New Bedford, and it's possible that we may be able to run profitably on a considerably reduced scale at Manchester. However, our original rationale did not prove out.

Insurance Underwriting

We predicted last year that the combined underwriting ratio (see definition on page 36) for the insurance industry would "move up at least a few points, perhaps enough to throw the industry as a whole into an underwriting loss position". That is just about the way it worked out. The industry underwriting ratio rose in 1979 over three points, from roughly 97.4% to 100.7%. We also said that we thought our underwriting performance relative to the industry would improve somewhat in 1979 and, again, things worked out as expected. Our own underwriting ratio actually decreased from 98.2% to 97.1%. Our forecast for 1980 is similar in one respect; again we feel that the industry's performance will worsen by at least another few points. However, this year we have no reason to think that our performance relative to the industry will further improve. (Don't worry — we won't hold back to try to validate that forecast.)

Really extraordinary results were turned in by the portion of National Indemnity Company's insurance operation run by Phil Liesche. Aided by Roland Miller in Underwriting and Bill Lyons in Claims, this section of the business produced an underwriting profit of $8.4 million on about $82 million of earned premiums. Only a very few companies in the entire industry produced a result comparable to this.

You will notice that earned premiums in this segment were down somewhat from those of 1978. We hear a great many insurance managers talk about being willing to reduce volume in order to underwrite profitably, but we find that very few actually do so. Phil Liesche is an exception: if business makes sense, he writes it; if it doesn't, he rejects it. It is our policy not to lay off people because of the large fluctuations in work load produced by such voluntary volume changes. We would rather have some

slack in the organization from time to time than keep everyone terribly busy writing business on which we are going to lose money. Jack Ringwalt, the founder of National Indemnity Company, instilled this underwriting discipline at the inception of the company, and Phil Liesche never has wavered in maintaining it. We believe such strong-mindedness is as rare as it is sound — and absolutely essential to the running of a first-class casualty insurance operation.

John Seward continues to make solid progress at Home and Automobile Insurance Company, in large part by significantly expanding the marketing scope of that company in general liability lines. These lines can be dynamite, but the record to date is excellent and, in John McGowan and Paul Springman, we have two cautious liability managers extending our capabilities.

Our reinsurance division, led by George Young, continues to give us reasonably satisfactory overall results after allowing for investment income, but underwriting performance remains unsatisfactory. We think the reinsurance business is a very tough business that is likely to get much tougher. In fact, the influx of capital into the business and the resulting softer price levels for continually increasing exposures may well produce disastrous results for many entrants (of which they may be blissfully unaware until they are in over their heads; much reinsurance business involves an exceptionally "long tail", a characteristic that allows catastrophic current loss experience to fester undetected for many years). It will be hard for us to be a whole lot smarter than the crowd and thus our reinsurance activity may decline substantially during the projected prolonged period of extraordinary competition.

The Homestate operation was disappointing in 1979. Excellent results again were turned in by George Billings at Texas United Insurance Company, winner of the annual award for the low loss ratio among Homestate companies, and Floyd Taylor at Kansas Fire and Casualty Company. But several of the other operations, particularly Cornhusker Casualty Company, our first and largest Homestate operation and historically a winner, had poor underwriting results which were accentuated by data processing, administrative and personnel problems. We have made some major mistakes in reorganizing our data processing activities, and those mistakes will not be cured immediately or without cost. However, John Ringwalt has thrown himself into the task of getting things straightened out and we have confidence that he, aided by several strong people who recently have been brought aboard, will succeed.

Our performance in Worker's Compensation was far, far better than we had any right to expect at the beginning of 1979. We had a very favorable climate in California for the achievement of good results but, beyond this, Milt Thornton at Cypress Insurance Company and Frank DeNardo at National Indemnity's California Worker's Compensation operation both performed in a simply outstanding manner. We have admitted — and with good reason — some mistakes on the acquisition front, but the Cypress purchase has turned out to be an absolute gem. Milt Thornton, like Phil Liesche, follows the policy of sticking with business that he understands and wants, without giving consideration to the impact on volume. As a result, he has an outstanding book of business and an exceptionally well functioning group of employees. Frank DeNardo has straightened out the mess he inherited in Los Angeles in a manner far beyond our expectations, producing savings measured in seven figures. He now can begin to build on a sound base.

At yearend we entered the specialized area of surety reinsurance under the management of Chet Noble. At least initially, this operation will be relatively small since our policy will be to seek client companies who appreciate the need for a long term "partnership" relationship with their reinsurers. We are pleased by the quality of the insurers we have attracted, and hope to add several more of the best primary writers as our financial strength and stability become better known in the surety field.

The conventional wisdom is that insurance underwriting overall will be poor in 1980, but that rates will start to firm in a year or so, leading to a turn in the cycle some time in 1981. We disagree with this view. Present interest rates encourage the obtaining of business at underwriting loss levels formerly regarded as totally unacceptable. Managers decry the folly of underwriting at a loss to obtain investment income, but we believe that many will. Thus we expect th[illegible] competition will create a new threshold of tolerance for underwriting losses, and that combi[illegible]tios will average higher in the future than in the past.

To some extent, the day of reckoning has been postponed because of marked reduction in the frequency of auto accidents — probably brought on in major part by changes in driving habits induced by higher gas prices. In our opinion, if the habits hadn't changed, auto insurance rates would have been very little higher and underwriting results would have been much worse. This dosage of serendipity won't last indefinitely.

Our forecast is for an average combined ratio for the industry in the 105 area over the next five years. While we have a high degree of confidence that certain of our operations will do considerably better than average, it will be a challenge to us to operate below the industry figure. You can get a lot of surprises in insurance.

Nevertheless, we believe that insurance can be a very good business. It tends to magnify, to an unusual degree, human managerial talent — or the lack of it. We have a number of managers whose talent is both proven and growing. (And, in addition, we have a very large indirect interest in two truly outstanding management groups through our investments in SAFECO and GEICO.) Thus we expect to do well in insurance over a period of years. However, the business has the potential for really terrible results in a single specific year. If accident frequency should turn around quickly in the auto field, we, along with others, are likely to experience such a year.

Insurance Investments

In recent years we have written at length in this section about our insurance equity investments. In 1979 they continued to perform well, largely because the underlying companies in which we have invested, in practically all cases, turned in outstanding performances. Retained earnings applicable to our insurance equity investments, not reported in our financial statements, continue to mount annually and, in aggregate, now come to a very substantial number. We have faith that the managements of these companies will utilize those retained earnings effectively and will translate a dollar retained by them into a dollar or more of subsequent market value for us. In part, our unrealized gains reflect this process.

Below we show the equity investments which had a yearend market value of over $5 million:

No. of Sh.	Company	Cost	Market
		(000s omitted)	
289,700	Affiliated Publications, Inc.	$ 2,821	$ 8,800
112,545	Amerada Hess	2,861	5,487
246,450	American Broadcasting Companies, Inc.	6,082	9,673
5,730,114	GEICO Corp. (Common Stock)	28,288	68,045
328,700	General Foods, Inc.	11,437	11,053
1,007,500	Handy & Harman	21,825	38,537
711,180	Interpublic Group of Companies, Inc.	4,531	23,736
1,211,834	Kaiser Aluminum & Chemical Corp.	20,629	23,328
282,500	Media General, Inc.	4,545	7,345
391,400	Ogilvy & Mather International	3,709	7,828
953,750	SAFECO Corporation	23,867	35,527
1,868,000	The Washington Post Company	10,628	39,241
771,900	F. W. Woolworth Company	15,515	19,394
	Total	$156,738	$297,994
	All Other Holdings	28,675	38,686
	Total Equities	$185,413	$336,680

We currently believe that equity markets in 1980 are likely to evolve in a manner that will result in an underperformance by our portfolio for the first time in recent years. We very much like the companies in which we have major investments, and plan no changes to try to attune ourselves to the markets of a specific year.

Since we have covered our philosophy regarding equities extensively in recent annual reports, a more extended discussion of bond investments may be appropriate for this one, particularly in light of what has happened since yearend. An extraordinary amount of money has been lost by the insurance industry in the bond area — notwithstanding the accounting convention that allows insurance companies to carry their bond investments at amortized cost, regardless of impaired market value. Actually, that very accounting convention may have contributed in a major way to the losses; had management been forced to recognize market values, its attention might have been focused much earlier on the dangers of a very long-term bond contract.

Ironically, many insurance companies have decided that a one-year auto policy is inappropriate during a time of inflation, and six-month policies have been brought in as replacements. "How," say many of the insurance managers, "can we be expected to look forward twelve months and estimate such imponderables as hospital costs, auto parts prices, etc.?" But, having decided that one year is too long a period for which to set a fixed price for insurance in an inflationary world, they then have turned around, taken the proceeds from the sale of that six-month policy, and sold the money at a fixed price for thirty or forty years.

The very long-term bond contract has been the last major fixed price contract of extended duration still regularly initiated in an inflation-ridden world. The buyer of money to be used between 1980 and 2020 has been able to obtain a firm price now for each year of its use while the buyer of auto insurance, medical services, newsprint, office space — or just about any other product or service — would be greeted with laughter if he were to request a firm price now to apply through 1985. For in virtually all other areas of commerce, parties to long-term contracts now either index prices in some manner, or insist on the right to review the situation every year or so.

A cultural lag has prevailed in the bond area. The buyers (borrowers) and middlemen (underwriters) of money hardly could be expected to raise the question of whether it all made sense, and the sellers (lenders) slept through an economic and contractual revolution.

For the last few years our insurance companies have not been a net purchaser of any straight long-term bonds (those without conversion rights or other attributes offering profit possibilities). There have been some purchases in the straight bond area, of course, but they have been offset by sales or maturities. Even prior to this period, we never would buy thirty or forty-year bonds; instead we tried to concentrate in the straight bond area on shorter issues with sinking funds and on issues that seemed relatively undervalued because of bond market inefficiencies.

However, the mild degree of caution that we exercised was an improper response to the world unfolding about us. You do not adequately protect yourself by being half awake while others are sleeping. It was a mistake to buy fifteen-year bonds, and yet we did; we made an even more serious mistake in not selling them (at losses, if necessary) when our present views began to crystallize. (Naturally, those views are much clearer and definite in retrospect; it would be fair for you to ask why we weren't writing about this subject last year.)

Of course, we must hold significant amounts of bonds or other fixed dollar obligations in conjunction with our insurance operations. In the last several years our net fixed dollar commitments have been limited to the purchase of convertible bonds. We believe that the conversion options obtained, in effect, give that portion of the bond portfolio a far shorter average life than implied by the maturity terms of the issues (i.e., at an appropriate time of our choosing, we can terminate the bond contract by conversion into stock).

This bond policy has given us significantly lower unrealized losses than those experienced by the great majority of property and casualty insurance companies. We also have been helped by our strong preference for equities in recent years that has kept our overall bond segment relatively low. Nevertheless, we are taking our lumps in bonds and feel that, in a sense, our mistakes should be viewed less charitably than the mistakes of those who went about their business unmindful of the developing problems.

Harking back to our textile experience, we should have realized the futility of trying to be very clever (via sinking funds and other special type issues) in an area where the tide was running heavily against us.

We have severe doubts as to whether a very long-term fixed-interest bond, denominated in dollars, remains an appropriate business contract in a world where the value of dollars seems almost certain to shrink by the day. Those dollars, as well as paper creations of other governments, simply may have too many structural weaknesses to appropriately serve as a unit of long term commercial reference. If so, really long bonds may turn out to be obsolete instruments and insurers who have bought those maturities of 2010 or 2020 could have major and continuing problems on their hands. We, likewise, will be unhappy with our fifteen-year bonds and will annually pay a price in terms of earning power that reflects that mistake.

Some of our convertible bonds appear exceptionally attractive to us, and have the same sort of earnings retention factor (applicable to the stock into which they may be converted) that prevails in our conventional equity portfolio. We expect to make money in these bonds (we already have, in a few cases) and have hopes that our profits in this area may offset losses in straight bonds.

And, of course, there is the possibility that our present analysis is much too negative. The chances for very low rates of inflation are not nil. Inflation is man-made; perhaps it can be man-mastered. The threat which alarms us may also alarm legislators and other powerful groups, prompting some appropriate response.

Furthermore, present interest rates incorporate much higher inflation projections than those of a year or two ago. Such rates may prove adequate or more than adequate to protect bond buyers. We even may miss large profits from a major rebound in bond prices. However, our unwillingness to fix a price now for a pound of See's candy or a yard of Berkshire cloth to be delivered in 2010 or 2020 makes us equally unwilling to buy bonds which set a price on money now for use in those years. Overall, we opt for Polonius (slightly restated): "Neither a short-term borrower nor a long-term lender be."

Banking

This will be the last year that we can report on the Illinois National Bank and Trust Company as a subsidiary of Berkshire Hathaway. Therefore, it is particularly pleasant to report that, under Gene Abegg's and Pete Jeffrey's management, the bank broke all previous records and earned approximately 2.3% on average assets last year, a level again over three times that achieved by the average major bank, and more than double that of banks regarded as outstanding. The record is simply extraordinary, and the shareholders of Berkshire Hathaway owe a standing ovation to Gene Abegg for the performance this year and every year since our purchase in 1969.

As you know, the Bank Holding Company Act of 1969 requires that we divest the bank by December 31, 1980. For some years we have expected to comply by effecting a spin-off during 1980. However, the Federal Reserve Board has taken the firm position that if the bank is spun off, no officer or director of Berkshire Hathaway can be an officer or director of the spun-off bank or bank holding company, even in a case such as ours in which one individual would own over 40% of both companies.

Under these conditions, we are investigating the possible sale of between 80% and 100% of the stock of the bank. We will be most choosy about any purchaser, and our selection will not be based solely on price. The bank and its management have treated us exceptionally well and, if we have to sell, we want to be sure that they are treated equally as well. A spin-off still is a possibility if a fair price along with a proper purchaser cannot be obtained by early fall.

However, you should be aware that we do not expect to be able to fully, or even in very large part, replace the earning power represented by the bank from the proceeds of the sale of the bank. You simply can't buy high quality businesses at the sort of price/earnings multiple likely to prevail on our bank sale.

Financial Reporting

During 1979, NASDAQ trading was initiated in the stock of Berkshire Hathaway. This means that the stock now is quoted on the Over-the-Counter page of the Wall Street Journal under "Additional OTC Quotes". Prior to such listing, the Wall Street Journal and the Dow-Jones news ticker would not report our earnings, even though such earnings were one hundred or more times the level of some companies whose reports they regularly picked up.

Now, however, the Dow-Jones news ticker reports our quarterly earnings promptly after we release them and, in addition, both the ticker and the Wall Street Journal report our annual earnings. This solves a dissemination problem that had bothered us.

In some ways, our shareholder group is a rather unusual one, and this affects our manner of reporting to you. For example, at the end of each year about 98% of the shares outstanding are held by people who also were shareholders at the beginning of the year. Therefore, in our annual report we build upon what we have told you in previous years instead of restating a lot of material. You get more useful information this way, and we don't get bored.

Furthermore, perhaps 90% of our shares are owned by investors for whom Berkshire is their largest security holding, very often far and away the largest. Many of these owners are willing to spend a significant amount of time with the annual report, and we attempt to provide them with the same information we would find useful if the roles were reversed.

In contrast, we include no narrative with our quarterly reports. Our owners and managers both have very long time-horizons in regard to this business, and it is difficult to say anything new or meaningful each quarter about events of long-term significance.

But when you do receive a communication from us, it will come from the fellow you are paying to run the business. Your Chairman has a firm belief that owners are entitled to hear directly from the CEO as to what is going on and how he evaluates the business, currently and prospectively. You would demand that in a private company; you should expect no less in a public company. A once-a-year report of stewardship should not be turned over to a staff specialist or public relations consultant who is unlikely to be in a position to talk frankly on a manager-to-owner basis.

We feel that you, as owners, are entitled to the same sort of reporting by your manager as we feel is owed to us at Berkshire Hathaway by managers of our business units. Obviously, the degree of detail must be different, particularly where information would be useful to a business competitor or the like. But the general scope, balance, and level of candor should be similar. We don't expect a public relations document when our operating managers tell us what is going on, and we don't feel you should receive such a document.

In large part, companies obtain the shareholder constituency that they seek and deserve. If they focus their thinking and communications on short-term results or short-term stock market consequences they will, in large part, attract shareholders who focus on the same factors. And if they are cynical in their treatment of investors, eventually that cynicism is highly likely to be returned by the investment community.

Phil Fisher, a respected investor and author, once likened the policies of the corporation in attracting shareholders to those of a restaurant attracting potential customers. A restaurant could seek a given clientele — patrons of fast foods, elegant dining, Oriental food, etc. — and eventually obtain an appropriate group of devotees. If the job were expertly done, that clientele, pleased with the service, menu, and price level offered, would return consistently. But the restaurant could not change its character constantly and end up with a happy and stable clientele. If the business vacillated between French cuisine and take-out chicken, the result would be a revolving door of confused and dissatisfied customers.

So it is with corporations and the shareholder constituency they seek. You can't be all things to all men, simultaneously seeking different owners whose primary interests run from high current yield to long-term capital growth to stock market pyrotechnics, etc.

The reasoning of managements that seek large trading activity in their shares puzzles us. In effect, such managements are saying that they want a good many of the existing clientele continually to desert them in favor of new ones — because you can't add lots of new owners (with new expectations) without losing lots of former owners.

We much prefer owners who like our service and menu and who return year after year. It would be hard to find a better group to sit in the Berkshire Hathaway shareholder "seats" than those already occupying them. So we hope to continue to have a very low turnover among our owners, reflecting a constituency that understands our operation, approves of our policies, and shares our expectations. And we hope to deliver on those expectations.

Prospects

Last year we said that we expected operating earnings in dollars to improve but return on equity to decrease. This turned out to be correct. Our forecast for 1980 is the same. If we are wrong, it will be on the downside. In other words, we are virtually certain that our operating earnings expressed as a percentage of the new equity base of approximately $236 million, valuing securities at cost, will decline from the 18.6% attained in 1979. There is also a fair chance that operating earnings in aggregate dollars will fall short of 1979; the outcome depends partly upon the date of disposition of the bank, partly upon the degree of slippage in insurance underwriting profitability, and partly upon the severity of earnings problems in the savings and loan industry.

We continue to feel very good about our insurance equity investments. Over a period of years, we expect to develop very large and growing amounts of underlying earning power attributable to our fractional ownership of these companies. In most cases they are splendid businesses, splendidly managed, purchased at highly attractive prices.

Your company is run on the principle of centralization of financial decisions at the top (the very top, it might be added), and rather extreme delegation of operating authority to a number of key managers at the individual company or business unit level. We could just field a basketball team with our corporate headquarters group (which utilizes only about 1500 square feet of space).

This approach produces an occasional major mistake that might have been eliminated or minimized through closer operating controls. But it also eliminates large layers of costs and dramatically speeds decision-making. Because everyone has a great deal to do, a very great deal gets done. Most important of all, it enables us to attract and retain some extraordinarily talented individuals — people who simply can't be hired in the normal course of events — who find working for Berkshire to be almost identical to running their own show.

We have placed much trust in them — and their achievements have far exceeded that trust.

Warren E. Buffett, Chairman

March 3, 1980

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	Year ended 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	Year ended 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	48,669
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	4,924
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	
Purchase of treasury stock (3532 shares)	--	
Cost of net purchases (sales) of investments:		
U.S. Treasury bills and short-term obligations	(42,884)	
Bonds	26,735	
Marketable equity securities	63,929	
Unconsolidated subsidiaries	(100)	
Net purchase of investments	47,680	
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.)

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

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

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 redemptio[illegible] upon issuance of its trading stamps. A liability account for unredeemed trading stamps is main[illegible] 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.

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

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

(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.

(j) 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.

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.

Summarized financial statements of Illinois National Bank appear on page 31 of this report.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978

(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.

Summarized consolidated financial information of Wesco and its subsidiaries for the past two years appears on page 31 of this report.

(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

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

December 29, 1979 and December 30, 1978

(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

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.

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.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1979				
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

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	[illegible]
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.

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	25,138
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	—	—	39,793	38,542	35,563
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

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)*

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 line 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	$ 7,845
Workers' Compensation	(342)	(1,093)	(1,644)	(3,944)	5,130
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

Certified Public Accountants

Kiewit Plaza Building
Thirty-Sixth and Farnam Streets
Omaha, Nebraska 68131

Peat, Marwick, Mitchell & Co.

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. and consolidated subsidiaries as of December 29, 1979 and December 30, 1978 and the related consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. 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 consolidated 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 the 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.

Peat, Marwick, Mitchell & Co.

February 28, 1980

Berkshire Hathaway Inc.

BUSINESS ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES

Businesses of the Company and its 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".

The Company entered the 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' compenstaion operation, and by formation of six "Home-State" multiple line subsidiaries of National Indemnity which write standard and preferred classes of business in their respective 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.

(b) **manufacturing and selling of woven textile products.** The Company owns a weaving mill in New Bedford, Massachusetts, and maintains 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.

(c) **retailing of popularly priced women's and children's apparel** — 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, located in eight midwestern and northeastern states.

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

(i) **See's Candy Shops, Incorporated, a wholly-owned subsidiary of Blue Chip,** which produced boxed chocolates and other confectionary products of high quality in two large kitchen facilities in California. See's is beleived 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.

A fairly significant degree of seasonality exists in this business; a substantial portion of each year's candy sales is generated during the Christmas and Easter seasons, when high shop volume is augmented to an increasing degree by quantity sales to organizations at reduced prices.

Berkshire Hathaway Inc.

BUSINESS ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES *(Continued)*

(ii) **the newspaper business through Buffalo Evening News, Inc., a wholly-owned subsidiary of Blue Chip** whose assets, subject to certain liabilities, were purchased by Blue Chip in 1977. This company publishes a 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 which is discussed in note 13 to the accompanying Consolidated Financial Statements.

(iii) **the promotional services business** of which Blue Chip offers two principal types: (1) those used by business organizations to attract or retain customers (mainly a conventional trading stamp program), and (2) those used by businesses or other entities for internal purposes (motivation programs).

The Illinois National Bank and Trust Co. of Rockford, a commercial bank, is an approximately 98% owned subsidiary of the Company. The Company must divest of control of this entity by January 1, 1981. The investment was purchased in 1969, and the equity method of accounting has been applied to this investment since acquisition. Prior to 1979, management of the Company had expected to accomplish the required divestiture by a spin-off; present views of the Federal Reserve Board may make this manner of divestiture less attractive than it was previously considered, however, and all or a major portion of this investment may be sold in 1980. Equity in the bank's earnings have 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 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 that the Company's economic interest in Wesco is approximately 48%.) In the Company's consolidated financial statements included in this report, the equity method of accounting is reflected for Blue Chip's investment in Wesco. Wesco owns all of the outstanding stock of Mutual Savings and Loan Association, which operates at sixteen locations in Southern California and is believed to rank 35th in assets among savings and loan associations in that state. In February, 1979 Wesco purchased the net assets of Precision Steel Warehouse, Inc., a company primarily engaged in the steel service center business. It buys specialty steel and other metals and cuts the metals, to the orders, of a wide variety of customers, at its facilities in Illinois and North Carolina. Shimstock and other small metal specialty items are also products of this business.

Berkshire Hathaway Inc. — Parent Company Only

CONDENSED FINANCIAL STATEMENTS

(dollars in thousands)

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, page 12)	344,963	254,246
	$336,796	$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

Berkshire Hathaway Inc. Insurance Group

CONDENSED COMBINED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets	December 31 1979	December 31 1978
Assets:		
Investments other than in affiliates:		
Bonds, at amortized cost	$185,564	$157,651
Marketable equity securities, at market	336,680	220,929
Short term debt obligations, at cost	9,054	43,068
Investment, Blue Chip Stamps	35,355	31,442
Cash	3,128	2,570
Accounts receivable from agents, reinsurers and others	33,520	28,733
Property and equipment, net	3,363	2,757
Deferred premium acquisition costs	13,852	13,848
Other assets	3,082	3,432
	623,421	504,428
Liabilities, capital stock and surplus:		
Losses and loss adjustment expense	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
Net unrealized appreciation of marketable equity securities	108,913	61,014
Capital stock and surplus	173,934	143,151
	$623,421	$504,428

Statements of Income	1979	1978
Underwriting:		
Premiums earned	$181,950	$186,073
Losses and expenses incurred	178,207	183,072
Underwriting gain	3,743	3,001
Investment income	24,224	19,705
	27,967	22,706
Applicable income taxes	5,405	4,681
Earnings before items below	22,562	18,025
Equity in net earnings of Blue Chip Stamps	3,960	3,230
Earnings before realized gain on investments	26,522	21,255
Realized gain on investments, net of income taxes	6,241	8,873
Net income	$ 32,763	$ 30,128

Members of the Insurance Group, engaged in property/casualty insurance underwriting, are wholly-owned or substantially wholly-owned subsidiaries of Berkshire Hathaway Inc.

Berkshire Hathaway Inc. Bank Subsidiary

THE ILLINOIS NATIONAL BANK & TRUST CO. OF ROCKFORD AND SUBSIDIARY

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets	December 31 1979	1978
Assets:		
Cash	$ 27,602	$ 20,232
Investment securities	104,103	112,209
Federal funds sold	—	3,000
Loans, net of unearned discount and allowance for possible loan losses	84,377	76,122
Bank premises and equipment	1,820	1,106
Other assets	3,097	3,146
	$220,999	$215,815
Liabilities and stockholders' equity:		
Deposits	$187,223	$185,134
Liability for borrowed funds	3,367	2,357
Accrued taxes and other liabilities	2,821	2,413
	193,411	189,904
Stockholders' equity	27,588	25,911
	$220,999	$215,815

Statements of Earnings	1979	1978
Interest income	$ 18,196	$ 14,582
Interest expense	9,605	7,425
Net interest income	8,591	7,157
Provision for loan losses	108	60
Net interest income after provision for loan losses	8,483	7,097
Other income	1,208	1,161
Other expense	(3,944)	(3,436)
Earnings before income taxes and securities losses	5,747	4,822
Income taxes	601	459
Earnings before securities losses	5,146	4,363
Securities losses	68	20
Net earnings	$ 5,078	$ 4,343

Berkshire Hathaway Inc. owns approximately 98% of the outstanding stock of The Illinois National Bank & Trust Co. of Rockford. The Company is required to divest of control of the bank by January 1, 1981.

Wesco Financial Corporation

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets	December 31 1979	1978
Assets:		
Financial:		
Cash and temporary cash investments	$ 50,387	$ 53,562
Investments, at cost	100,623	89,539
Loans receivable	506,224	477,597
Other financial assets	22,538	25,596
	679,772	646,294
Steel service:		
Cash and temporary cash investments	1,413	—
Accounts receivable and inventories	10,741	—
Property, plant and equipment, net	4,410	—
Other steel service assets	329	—
	16,893	—
	$696,665	$646,294
Liabilities and stockholders' equity:		
Financial liabilities:		
Savings deposits	$508,912	$488,328
Notes payable	79,010	59,297
Other liabilities, including income taxes	10,426	11,200
	598,348	558,825
Steel service liabilities:		
Note payable	307	—
Other liabilities, including income taxes	2,106	—
	2,413	—
Total liabilities	600,761	558,825
Stockholders' equity	95,904	87,469
	$696,665	$646,294

Statements of Income	1979	1978
Financial revenues:		
Interest on loans, loan fees and service charges	$ 45,190	$ 36,254
Interest and dividends from investments	14,056	13,140
Other	2,911	1,625
	62,157	51,019
Financial expenses:		
Interest on savings deposits	37,026	31,038
Interest on notes payable	7,106	2,722
General and administrative	6,136	5,592
Income taxes	2,454	3,186
	52,724	42,538
Net income from financial operations	9,433	8,481
Steel service:		
Revenues	37,883	—
Costs and expenses, including $1,547 income taxes	36,176	—
Net income from steel service operations	1,707	—
Net income	$ 11,140	$ 8,481

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	—	—	—

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

	Equity in earnings of: Illinois National Bank	Wesco Financial Corporation	Combined Amount
	(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.

Berkshire Hathaway Inc.

MANAGEMENT DISCUSSION OF THE SUMMARY OF OPERATIONS (Continued)

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

Berkshire Hathaway Inc.

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.

To Our Stockholders

Consolidated normal operating income (i.e., before gains from sale of securities held outside our savings and loan subsidiary) for the calendar year 1979 increased slightly, to $14,303,000 ($2.76 per share) from $13,553,000 ($2.62 per share) in the previous fiscal year.

Consolidated net income (i.e., after gains from sale of securities held outside our savings and loan subsidiary) also increased slightly, to $15,526,000 ($3.00 per share) from $14,280,000 ($2.76 per share) in the previous year.

Earnings last year were assisted by our acquisition on February 28, 1979, of a new 80%-owned subsidiary, Precision Steel Warehouse, Inc., and also by increased earnings of Mutual Savings, our 80%-owned savings and loan subsidiary. Both of these subsidiaries are wholly owned by our 80%-owned Wesco Financial Corporation subsidiary. Gains from these sources were partially offset by increased losses at our 100%-owned Buffalo Evening News subsidiary.

The Precision Steel acquisition last year has required changes in the way we present financial data. We now consolidate everything except the savings and loan subsidiary, Mutual Savings, which we continue to include on an equity basis. Formerly, all the consolidated accounts of Wesco Financial Corporation, including those dealing with assets and earnings outside Mutual Savings, were included on an equity basis. In this report, 1978 figures have been restated slightly to conform to the new presentation, with no effect on net income or retained earnings.

We have four major subsidiaries, See's Candy Shops, Incorporated (100%-owned), Mutual Savings (80%-owned), Precision Steel (80%-owned), and Buffalo Evening News, Inc. (100%-owned). If we used equity accounting instead of consolidated accounting for See's, Precision Steel's operating business, and the Buffalo Evening News as well as Mutual Savings, our consolidated income for our two reporting years just ended would break down as follows (in 000s except for per-share amounts):

	Blue Chip's equity in net income (loss) of					Blue Chip
Year ended about	See's[*1]	Mutual Savings[*2]	Steel Business	Buffalo Evening News[*3]	All other net income[*4,5]	consolidated net income[*5]
December 31, 1979	$5,997	$6,795	$1,367	$(2,410)	$3,777	$15,526
Per Blue Chip share	1.16	1.31	.26	(.46)	.73	3.00
December 31, 1978	5,802	6,482	—	(1,427)	3,423	14,280
Per Blue Chip share	1.12	1.25	—	(.27)	.66	2.76

[*1] After reducing income by amortization of intangibles arising from purchase of See's at a large premium over its book value.

[*2] After increasing income by amortization of the discount from Mutual book value at which the interest was acquired.

[*3] After reducing income by amortization of relatively minor intangibles arising at acquisition of the newspaper in 1977.

[*4] After deduction of interest and other corporate expenses. In each year there was an operating loss from promotional services activities before residual consolidated net income was credited with (i) dividends and interest resulting from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed, plus (ii) income tax benefit caused by 85% exclusion of dividends in computing federal income taxes, plus (iii) Blue Chip's share of dividends, interest and rent from securities and real estate held by the Wesco Financial Corporation group outside its savings and loan and steel service activities, plus (iv) securities gains, net of minority interest.

[*5] The 1979 amounts include $1,223 or $.24 per Blue Chip share from securities gains, net of taxes and minority interest. In 1978 such securities gains were $727 or $.14 per Blue Chip share.

The foregoing breakdown differs somewhat from that required by the accounting conventions which govern presentation of financial results in our audited financial statements contained elsewhere in this report. We have taken the pains to prepare it, and to furnish it in this letter, because we believe it better explains what is really happening than does our consolidated income statement in conventional form. Generally, we are trying to disclose the things we like to be told, in the form we prefer, when roles are reversed and we are passive investors.

SEE'S CANDY SHOPS, INCORPORATED

The pre-tax earnings of our 100%-owned subsidiary, See's Candy Shops, Incorporated, declined slightly last year. However, a lower income tax rate allowed a nominal percentage gain in after-tax earnings (about 3%). This result was disappointing in view of the substantial percentage gain in sales (about 19%). Comparative figures for See's for the last two years are set forth below:

Year ended about	Sales	Profits after taxes*	Number of pounds of candy sold	Number of stores open at yearend
December 31, 1979	$87,314,000	$6,473,000	23,985,000	188
December 31, 1978	73,653,000	6,289,000	22,407,000	182

*These earnings figures are a little higher than Blue Chip Stamps' share of See's earnings shown in the table above because Blue Chip's share reflects (i) deduction of the approximately 1% share of See's earnings owned by minority stockholders of See's prior to June 6, 1978, (ii) amortization of intangibles arising from purchase of See's stock at a large premium over book value, and (iii) state income taxes on See's dividends received by Blue Chip.

Boxed chocolate consumption per capita in the United States continues to be essentially static, and the candy-store business remains subject to extraordinary cost pressure. It is very difficult for See's to cope as successfully as it does with the production and distribution problems of a business with a seasonal sales peak that becomes more extreme each year, and the flat earnings trend of the last two years has not diminished our confidence in See's management, including its outstanding leader, Charles Huggins. So far as we know the candy-store business continues to be terrible to mediocre for all other companies, yet it remains quite profitable at See's for the simple reason that both new and old customers have a pronounced tendency to prefer the taste and texture of its candy, as well as the extremely high level of retailing service which characterizes its distribution. This customer enthusiasm is caused by a virtually fanatic insistence on expensive natural candy ingredients plus expensive manufacturing and distributing methods that insure rigorous quality control and cheerful retail service. These qualities are rewarded by extraordinary sales per square foot in the stores, frequently two to three times those of competitors, and by a preference by gift recipients for See's chocolates, even when measured against much more expensive brands.

In 1978 we paid $55 per See's share to acquire a tiny minority interest in See's. If our previously owned 99% interest in See's were valued at the same price per share, such interest at that time would have had a total value approximately $25 million more than its aggregate amortized cost in our consolidated financial statements.

Our best guess is that See's earnings will increase at least modestly in 1980, because of forward contracts covering most candy ingredients at fixed prices which are now below market.

MUTUAL SAVINGS AND LOAN ASSOCIATION

Our equity in net income of our 80%-owned subsidiary, Mutual Savings, increased to $6,795,000, a new record, compared with $6,482,000 in the previous year.

However, prospects for 1980 appear poor. The entire savings and loan industry is now required to pay much higher interest rates to hold savings accounts while assets consist primarily of low-turnover portfolios of long-term mortgages at fixed or slowly changing rates below current market. Thus our best guess is that Mutual Savings' earnings will decline sharply from the record level of 1979.

Louis Vincenti, a chief executive well past normal retirement age, has guided Mutual Savings very skillfully for many years — both before and after we acquired it — not always along the standard course chosen by others in his industry. Deviations have been toward low costs, low credit losses and high ratios of capital compared to liabilities, while net worth has grown greatly during his tenure. Under Mr. Vincenti's mix of caution and innovation we expect Mutual Savings to continue to cope well with all challenges, including the difficulties we expect in 1980.

On March 25, 1980, just as this report and letter were going to press, Mutual Savings executed a contract with Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corporation, providing for sale of all Mutual's offices except its headquarters office and a satellite thereto to be opened across the street. Closing of the contract is subject to regulatory approval. Under the terms of the contract Mutual Savings will transfer net branch office deposits (about $300,000,000), together with offsetting mortgage loans in equal amounts, and will also sell physical facilities. A pre-tax gain of about $5,000,000 will be realized on the sale of physical facilities, but mortgage loans transferred will bear a higher interest rate than mortgage loans retained. It is anticipated that, after the closing: (a) a higher percentage of Mutual's total assets will consist of cash and equivalents, (b) average yield on Mutual's mortgage loans will decline significantly, and (c) Mutual's overall financial leverage will be lowered. Before or after the closing, adjustments in Mutual Savings' investments may be made, causing losses which offset part or all of any taxable profit from sale of branches; however, we do not have present plans for any such transactions. Whether, because of this sale, future earnings will be higher or lower than they otherwise would have

been will depend on factors impossible now to predict, including future interest rates and future changes in laws and regulations affecting savings institutions. The proposed sale reflects a desire to restructure operations of Mutual Savings, which will continue in the savings and loan business.

PRECISION STEEL WAREHOUSE, INC.

Our 80%-owned Precision Steel subsidiary, located in the outskirts of Chicago at Franklin Park, Illinois, was acquired for approximately $15 million on February 28, 1979. It owns a long-established steel service center business and a subsidiary engaged in distribution of tool room supplies and other products sold under its own brand names. Precision Steel's operating businesses contributed $1,367,000 to our consolidated net income in 1979, on combined sales of $37,510,000, in the 10 months of our ownership. Precision Steel is led by David Hillstrom, a chief executive who has served the company for almost 30 years.

A steel service center business may strike some of our shareholders as a peculiar addition to a candy company, even one already joined to a savings and loan business. However, Precision Steel shares an extremely important quality with See's: a company-wide culture of constant concern for customer interests and fair dealing. We believe such quality, if maintained, in a business with at least reasonably attractive economic characteristics, will almost always produce good long-term business results and, accordingly, are optimistic about the future of our new subsidiary.

Both Mutual Savings and Precision Steel are owned by Blue Chip Stamps through 80% control of Wesco Financial Corporation, a public company with shares traded on the American Stock Exchange. For more complete information, we encourage Blue Chip shareholders to obtain a copy of Wesco's 1979 annual report. Simply make your request to:

We[illegible] Financial Corporation
315 Eas[illegible] Colorado Boulevard
Pasadena, California 91109
Attention: Mrs. Bette Deckard, Secretary & Treasurer

BUFFALO EVENING NEWS, INC.

Our 100%-owned subsidiary, Buffalo Evening News, Inc., was acquired in April 1977 for approximately $34 million. Its reported financial results continue to be adversely affected by litigation expenses, increased depreciation and extraordinary expenses of "buy-outs" from labor contract provisions made in order to allow the News to benefit from equipment modernization. So affected, the after-tax operating loss was $2,410,000 in 1979, compared with a lower after-tax operating loss of $1,427,000 in the previous year.

However, some developments were quite favorable: (1) The position of the News in pending litigation with a daily newspaper competitor was supported by a unanimous and strongly worded decision of the Federal Court of Appeals in New York, reversing interlocutory injunctions which had interfered greatly with normal competitive operation of the News; (2) Circulation of the Sunday edition of the News has been rising steadily; (3) The "buy-outs" of labor contract provisions made in 1979 are expected to cause substantial cost reductions in following years; and (4) The owners of the competing Buffalo newspaper, who were responsible for commencing the pending litigation, sold their newspaper to the Minneapolis Star and Tribune Company, which shortly thereafter raised advertising rates by about 10%, thus reducing the pricing pressure applied by the previous owners who made a practice, after initiation of the News' Sunday edition, of increasing advertising rates by amounts far below inflation rates.

We now believe that the worst may be behind us in Buffalo, but we retell and extend the history so that shareholders can make their own judgments.

The News had no Sunday edition when acquired. The principal competitor, the Buffalo Courier-Express, published without opposition on Sundays. As we explained in detail in our 1977 and 1978 annual reports, the long-term survival of the News clearly required that it inaugurate a Sunday edition. (Of that there was simply no question. Real trouble has been the invariable eventual outcome for every other daily newspaper in the United States which relied overlong, in an important city, exclusively on weekday publication while a significant seven-day competitor enjoyed a Sunday monopoly. In fact, only three other "no-Sunday" papers, competing against such "with-Sunday" papers in important cities, survived as late as 1977, even though many such "no-Sunday" papers once had long histories of profitability derived from dramatic advantages in weekday circulation and advertising over their "with-Sunday" competitors. And since then one of the three survivors, the

Cincinnati Post, has been preserved, after incurring huge losses, only through the grace of its competitor's absorbing it into a joint operation with approval of the U. S. Attorney General as required by the Federal Newspaper Preservation Act of 1970. Unless similar government-blessed joint operations occur, the other two surviving "no-Sunday" papers, the Cleveland Press and the New York Post, now appear almost surely doomed by apparently irreversible operating losses.) Under such circumstances, the News commenced publishing Sundays late in 1977, as it plainly had to do if it cared at all about its long-term future. In response, an antitrust lawsuit was filed by the competing paper which for the first time faced the prospect of competition on Sundays as well as weekdays. The lawsuit, in turn, resulted in some interlocutory (i.e., temporary and not final) injunctions which, among other things, created severe disruptions in normal circulation procedures under midwinter conditions and restricted certain business promotion practices of the News, commonplace within the newspaper industry, while similar but more aggressive practices of the competing paper were not prohibited. As above set forth, these interlocutory injunctions were reversed on appeal in 1979.

In its unanimous decision for reversal of the injunctions, the Federal Court of Appeals reasoned that the generally pro-competitive antitrust laws should not be used in an anti-competitive fashion by enjoining normal promotional practices, such as those used by the News, in the course of normal competition such as inauguration of a Sunday edition.

Of course, elimination of the harmful interlocutory injunctions does not automatically improve circulation and advertising lineage of the News' Sunday edition. Success in the market has to be won slowly, if it can be won at all, through creating a desirable value for customers. Moreover, achieving success has been made more difficult by the fact that it was beyond the power of the appellate court to reverse certain material damages to the News caused by the interlocutory injunctions and accompanying publicity. But some success is occurring despite the damaged beginning. The News' Sunday edition is now being recognized by subscribers for editorial merit and is being rewarded by a steady circulation growth, tending to close the lead enjoyed by the Sunday Courier-Express. Great credit must be given to Murray Light, Editor of the News, for consistent delivery of a product which deserves and has received increased acceptance by the Greater Buffalo community. The circulation of the News' Sunday edition reached approximately 173,000 copies in February, 1980, up from approximately 156,000 copies in February, 1979, with strength accelerating throughout the period. On weekdays circulation has also increased, and the weekday News continues to be greatly preferred to the weekday Courier-Express by both readers and advertisers.

Meanwhile, notwithstanding the decision in favor of the News by the Federal Court of Appeals, pre-trial proceedings in the litigation with the Courier-Express have continued under supervision of the trial court through 1979, including discovery proceedings related to both a counterclaim by our subsidiary and a number of defenses against the competing paper's complaint, causing heavy direct litigation expenses and other indirect costs and detriments. Influenced by these factors, operating results at our Buffalo newspaper quite naturally remained unsatisfactory in 1979.

And even though signs are quite encouraging, causing us to anticipate better operating results in the future, the ultimate security of the Buffalo Evening News remains in doubt, as it will for a very extended period.

The evidence seems clear that the Buffalo Evening News is by far the most respected newspaper in Buffalo, with a tradition of editorial objectivity and integrity and good citizenship, the result of editorial control of autonomous, community-minded local editors. We have maintained and will continue to maintain this tradition of locally created excellence, as well as an equally important tradition of fair dealing with all newspaper employees and unions, who have performed loyally and well to help protect our common enterprise under difficult conditions. But even with such policies and position a long and prosperous future is not guaranteed. If the litigation continues and if the competing paper succeeds in somehow changing the law as enunciated by the Federal Court of Appeals and in obtaining the kinds of injunctions it is seeking, or if any extended strike shuts down the Buffalo Evening News, it will probably be forced to cease operations and liquidate, at an after-tax cost which could exceed $10 million. We don't think either of the possible causes for permanent closedown is likely to occur but believe our shareholders should be made aware of the hazard.

And as the hazard recedes, it should be emphasized that the News remains a valuable asset, with journalistic habits which should serve it well in the continuing competition.

Under its long-time editor, Alfred H. Kirchhofer, who still comes to the News every day at age 87, the paper developed many desirable practices, large and small, which contribute to our optimism. For instance, it became well known among journalists for the intensity with which it insisted that names, including middle initials, always be exactly correct in News' stories. "If you don't get the reader's own name right," asked Kirchhofer, "why should he believe you are correct in whatever else you report?" It is said that an institution is often the lengthened shadow of a single man. That seems to be true at the News where we regard Murray Light as a fit successor to Kirchhofer, preserving his basic value system while continuing to improve the paper.

At Blue Chip Stamps we are in part engaged in the business of trying to invest in the lengthened shadows of the right sort of people. We think we did so in Buffalo and that better financial results will probably be obtained in due course as we earn such results through nurture of a type of accurate, reader-oriented journalism unlikely to go out of style.

We do find quite irritating one aspect of the situation in Buffalo. Possibly because of the recent sale of the competing paper by its former owners and because our distaste for operating losses is so obvious to all observers, we are plagued by occasional rumors that we intend to sell the Buffalo Evening News. We do not intend to sell and will not sell. Our policy is to improve and hold.

PROMOTIONAL SERVICES BUSINESS AND OTHER INCOME

The final components of our consolidated net income last year were provided by (1) earnings from our promotional services (mainly trading stamp and motivation) business, after deduction of interest and other general parent company expense, plus (2) our share of earnings, after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries.

The promotional services business operated at a slightly decreased profit, after parent company interest and other general expense and taxes, last year, down from $2,488,000 to $2,392,000, after (properly) giving it credit for the entire income (dividends and interest, plus income tax benefits caused by dividends, plus securities gains) from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed. The decrease in profit was attributable to increased interest expense.

Trading stamp service revenues decreased by a minor amount to $15,967,000 last year compared with $16,531,000 in the previous year. Motivation business revenues decreased substantially from $3,791,000 to $2,310,000.

In our trading stamp business our "float" — resulting from past issuance of trading stamps when volume was many times greater than the current level — is large in relation to current issuances. (Trading stamp revenues peaked at $124,180,000 in fiscal 1970, and our 1979 revenues of $15,967,000 therefore represented a decline of 87% from peak volume.) Eventually, unless stamp issuances improve, earnings from investing "float" will decline greatly. The decline in recent years, however, has proceeded at an extremely slow rate, and our estimated future redemption liability actually increased by a tiny amount in 1979, as it also did in the previous year, and was $67,524,000 at yearend 1979.

As discussed extensively in previous annual reports (particularly for fiscal 1976), which we urge shareholders to review, accounting for trading stamp redemption liability (which involves estimating the number of stamps that will ultimately be redeemed and the cost per stamp) is a difficult process under any circumstances, but particularly so in an inflationary economy and when stamp issuances decline by a large percentage. We periodically revise our estimated future redemption liability as conditions warrant.

We intend to remain in the trading stamp business. Many of our present customers, aided by our stamp service, operate unusually successful supermarkets and other businesses, and we believe that, given the opportunity, we can also provide very useful service to new customers.

One final item augments our consolidated net income. Our share of earnings, including securities gains but after deduction of interest and other Wesco general corporate expense, from securities and real estate held by Wesco outside the savings and loan and steel service activities of its subsidiaries, amounted to $1,385,000 in 1979, compared with $935,000 in the previous year.

PINKERTON'S, INC.

At yearend 1979 we owned non-voting stock representing 34% of the equity in Pinkerton's, Inc., the leading national security and investigation service company. Our total investment at cost was $23,364,000. Only the dividends we receive from Pinkerton's are included in our reported income.

CONSOLIDATED BALANCE SHEET AND OTHER DATA

Our consolidated balance sheet retains a strength befitting a company whose consolidated net worth supports large outstanding promises to others. As explained in Note 4 to the accompanying financial statements, the aggregate market value of our marketable securities was higher than their aggregate cost at December 29, 1979 and approximately equal to such cost at March 17, 1980.

We did add $25,000,000 in long-term debt to our consolidated balance sheet last year, representing 12-year 10⅛% notes sold in a public issue by our 80%-owned Wesco Financial Corporation subsidiary to pay for the Precision Steel acquisition and in anticipation of other needs. However, even after this issue of long-term notes, we remain in a conservative position when total debt is compared to total net worth and total liquid assets.

A section entitled "Principal Business Activities" and a "Summary of Operations" for a five-year period are presented beginning on page 7, followed by notes and management's discussion and analysis of the summary. We invite your careful attention to those items and to our audited financial statements.

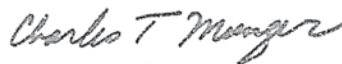
A LOOK BACK AND A LOOK AHEAD

We began the last decade with a single business, trading stamps, which was destined to decline by 87%, and a portfolio of securities, offsetting stamp redemption liabilities, which had been selected by previous owners and would have created a perfect disaster if held through to the present time. (The portfolio, for instance, contained a substantial amount of very-long-term, low-coupon municipal bonds of issuers with declining credit ratings.) Starting with this shaky foundation, the Company has managed to earn an average, although fluctuating, return of about 15% per annum on its stockholders' equity over the years. The 15% return, while not outstanding, is respectable when achieved with a balance sheet position as conservative as ours and from such a poor starting position.

So far, the 1980s appear likely to present at least as many challenges as the 1970s, but we expect to use our balance sheet strength over the next 10 years, as we did in the last 10 years, to acquire additional businesses, and we hope to earn, on average, an even higher percentage return on our shareholders' investment. One cause of our hope for a higher return is our recognition of how many mistakes we made in the course of earning 15% on equity in the decade just past. There is plenty of room for improved decision-making, and we intend to improve if we can.

However, if the present inflation continues at double-digit rates through the 1980s, real investment returns for our shareholders may well be disappointing, even if we rank well among American corporations in terms of annual earnings expressed as a percentage of shareholders' equity. A 16% return on equity, for instance, obviously won't do much in real terms for shareholders if the inflation rate is 16%, or even 11% when we also allow for income taxes imposed on owners who must report taxable "profits" while only maintaining their position on the purchasing-power treadmill. We remind shareholders of this truism because we want them to know that we are not deluded by historically satisfactory numbers into believing all is well for them. It seems likely to us that a habit of always thinking about shareholders' interests in real terms may ultimately create some sort of plus factor in our stewardship.

Cordially yours,



Charles T. Munger
Chairman of the Board

Donald A. Koeppel
President

March 25, 1980

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net income of Wesco Financial Corporation and its subsidiaries for 1979 amounted to $11,140,000 ($1.56 per share) compared to $8,481,000 ($1.19 per share) in 1978, an increase of 31%. Net income came from the following sources:

	1979	1978
Mutual Savings	$ 7,703,000	$ 7,313,000
Wesco and subsidiaries other than Mutual Savings	3,437,000	1,168,000
Total	$ 11,140,000	$ 8,481,000

Included in the 1979 earnings of Mutual Savings was a profit of $269,000 net of taxes on sale of stock of Federal National Mortgage Association (FNMA) and a profit on the sale of real estate owned of $721,000. 1978 earnings of Mutual Savings included profit on sale of real estate owned of $896,000.

The substantial increase from 1978 to 1979 in the net profit of Wesco and its subsidiaries, other than Mutual Savings, is due to the sale by Wesco, on March 12, 1979, of its stock in Detroit International Bridge Company, which had been purchased during 1977, for a profit of $984,000 net of taxes, and the advantageous use by Wesco of (1) the sum of $8,400,000 received as a dividend from Mutual Savings in January 1979, and (2) the proceeds of a successful offering of a long-term Note obligation completed by Wesco in June 1979 in the amount of $25,000,000 with interest at the rate of 10⅛% per annum due in 1991. $15,000,000 of these funds were used to repay a bank loan incurred to purchase the assets of Precision Steel Warehouse, Inc. and $1,000,000 to provide it with increased capital. The balance was used to purchase additional common stock, pending occurrence of a suitable other opportunity for use of resources.

Cost of savings increased from 6.88% at December 31, 1978 to 8.12% at December 31, 1979, while the yield on the loan portfolio only increased from 8.49% to 8.98%. Cost of savings continues to increase substantially with little change of the yield on the loan portfolio. Net profits from Mutual Savings will be substantially less in 1980 by reason of this shift in cost of money without any significant corresponding increase in the yield on Mutual's loan portfolio. Mutual's 1980 profit will be assisted as a result of the sale, in January 1980, of its remaining stock of Federal National Mortgage Association at a profit of $948,000 net of taxes.

As a result of net purchases of common and preferred stocks in 1979, Wesco's consolidated investments in such stocks reached a total at December 31, 1979 of $93,953,000 (market value $104,644,000) compared with a total at December 31, 1978 of $82,869,000 (market value $86,943,000). Dividends from these investments are subject to an 85% exclusion in determining Federal income tax.

Total savings in Mutual Savings increased $20,584,000 in 1979 compared to an increase of $28,420,000 in 1978. At year end, out-of-state savings were $42,234,000 (8.3% of total savings) compared with $47,645,000 (9.8% of total savings) in 1978.

During 1979 real estate loans made were $108,191,000, including purchase of loan participations of $50,002,000. In 1979 net sales were made of GNMA certificates in the amount of $31,669,000. In 1978, real estate loans made were $146,440,000 including the purchase of GNMA certificates in the amount of $51,532,000.

Properties acquired by foreclosure at December 31, 1979 are carried at a cost basis of $934,000 and consist principally of 22 acres of vacant land on the ocean front near the Biltmore Hotel in Santa Barbara. A planned development of single family residences is being processed and will require favorable action by the County of Santa Barbara and the California Coastal Commission. The time required for such processing is indeterminate. We believe, that subject to successful processing, a substantial profit will be realized at the time of disposition. This profit will not be subject to Federal or State income taxes.

On March 25, 1980, just as this report was going to press, Mutual Savings executed a contract with Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corp., providing for sale of all Mutual's offices except its headquarters office and a satellite thereto to be opened across the street. Closing of the contract is subject to regulatory approval. Under the terms of the contract, Mutual Savings will transfer net branch office deposits (approximately $300,000,000), together with offsetting mortgage loans in equal amounts, and will also sell physical facilities. A pre-tax gain of about $5,500,000 will be realized on the sale of physical facilities, but mortgage loans transferred will bear a higher interest rate than mortgage loans retained. It is anticipated that, after the closing: (a) a higher percentage of Mutual's total assets will consist of cash-and-equivalents, (b) average yield on Mutual's mortgage loans will decline significantly, and (c) Mutual's overall financial leverage will be lowered. Before or after the closing, adjustments in Mutual Savings' investments may be made, causing losses which offset part or all of any taxable profit from sale of branches; however, we do not have present plans for any such transactions. Whether, because of this sale, future earnings will be higher or lower than they otherwise would have been will depend on factors impossible now to predict, including future interest rates and future changes in laws and regulations affecting savings institutions. The proposed sale reflects a desire to restructure operations of Mutual Savings, which will continue in the savings and loan business.

The satellite branch office will be opened in the fall of 1980 at a shopping center across the street from the main office in Pasadena.

On January 15, 1980, Wesco increased its regular quarterly cash dividend from $.09½ per share to $.10½ per share payable March 13, 1980 to shareholders of record at the close of business on February 20, 1980.

A "Summary of Operations" for a five-year period is presented on page 7 followed by "Management's Discussion and Analysis" of that Summary. The Summary and Discussion provides more detailed information as to the results of operations of Wesco and its subsidiaries. Of particular interest are the figures provided on page 8 to show tax equivalent yields on investments, and the spreads using that basis, between combined yields on loans and investments and combined costs of savings and borrowings. These figures give recognition to the advantage obtained by investments in stocks, common and preferred, and in municipal bonds, by reason of the fact that only 15% of the income from stock is subject to Federal income tax, and all of the income from municipal bonds is exempt therefrom.

LOUIS R. VINCENTI
Chairman of the Board and President

Berkshire Hathaway Inc.

DIRECTORS AND EXECUTIVE OFFICERS

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

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

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

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

CHARLES T. MUNGER, *Director*
Vice Chairman of the Board of the Company
Chairman of the Board of Blue Chip Stamps

COMMON STOCK PRICES

The common stock of Berkshire Hathaway Inc. is traded in the over counter market. In July, 1979, the Company qualified to be regularly quoted in the NASDAQ System under the symbol BKHT. The high and low bid and asked prices for the stock in each quarter of 1978 and 1979 is set forth in the following table. The quotations represent prices between dealers and do not include retail markup, markdown or commission. They do not represent actual transactions.

	High		Low	
	Bid	Asked	Bid	Asked
1978 1st Quarter	14[illegible]	148	134	139
2nd Quarter	180	195	142	148
3rd Quarter	180	187	165	174
4th Quarter	189	194	152	162
1979 1st Quarter	185	195	154	162
2nd Quarter	215	220	185	195
3rd Quarter	350	370	215	240
4th Quarter	335	355	240	260

The Company did not pay a dividend in 1978 or 1979.

BERKSHIRE HATHAWAY INC.

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

1979