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Berkshire Hathaway Inc.

1980
ANNUAL REPORT TO THE STOCKHOLDERS

Berkshire Hathaway Inc.

1980 ANNUAL REPORT

TABLE OF CONTENTS

Chairman's Letter 2

Consolidated Financial Statements 13

Accountants Certificate 31

Condensed Financial Statements:
- Parent Company only 32
- Insurance Group 32
- Wesco Financial Corporation 32

Business Activities of the Company 34

Management's Discussion 36

Annual Report Letter:
- Blue Chip Stamps 40
- Wesco Financial Corporation 52

Directors and Executive Officers 54

Common Stock Data 54

Selected Financial Data 55

Berkshire Hathaway Inc.

To the Shareholders of Berkshire Hathaway Inc.:

Operating earnings improved to $41.9 million in 1980 from $36.0 million in 1979, but return on beginning equity capital (with securities valued at cost) fell to 17.8% from 18.6%. We believe the latter yardstick to be the most appropriate measure of single-year managerial economic performance. Informed use of that yardstick, however, requires an understanding of many factors, including accounting policies, historical carrying values of assets, financial leverage, and industry conditions.

In your evaluation of our economic performance, we suggest that two factors should receive your special attention — one of a positive nature peculiar, to a large extent, to our own operation, and one of a negative nature applicable to corporate performance generally. Let's look at the bright side first.

Non-Controlled Ownership Earnings

When one company owns part of another company, appropriate accounting procedures pertaining to that ownership interest must be selected from one of three major categories. The percentage of voting stock that is owned, in large part, determines which category of accounting principles should be utilized.

Generally accepted accounting principles require (subject to exceptions, naturally, as with our former bank subsidiary) full consolidation of sales, expenses, taxes, and earnings of business holdings more than 50% owned. Blue Chip Stamps, 60% owned by Berkshire Hathaway Inc., falls into this category. Therefore, all Blue Chip income and expense items are included in full in Berkshire's Consolidated Statement of Earnings, with the 40% ownership interest of others in Blue Chip's net earnings reflected in the Statement as a deduction for "minority interest".

Full inclusion of underlying earnings from another class of holdings, companies owned 20% to 50% (usually called "investees"), also normally occurs. Earnings from such companies — for example, Wesco Financial, controlled by Berkshire but only 48% owned — are included via a one-line entry in the owner's Statement of Earnings. Unlike the over-50% category, all items of revenue and expense are omitted; just the proportional share of net income is included. Thus, if Corporation A owns one-third of Corporation B, one-third of B's earnings, whether or not distributed by B, will end up in A's earnings. There are some modifications, both in this and the over-50% category, for intercorporate taxes and purchase price adjustments, the explanation of which we will save for a later day. (We know you can hardly wait.)

Finally come holdings representing less than 20% ownership of another corporation's voting securities. In these cases, accounting rules dictate that the owning companies include in their earnings only dividends received from such holdings. Undistributed earnings are ignored. Thus, should we own 10% of Corporation X with earnings of $10 million in 1980, we would report in our earnings (ignoring relatively minor taxes on intercorporate dividends) either (a) $1 million if X declared the full $10 million in dividends; (b) $500,000 if X paid out 50%, or $5 million, in dividends; or (c) zero if X reinvested all earnings.

We impose this short — and over-simplified — course in accounting upon you because Berkshire's concentration of resources in the insurance field produces a corresponding concentration of its assets in companies in that third (less than 20% owned) category. Many of these companies pay out relatively small proportions of their earnings in dividends. This means that only a small proportion of their current earning power is recorded in our own current operating earnings. But, while our reported operating earnings reflect only the dividends received from such companies, our economic well-being is determined by their earnings, not their dividends.

Our holdings in this third category of companies have increased dramatically in recent years as our insurance business has prospered and as securities markets have presented particularly attractive opportunities in the common stock area. The large increase in such holdings, plus the growth of earnings experienced by those partially-owned companies, has produced an unusual result; the part of "our" earnings that these companies retained last year (the part not paid to us in dividends) exceeded the total reported annual operating earnings of Berkshire Hathaway. Thus, conventional accounting only

allows less than half of our earnings "iceberg" to appear above the surface, in plain view. Within the corporate world such a result is quite rare; in our case it is likely to be recurring.

Our own analysis of earnings reality differs somewhat from generally accepted accounting principles, particularly when those principles must be applied in a world of high and uncertain rates of inflation. (But it's much easier to criticize than to improve such accounting rules. The inherent problems are monumental.) We have owned 100% of businesses whose reported earnings were not worth close to 100 cents on the dollar to us even though, in an accounting sense, we totally controlled their disposition. (The "control" was theoretical. Unless we reinvested all earnings, massive deterioration in the value of assets already in place would occur. But those reinvested earnings had no prospect of earning anything close to a market return on capital.) We have also owned small fractions of businesses with extraordinary reinvestment possibilities whose retained earnings had an economic value to us far in excess of 100 cents on the dollar.

The value to Berkshire Hathaway of retained earnings is not determined by whether we own 100%, 50%, 20% or 1% of the businesses in which they reside. Rather, the value of those retained earnings is determined by the use to which they are put and the subsequent level of earnings produced by that usage. This is true whether we determine the usage, or whether managers we did not hire — but did elect to join — determine that usage. (It's the act that counts, not the actors.) And the value is in no way affected by the inclusion or non-inclusion of those retained earnings in our own reported operating earnings. If a tree grows in a forest partially owned by us, but we don't record the growth in our financial statements, we still own part of the tree.

Our view, we warn you, is non-conventional. But we would rather have earnings for which we did not get accounting credit put to good use in a 10%-owned company by a management we did not personally hire, than have earnings for which we did get credit put into projects of more dubious potential by another management — even if we are that management.

(We can't resist pausing here for a short commercial. One usage of retained earnings we often greet with special enthusiasm when practiced by companies in which we have an investment interest is repurchase of their own shares. The reasoning is simple: if a fine business is selling in the market place for far less than intrinsic value, what more certain or more profitable utilization of capital can there be than significant enlargement of the interests of all owners at that bargain price? The competitive nature of corporate acquisition activity almost guarantees the payment of a full — frequently more than full — price when a company buys the entire ownership of another enterprise. But the auction nature of security markets often allows finely-run companies the opportunity to purchase portions of their own businesses at a price under 50% of that needed to acquire the same earning power through the negotiated acquisition of another enterprise.)

Long-Term Corporate Results

As we have noted, we evaluate single-year corporate performance by comparing operating earnings to shareholders' equity with securities valued at cost. Our long-term yardstick of performance, however, includes all capital gains or losses, realized or unrealized. We continue to achieve a long-term return on equity that considerably exceeds the average of our yearly returns. The major factor causing this pleasant result is a simple one: the retained earnings of those non-controlled holdings we discussed earlier have been translated into gains in market value.

Of course, this translation of retained earnings into market price appreciation is highly uneven (it goes in reverse some years), unpredictable as to timing, and unlikely to materialize on a precise dollar-for-dollar basis. And a silly purchase price for a block of stock in a corporation can negate the effects of a decade of earnings retention by that corporation. But when purchase prices are sensible, some long-term market recognition of the accumulation of retained earnings almost certainly will occur. Periodically you even will receive some frosting on the cake, with market appreciation far exceeding post-purchase retained earnings.

In the sixteen years since present management assumed responsibility for Berkshire, book value per share with insurance-held equities valued at market has increased from $19.46 to $400.80, or 20.5% compounded annually. (You've done better: the value of the mineral content in the human body compounded at 22% annually during the past decade.) It is encouraging, moreover, to realize that our

record was achieved despite many mistakes. The list is too painful and lengthy to detail here. But it clearly shows that a reasonably competitive corporate batting average can be achieved in spite of a lot of managerial strikeouts.

Our insurance companies will continue to make large investments in well-run, favorably-situated, non-controlled companies that very often will pay out in dividends only small proportions of their earnings. Following this policy, we would expect our long-term returns to continue to exceed the returns derived annually from reported operating earnings. Our confidence in this belief can easily be quantified: if we were to sell the equities that we hold and replace them with long-term tax-free bonds, our reported operating earnings would rise immediately by over $30 million annually. Such a shift tempts us not at all.

So much for the good news.

Results for Owners

Unfortunately, earnings reported in corporate financial statements are no longer the dominant variable that determines whether there are any real earnings for you, the owner. For only gains in purchasing power represent real earnings on investment. If you (a) forego ten hamburgers to purchase an investment; (b) receive dividends which, after tax, buy two hamburgers; and (c) receive, upon sale of your holdings, after-tax proceeds that will buy eight hamburgers, then (d) you have had no real income from your investment, no matter how much it appreciated in dollars. You may feel richer, but you won't eat richer.

High rates of inflation create a tax on capital that makes much corporate investment unwise — at least if measured by the criterion of a positive real investment return to owners. This "hurdle rate" — the return on equity that must be achieved by a corporation in order to produce *any* real return for its individual owners — has increased dramatically in recent years. The average tax-paying investor is now running up a down escalator whose pace has accelerated to the point where his upward progress is nil.

For example, in a world of 12% inflation a business earning 20% on equity (which very few manage consistently to do) and distributing it all to individuals in the 50% bracket is chewing up their real capital, not enhancing it. (Half of the 20% will go for income tax; the remaining 10% leaves the owners of the business with only 98% of the purchasing power they possessed at the start of the year — even though they have not spent a penny of their "earnings"). The investors in this bracket would actually be better off with a combination of stable prices and corporate earnings on equity capital of only a few per cent.

Explicit income taxes alone, unaccompanied by any implicit inflation tax, never can turn a positive corporate return into a negative owner return. (Even if there were 90% personal income tax rates on both dividends and capital gains, some real income would be left for the owner at a zero inflation rate.) But the inflation tax is not limited by reported income. Inflation rates not far from those recently experienced can turn the level of positive returns achieved by a majority of corporations into negative returns for all owners, including those not required to pay explicit taxes. (For example, if inflation reached 16%, owners of the 60% plus of corporate America earning less than this rate of return would be realizing a negative real return — even if income taxes on dividends and capital gains were eliminated.)

Of course, the two forms of taxation co-exist and interact since explicit taxes are levied on nominal, not real, income. Thus you pay income taxes on what would be deficits if returns to stockholders were measured in constant dollars.

At present inflation rates, we believe individual owners in medium or high tax brackets (as distinguished from tax-free entities such as pension funds, eleemosynary institutions, etc.) should expect no real long-term return from the average American corporation, even though these individuals reinvest the entire after-tax proceeds from all dividends they receive. The average return on equity of corporations is fully offset by the combination of the implicit tax on capital levied by inflation and the explicit taxes levied both on dividends and gains in value produced by retained earnings.

As we said last year, Berkshire has no corporate solution to the problem. (We'll say it again next year, too.) Inflation does not improve our return on equity.

Indexing is the insulation that all seek against inflation. But the great bulk (although there are important exceptions) of corporate capital is not even partially indexed. Of course, earnings and dividends per share usually will rise if significant earnings are "saved" by a corporation; i.e., reinvested instead of paid as dividends. But that would be true without inflation. A thrifty wage earner, likewise, could achieve regular annual increases in his total income without ever getting a pay increase — *if* he were willing to take only half of his paycheck in cash (his wage "dividend") and consistently add the other half (his "retained earnings") to a savings account. Neither this high-saving wage earner nor the stockholder in a high-saving corporation whose annual dividend rate increases while its rate of return on equity remains flat is truly indexed.

For capital to be truly indexed, return on equity must rise, i.e., business earnings consistently must increase in proportion to the increase in the price level *without any need for the business to add to capital – including working capital – employed.* (Increased earnings produced by increased investment don't count.) Only a few businesses come close to exhibiting this ability. And Berkshire Hathaway isn't one of them.

We, of course, have a corporate policy of reinvesting earnings for growth, diversity and strength, which has the incidental effect of minimizing the current imposition of explicit taxes on our owners. However, on a day-by-day basis, you will be subjected to the implicit inflation tax, and when you wish to transfer your investment in Berkshire into another form of investment, or into consumption, you also will face explicit taxes.

Sources of Earnings

The table below shows the sources of Berkshire's reported earnings. Berkshire owns about 60% of Blue Chip Stamps, which in turn owns 80% of Wesco Financial Corporation. The table shows aggregate earnings of the various business entities, as well as Berkshire's share of those earnings. All of the significant capital gains and losses attributable to any of the business entities are aggregated in the realized securities gains figure at the bottom of the table, and are not included in operating earnings. Our calculation of operating earnings also excludes the gain from sale of Mutual's branch offices. In this respect it differs from the presentation in our audited financial statements that includes this item in the calculation of "Earnings Before Realized Investment Gain".

	Earnings Before Income Taxes				*Net Earnings After Tax*	
	Total		*Berkshire Share*		*Berkshire Share*	
(in thousands of dollars)	*1980*	*1979*	*1980*	*1979*	*1980*	*1979*
Total Earnings — all entities	$85,945	$68,632	$70,146	$56,427	$53,122	$42,817
Earnings from Operations:						
Insurance Group:						
Underwriting	$ 6,738	$ 3,742	$ 6,737	$ 3,741	$ 3,637	$ 2,214
Net Investment Income	30,939	24,224	30,927	24,216	25,607	20,106
Berkshire-Waumbec Textiles	(508)	1,723	(508)	1,723	202	848
Associated Retail Stores	2,440	2,775	2,440	2,775	1,169	1,280
See's Candies	15,031	12,785	8,958	7,598	4,212	3,448
Buffalo Evening News	(2,805)	(4,617)	(1,672)	(2,744)	(816)	(1,333)
Blue Chip Stamps — Parent	7,699	2,397	4,588	1,425	3,060	1,624
Illinois National Bank	5,324	5,747	5,200	5,614	4,731	5,027
Wesco Financial — Parent	2,916	2,413	1,392	1,098	1,044	937
Mutual Savings and Loan	5,814	10,447	2,775	4,751	1,974	3,261
Precision Steel	2,833	3,254	1,352	1,480	656	723
Interest on Debt	(12,230)	(8,248)	(9,390)	(5,860)	(4,809)	(2,900)
Other	2,170	1,342	1,590	996	1,255	753
Total Earnings from Operations	$66,361	$57,984	$54,389	$46,813	$41,922	$35,988
Mutual Savings and Loan — sale of branches	5,873	—	2,803	—	1,293	—
Realized Securities Gain	13,711	10,648	12,954	9,614	9,907	6,829
Total Earnings — all entities	$85,945	$68,632	$70,146	$56,427	$53,122	$42,817

Blue Chip Stamps and Wesco are public companies with reporting requirements of their own. On pages 40 to 53 of this report we have reproduced the narrative reports of the principal executives of both companies, in which they describe 1980 operations. We recommend a careful reading, and suggest that you particularly note the superb job done by Louie Vincenti and Charlie Munger in repositioning Mutual Savings and Loan. A copy of the full annual report of either company will be mailed to any Berkshire shareholder 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.

As indicated earlier, undistributed earnings in companies we do not control are now fully as important as the reported operating earnings detailed in the preceding table. The distributed portion, of course, finds its way into the table primarily through the net investment income section of Insurance Group earnings.

We show below Berkshire's proportional holdings in those non-controlled businesses for which only distributed earnings (dividends) are included in our own earnings.

No. of Shares			*Cost*	*Market*
			(000s omitted)	
434,550	(a)	Affiliated Publications, Inc.	$ 2,821	$ 12,222
464,317	(a)	Aluminum Company of America	25,577	27,685
475,217	(b)	Cleveland-Cliffs Iron Company	12,942	15,894
1,983,812	(b)	General Foods, Inc.	62,507	59,889
7,200,000	(a)	GEICO Corporation	47,138	105,300
2,015,000	(a)	Handy & Harman	21,825	58,435
711,180	(a)	Interpublic Group of Companies, Inc.	4,531	22,135
1,211,834	(a)	Kaiser Aluminum & Chemical Corp.	20,629	27,569
282,500	(a)	Media General	4,545	8,334
247,039	(b)	National Detroit Corporation	5,930	6,299
881,500	(a)	National Student Marketing	5,128	5,895
391,400	(a)	Ogilvy & Mather Int'l. Inc.	3,709	9,981
370,088	(b)	Pinkerton's, Inc.	12,144	16,489
245,700	(b)	R. J. Reynolds Industries	8,702	11,228
1,250,525	(b)	SAFECO Corporation	32,062	45,177
151,104	(b)	The Times Mirror Company	4,447	6,271
1,868,600	(a)	The Washington Post Company	10,628	42,277
667,124	(b)	F. W. Woolworth Company	13,583	16,511
			$298,848	$497,591
		All Other Common Stockholdings	26,313	32,096
		Total Common Stocks	$325,161	$529,687

(a) All owned by Berkshire or its insurance subsidiaries.
(b) Blue Chip and/or Wesco own shares of these companies. All numbers represent Berkshire's net interest in the larger gross holdings of the group.

From this table, you can see that our sources of underlying earning power are distributed far differently among industries than would superficially seem the case. For example, our insurance subsidiaries own approximately 3% of Kaiser Aluminum, and 1¼% of Alcoa. Our share of the 1980 earnings of those companies amounts to about $13 million. (If translated dollar for dollar into a combination of eventual market value gain and dividends, this figure would have to be reduced by a significant, but not precisely determinable, amount of tax; perhaps 25% would be a fair assumption.) Thus, we have a much larger economic interest in the aluminum business than in practically any of the operating businesses we control and on which we report in more detail. If we maintain our holdings, our long-term performance will be more affected by the future economics of the aluminum industry than it will by direct operating decisions we make concerning most companies over which we exercise managerial control.

GEICO Corp.

Our largest non-controlled holding is 7.2 million shares of GEICO Corp., equal to about a 33% equity interest. Normally, an interest of this magnitude (over 20%) would qualify as an "investee" holding and would require us to reflect a proportionate share of GEICO's earnings in our own. However, we purchased our GEICO stock pursuant to special orders of the District of Columbia and New York Insurance Departments, which required that the right to vote the stock be placed with an independent party. Absent the vote, our 33% interest does not qualify for investee treatment. (Pinkerton's is a similar situation.)

Of course, whether or not the undistributed earnings of GEICO are picked up annually in our operating earnings figure has nothing to do with their economic value to us, or to you as owners of Berkshire. The value of these retained earnings will be determined by the skill with which they are put to use by GEICO management.

On this score, we simply couldn't feel better. GEICO represents the best of all investment worlds — the coupling of a very important and very hard to duplicate business advantage with an extraordinary management whose skills in operations are matched by skills in capital allocation.

As you can see, our holdings cost us $47 million, with about half of this amount invested in 1976 and most of the remainder invested in 1980. At the present dividend rate, our reported earnings from GEICO amount to a little over $3 million annually. But we estimate our share of its earning power is on the order of $20 million annually. Thus, undistributed earnings applicable to this holding alone may amount to 40% of total reported operating earnings of Berkshire.

We should emphasize that we feel as comfortable with GEICO management retaining an estimated $17 million of earnings applicable to our ownership as we would if that sum were in our own hands. In just the last two years GEICO, through repurchases of its own stock, has reduced the share equivalents it has outstanding from 34.2 million to 21.6 million, dramatically enhancing the interests of shareholders in a business that simply can't be replicated. The owners could not have been better served.

We have written in past reports about the disappointments that usually result from purchase and operation of "turnaround" businesses. Literally hundreds of turnaround possibilities in dozens of industries have been described to us over the years and, either as participants or as observers, we have tracked performance against expectations. Our conclusion is that, with few exceptions, when a management with a reputation for brilliance tackles a business with a reputation for poor fundamental economics, it is the reputation of the business that remains intact.

GEICO may appear to be an exception, having been turned around from the very edge of bankruptcy in 1976. It certainly is true that managerial brilliance was needed for its resuscitation, and that Jack Byrne, upon arrival in that year, supplied that ingredient in abundance.

But it also is true that the fundamental business advantage that GEICO had enjoyed — an advantage that previously had produced staggering success — was still intact within the company, although submerged in a sea of financial and operating troubles.

GEICO was designed to be the low-cost operation in an enormous marketplace (auto insurance) populated largely by companies whose marketing structures restricted adaptation. Run as designed, it could offer unusual value to its customers while earning unusual returns for itself. For decades it had been run in just this manner. Its troubles in the mid-70s were not produced by any diminution or disappearance of this essential economic advantage.

GEICO's problems at that time put it in a position analogous to that of American Express in 1964 following the salad oil scandal. Both were one-of-a-kind companies, temporarily reeling from the effects of a fiscal blow that did not destroy their exceptional underlying economics. The GEICO and American Express situations, extraordinary business franchises with a localized excisable cancer (needing, to be sure, a skilled surgeon), should be distinguished from the true "turnaround" situation in which the managers expect — and need — to pull off a corporate Pygmalion.

Whatever the appellation, we are delighted with our GEICO holding which, as noted, cost us $47 million. To buy a similar $20 million of earning power in a business with first-class economic characteristics and bright prospects would cost a minimum of $200 million (much more in some industries) if it had to be accomplished through negotiated purchase of an entire company. A 100% interest of that kind gives the owner the options of leveraging the purchase, changing managements, directing cash flow, and selling the business. It may also provide some excitement around corporate headquarters (less frequently mentioned).

We find it perfectly satisfying that the nature of our insurance business dictates we buy many minority portions of already well-run businesses (at prices far below our share of the total value of the entire business) that do not need management change, re-direction of cash flow, or sale. There aren't many Jack Byrnes in the managerial world, or GEICOs in the business world. What could be better than buying into a partnership with both of them?

Insurance Industry Conditions

The insurance industry's underwriting picture continues to unfold about as we anticipated, with the combined ratio (see definition on page 37) rising from 100.6 in 1979 to an estimated 103.5 in 1980. It is virtually certain that this trend will continue and that industry underwriting losses will mount, significantly and progressively, in 1981 and 1982. To understand why, we recommend that you read the excellent analysis of property-casualty competitive dynamics done by Barbara Stewart of Chubb Corp. in an October 1980 paper. (Chubb's annual report consistently presents the most insightful, candid and well-written discussion of industry conditions; you should get on the company's mailing list.) Mrs. Stewart's analysis may not be cheerful, but we think it is very likely to be accurate.

And, unfortunately, a largely unreported but particularly pernicious problem may well prolong and intensify the coming industry agony. It is not only likely to keep many insurers scrambling for business when underwriting losses hit record levels — it is likely to cause them at such a time to redouble their efforts.

This problem arises from the decline in bond prices and the insurance accounting convention that allows companies to carry bonds at amortized cost, regardless of market value. Many insurers own long-term bonds that, at amortized cost, amount to two to three times net worth. If the level is three times, of course, a one-third shrink from cost in bond prices — if it were to be recognized on the books — would wipe out net worth. And shrink they have. Some of the largest and best known property-casualty companies currently find themselves with nominal, or even negative, net worth when bond holdings are valued at market. Of course their bonds could rise in price, thereby partially, or conceivably even fully, restoring the integrity of stated net worth. Or they could fall further. (We believe that short-term forecasts of stock or bond prices are useless. The forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.)

It might strike some as strange that an insurance company's survival is threatened when its stock portfolio falls sufficiently in price to reduce net worth significantly, but that an even greater decline in bond prices produces no reaction at all. The industry would respond by pointing out that, no matter what the current price, the bonds will be paid in full at maturity, thereby eventually eliminating any interim price decline. It may take twenty, thirty, or even forty years, this argument says, but, as long as the bonds don't have to be sold, in the end they'll all be worth face value. Of course, if they are sold — even if they are replaced with similar bonds offering better relative value — the loss must be booked immediately. And, just as promptly, published net worth must be adjusted downward by the amount of the loss.

Under such circumstances, a great many investment options disappear, perhaps for decades. For example, when large underwriting losses are in prospect, it may make excellent business logic for some insurers to shift from tax-exempt bonds into taxable bonds. Unwillingness to recognize major bond losses may be the sole factor that prevents such a sensible move.

But the full implications flowing from massive unrealized bond losses are far more serious than just the immobilization of investment intellect. For the source of funds to purchase *and hold* those bonds is a pool of money derived from policyholders and claimants (with changing faces) — money which, in

effect, is temporarily on deposit with the insurer. As long as this pool retains its size, no bonds must be sold. If the pool of funds shrinks — which it will if the volume of business declines significantly — assets must be sold to pay off the liabilities. And if those assets consist of bonds with big unrealized losses, such losses will rapidly become realized, decimating net worth in the process.

Thus, an insurance company with a bond market value shrinkage approaching stated net worth (of which there are now many) and also faced with inadequate rate levels that are sure to deteriorate further has two options. One option for management is to tell the underwriters to keep pricing according to the exposure involved — "be sure to get a dollar of premium for every dollar of expense cost plus expectable loss cost".

The consequences of this directive are predictable: (a) with most business both price sensitive and renewable annually, many policies presently on the books will be lost to competitors in rather short order; (b) as premium volume shrinks significantly, there will be a lagged but corresponding decrease in liabilities (unearned premiums and claims payable); (c) assets (bonds) must be sold to match the decrease in liabilities; and (d) the formerly unrecognized disappearance of net worth will become partially recognized (depending upon the extent of such sales) in the insurer's published financial statements.

Variations of this depressing sequence involve a smaller penalty to stated net worth. The reaction of some companies at (c) would be to sell either stocks that are already carried at market values or recently purchased bonds involving less severe losses. This ostrich-like behavior — selling the better assets and keeping the biggest losers — while less painful in the short term, *is* unlikely to be a winner in the long term.

The second option is much simpler: just keep writing business regardless of rate levels and whopping prospective underwriting losses, thereby maintaining the present levels of premiums, assets and liabilities — and then pray for a better day, either for underwriting or for bond prices. There is much criticism in the trade press of "cash flow" underwriting; i.e., writing business regardless of prospective underwriting losses in order to obtain funds to invest at current high interest rates. This second option might properly be termed "asset maintenance" underwriting — the acceptance of terrible business just to keep the assets you now have.

Of course you know which option will be selected. And it also is clear that as long as many large insurers feel compelled to choose that second option, there will be no better day for underwriting. For if much of the industry feels it must maintain premium volume levels regardless of price adequacy, all insurers will have to come close to meeting those prices. Right behind having financial problems yourself, the next worst plight is to have a large group of competitors with financial problems that they can defer by a "sell-at-any-price" policy.

We mentioned earlier that companies that were unwilling — for any of a number of reasons, including public reaction, institutional pride, or protection of stated net worth — to sell bonds at price levels forcing recognition of major losses might find themselves frozen in investment posture for a decade or longer. But, as noted, that's only half of the problem. *Companies that have made extensive commitments to long-term bonds may have lost, for a considerable period of time, not only many of their investment options, but many of their underwriting options as well.*

Our own position in this respect is satisfactory. We believe our net worth, valuing bonds of all insurers at amortized cost, is the strongest relative to premium volume among all large property-casualty stockholder-owned groups. When bonds are valued at market, our relative strength becomes far more dramatic. (But lest we get too puffed up, we remind ourselves that our asset and liability maturities still are far more mismatched than we would wish and that we, too, lost important sums in bonds because your Chairman was talking when he should have been acting.)

Our abundant capital and investment flexiblity will enable us to do whatever we think makes the most sense during the prospective extended period of inadequate pricing. But troubles for the industry mean troubles for us. Our financial strength doesn't remove us from the hostile pricing environment now enveloping the entire property-casualty insurance industry. It just gives us more staying power and more options.

Insurance Operations

The National Indemnity managers, led by Phil Liesche with the usual able assistance of Roland Miller and Bill Lyons, outdid themselves in 1980. While volume was flat, underwriting margins relative to the industry were at an all-time high. We expect decreased volume from this operation in 1981. But its managers will hear no complaints from corporate headquarters, nor will employment or salaries suffer. We enormously admire the National Indemnity underwriting discipline — embedded from origin by the founder, Jack Ringwalt — and know that this discipline, if suspended, probably could not be fully regained.

John Seward at Home and Auto continues to make good progress in replacing a diminishing number of auto policies with volume from less competitive lines, primarily small-premium general liability. Operations are being slowly expanded, both geographically and by product line, as warranted by underwriting results.

The reinsurance business continues to reflect the excesses and problems of the primary writers. Worse yet, it has the potential for magnifying such excesses. Reinsurance is characterized by extreme ease of entry, large premium payments in advance, and much-delayed loss reports and loss payments. Initially, the morning mail brings lots of cash and few claims. This state of affairs can produce a blissful, almost euphoric, feeling akin to that experienced by an innocent upon receipt of his first credit card.

The magnetic lure of such cash-generating characteristics, currently enhanced by the presence of high interest rates, is transforming the reinsurance market into "amateur night". Without a super catastrophe, industry underwriting will be poor in the next few years. If we experience such a catastrophe, there could be a bloodbath with some companies not able to live up to contractual commitments. George Young continues to do a first-class job for us in this business. Results, with investment income included, have been reasonably profitable. We will retain an active reinsurance presence but, for the foreseeable future, we expect no premium growth from this activity.

We continue to have serious problems in the Homestate operation. Floyd Taylor in Kansas has done an outstanding job but our underwriting record elsewhere is considerably below average. Our poorest performer has been Insurance Company of Iowa, at which large losses have been sustained annually since its founding in 1973. Late in the fall we abandoned underwriting in that state, and have merged the company into Cornhusker Casualty. There is potential in the homestate concept, but much work needs to be done in order to realize it.

Our Workers Compensation operation suffered a severe loss when Frank DeNardo died last year at 37. Frank instinctively thought like an underwriter. He was a superb technician and a fierce competitor; in short order he had straightened out major problems at the California Workers Compensation Division of National Indemnity. Dan Grossman, who originally brought Frank to us, stepped in immediately after Frank's death to continue that operation, which now utilizes Redwood Fire and Casualty, another Berkshire subsidiary, as the insuring vehicle.

Our major Workers Compensation operation, Cypress Insurance Company, run by Milt Thornton, continues its outstanding record. Year after year Milt, like Phil Liesche, runs an underwriting operation that far outpaces his competition. In the industry he is admired and copied, but not matched.

Overall, we look for a significant decline in insurance volume in 1981 along with a poorer underwriting result. We expect underwriting experience somewhat superior to that of the industry — but, of course, so does most of the industry. There will be some disappointments.

Textile and Retail Operations

During the past year we have cut back the scope of our textile business. Operations at Waumbec Mills have been terminated, reluctantly but necessarily. Some equipment was transferred to New Bedford but most has been sold, or will be, along with real estate. Your Chairman made a costly mistake in not facing the realities of this situation sooner.

At New Bedford we have reduced the number of looms operated by about one-third, abandoning some high-volume lines in which product differentiation was insignificant. Even assuming everything

went right — which it seldom did — these lines could not generate adequate returns related to investment. And, over a full industry cycle, losses were the most likely result.

Our remaining textile operation, still sizable, has been divided into a manufacturing and a sales division, each free to do business independent of the other. Thus, distribution strengths and mill capabilities will not be wedded to each other. We have more than doubled capacity in our most profitable textile segment through a recent purchase of used 130-inch Saurer looms. Current conditions indicate another tough year in textiles, but with substantially less capital employed in the operation.

Ben Rosner's record at Associated Retail Stores continues to amaze us. In a poor retailing year, Associated's earnings continued excellent — and those earnings all were translated into cash. On March 7, 1981 Associated will celebrate its 50th birthday. Ben has run the business (along with Leo Simon, his partner from 1931 to 1966) in each of those fifty years.

Disposition of Illinois National Bank and Trust of Rockford

On December 31, 1980 we completed the exchange of 41,086 shares of Rockford Bancorp Inc. (which owns 97.7% of Illinois National Bank) for a like number of shares of Berkshire Hathaway Inc.

Our method of exchange allowed all Berkshire shareholders to maintain their proportional interest in the Bank (except for me; I was permitted 80% of my proportional share). They were thus guaranteed an ownership position identical to that they would have attained had we followed a more conventional spinoff approach. Twenty-four shareholders (of our approximate 1300) chose this proportional exchange option.

We also allowed overexchanges, and thirty-nine additional shareholders accepted this option, thereby increasing their ownership in the Bank and decreasing their proportional ownership in Berkshire. All got the full amount of Bancorp stock they requested, since the total shares desired by these thirty-nine holders was just slightly less than the number left available by the remaining 1200-plus holders of Berkshire who elected not to part with any Berkshire shares at all. As the exchanger of last resort, I took the small balance (3% of Bancorp's stock). These shares, added to shares I received from my basic exchange allotment (80% of normal), gave me a slightly reduced proportional interest in the Bank and a slightly enlarged proportional interest in Berkshire.

Management of the Bank is pleased with the outcome. Bancorp will operate as an inexpensive and uncomplicated holding company owned by 65 shareholders. And all of those shareholders will have become Bancorp owners through a conscious affirmative decision.

Financing

In August we sold $60 million of 12¾% notes due August 1, 2005, with a sinking fund to begin in 1991.

The managing underwriters, Donaldson, Lufkin & Jenrette Securities Corporation, represented by Bill Fisher, and Chiles, Heider & Company, Inc., represented by Charlie Heider, did an absolutely first-class job from start to finish of the financing.

Unlike most businesses, Berkshire did not finance because of any specific immediate needs. Rather, we borrowed because we think that, over a period far shorter than the life of the loan, we will have many opportunities to put the money to good use. The most attractive opportunities may present themselves at a time when credit is extremely expensive — or even unavailable. At such a time we want to have plenty of financial firepower.

Our acquisition preferences run toward businesses that generate cash, not those that consume it. As inflation intensifies, more and more companies find that they must spend all funds they generate internally just to maintain their existing physical volume of business. There is a certain mirage-like quality to such operations. However attractive the earnings numbers, we remain leery of businesses that never seem able to convert such pretty numbers into no-strings-attached cash.

Businesses meeting our standards are not easy to find. (Each year we read of hundreds of corporate acquisitions; only a handful would have been of interest to us.) And logical expansion of our present operations is not easy to implement. But we'll continue to utilize both avenues in our attempts to further Berkshire's growth.

Under all circumstances we plan to operate with plenty of liquidity, with debt that is moderate in size and properly structured, and with an abundance of capital strength. Our return on equity is penalized somewhat by this conservative approach, but it is the only one with which we feel comfortable.

* * * * * * * * * * * * *

Gene Abegg, founder of our long-owned bank in Rockford, died on July 2, 1980 at the age of 82. As a friend, banker and citizen, he was unsurpassed.

You learn a great deal about a person when you purchase a business from him and he then stays on to run it as an employee rather than as an owner. Before the purchase the seller knows the business intimately, whereas you start from scratch. The seller has dozens of opportunities to mislead the buyer — through omissions, ambiguities, and misdirection. After the check has changed hands subtle (and not so subtle) changes of attitude can occur and implicit understandings can evaporate. As in the courtship-marriage sequence, disappointments are not infrequent.

From the time we first met, Gene shot straight 100% of the time — the only behavior pattern he had within him. At the outset of negotiations, he laid all negative factors face up on the table; on the other hand, for years after the transaction was completed he would tell me periodically of some previously undiscussed items of value that had come with our purchase.

Though he was already 71 years of age when he sold us the Bank, Gene subsequently worked harder for us than he had for himself. He never delayed reporting a problem for a minute, but problems were few with Gene. What else would you expect from a man who, at the time of the bank holiday in 1933, had enough cash on the premises to pay all depositors in full? Gene never forgot he was handling other people's money. Though this fiduciary attitude was always dominant, his superb managerial skills enabled the Bank to regularly achieve the top position nationally in profitability.

Gene was in charge of the Illinois National for close to fifty years — almost one-quarter of the lifetime of our country. George Mead, a wealthy industrialist, brought him in from Chicago to open a new bank after a number of other banks in Rockford had failed. Mr. Mead put up the money and Gene ran the show. His talent for leadership soon put its stamp on virtually every major civic activity in Rockford.

Dozens of Rockford citizens have told me over the years of help Gene extended to them. In some cases this help was financial; in all cases it involved much wisdom, empathy and friendship. He always offered the same to me. Because of our respective ages and positions I was sometimes the junior partner, sometimes the senior. Whichever the relationship, it always was a special one, and I miss it.

Warren E. Buffett
Chairman of the Board

February 27, 1981

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

ASSETS	Jan. 3, 1981	Dec. 29, 1979
Cash	$ 9,993	$ 14,924
Investments, other than investments in affiliates:		
Bonds at amortized cost (market value: Jan. 3, 1981 — $159,512; Dec. 29, 1979 — $171,466)	187,802	185,564
Marketable equity securities (Notes 2 and 3)	525,947	411,358
Invested cash, U.S. Treasury bills and other short-term investments, at cost which approximates market	50,546	18,172
Total investments, other than affiliates	764,295	615,094
Investments in affiliates:		
The Illinois National Bank & Trust Co. of Rockford (Note 4)	—	28,785
Wesco Financial Corporation (Note 5)	63,040	56,750
Other unconsolidated subsidiaries	1,187	1,377
Total investments in affiliates	64,227	86,912
Accounts receivable from customers, agents and others (Note 6)	49,861	52,231
Inventories (Note 7)	23,802	25,704
Real estate, equipment, furniture and leasehold improvements, at cost less allowance for depreciation and amortization (Note 8)	51,484	49,793
Deferred insurance premium acquisition costs	14,163	13,652
Other assets	32,756	33,955
	$1,010,581	$ 892,265

LIABILITIES AND STOCKHOLDERS' EQUITY	Jan. 3, 1981	Dec. 29, 1979
Losses and loss adjustment expenses	$ 199,128	$ 197,697
Unearned premiums	73,281	73,604
Liability for unredeemed trading stamps	64,053	67,524
Accounts payable, accruals and other liabilities	43,462	38,792
Current income taxes	7,919	10,411
Deferred income taxes	63,329	52,079
Term debt payable (Note 9)	104,344	55,099
Minority shareholders' interests	59,851	52,097
	615,367	547,303
Stockholders' equity:		
Common stock of $5 par value. Authorized 1,250,000 shares; issued 1,214,283 shares	6,071	6,071
Capital in excess of par value	3,517	3,517
Unrealized appreciation of marketable equity securities, net of provision for deemed applicable income taxes	135,010	108,913
Retained earnings (Notes 9 and 10)	291,454	238,332
	436,052	356,833
Less common stock in treasury, at cost (Jan. 3, 1981 — 228,224 shares; Dec. 29, 1979 — 187,138 shares)	40,838	11,871
Total stockholders' equity	395,214	344,962
Commitment and contingent liability (Notes 13 and 15)		
	$1,010,581	$ 892,265

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in thousands except per share amounts)

	Fiscal Year Ended Saturday nearest December 31.		
	1980	1979*	1978*
Income items:			
Insurance premiums earned	$185,187	$181,949	$186,073
Net sales and service revenues	259,200	247,952	235,576
Interest and dividend income	38,366	30,440	24,293
Equity in earnings excluding realized investment gain of Wesco Financial Corporation (Note 5)	8,[illegible]04	8,784	7,417
	492,157	469,[illegible]25	453,359
Cost and expense items:			
Insurance losses and loss adjustment expenses	118,230	120,337	132,263
Cost of products and services sold	160,[illegible]61	158,710	151,521
Ins[illegible] underwriting expenses	60,219	57,870	50,[illegible]
Selling, general and administrative expenses	84,188	79,839	71,172
Interest and financing costs	9,185	5,729	5,058
	432,083	422,485	410,824
Earnings from continuing operations including minority interest in consolidated subsidiaries, before applicable income taxes and realized investment gain	60,074	46,[illegible]30	42,535
Income taxes applicable to above	13,943	9,796	10,735
	46,131	36,844	31,800
Minority interest applicable to above	7,647	5,883	6,058
Earnings from continuing operations before realized investment gain	38,484	30,961	25,742
Equity in earnings before securities losses of unconsolidated banking subsidiary, divested as of Dec. 31, 1980 (Note 4)	4,731	4,960	4,242
Earnings before realized investment gain	43,215	35,921	29,984
Realized investment gain — continuing operations, net (Note 12)	10,790	6,896	9,258
Equity in securities losses of unconsolidated banking subsidiary, divested as of Dec. 31, 1980 (Note 4)	(883)	—	—
Net earnings	$ 53,122	$ 42,817	$ 39,242
Average shares outstanding	1,027,145**	1,027,145	1,028,684
Per share:			
Earnings from continuing operations before realized investment gain	$ 37.47	$ 30.14	$ 25.02
Earnings before realized investment gain	42.07	34.97	29.15
Net earnings	51.72	41.68	38.15

*1978 and 1979 restated as the result of divestiture at Dec. 31, 1980 of banking subsidiary. See Note (4).

**Shares reacquired at Dec. 31, 1980, in bank divestiture transaction, are deemed outstanding for the full year

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(dollars in thousands)

	*Common Stock**	*Capital in Excess of Par Value*	*Net Unrealized Appreciation***	*Treasury Stock****	*Retained Earnings*	*Total Stockholders' Equity*
Balance at December 31, 1977	$6,071	$3,517	$ 52,171	$(11,297)	$156,273	$206,735
Net earnings 1978					39,242	39,242
Change in net unrealized appreciation			8,763			8,763
Treasury shares reacquired in 1978				(574)		(574)
Balance at December 30, 1978	6,071	3,517	60,934	(11,871)	195,515	254,166
Net earnings 1979					42,817	42,817
Change in net unrealized appreciation			47,979			47,979
Balance at December 29, 1979	6,071	3,517	108,913	(11,871)	238,332	344,962
Net earnings 1980					53,122	53,122
Change in net unrealized appreciation			26,097			26,097
Treasury shares reacquired in 1980				(28,967)		(28,967)
Balance at January 3, 1981	$6,071	$3,517	$135,010	$(40,838)	$291,454	$395,214

*Common stock represents the aggregate par value of 1,214,283 issued shares of the Company's common stock, $5 par value per share. Issued shares include shares held as Treasury stock.

**Net unrealized appreciation represents the excess of carrying value of marketable equity securities over their cost, less deemed applicable income taxes, adjusted for applicable minority interest, if any.

***Treasury stock reflects the cost of reacquired shares of the Company's issued common stock. At December 31, 1977, 183,696 shares of the Company's issued common stock were held as Treasury stock, of which the Company held 133,105 shares, and insurance subsidiaries of the Company held 50,501 shares. In 1978 the Company acquired 3,532 shares. On December 31, 1980 the Company acquired 41,086 shares in an exchange transaction whereby the Company divested of its banking subsidiary. See Note (4). At January 3, 1981, 228,224 shares of the Company's issued common stock were held as Treasury stock, of which 177,723 shares were held by the Company and 50,501 shares were held by insurance subsidiaries of the Company.

See accompanying Notes to Consolidated Financial Statements.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(dollars in thousands)

	Fiscal Year Ended Saturday nearest December 31,		
	1980	1979	1978
Funds provided:			
From operations:			
Net earnings	$ 53,122	$ 42,817	$ 39,242
Minority interest in earnings	8,256	6,403	6,371
Earnings including minority interest	61,378	49,220	45,613
Charges (credits) to earnings not requiring (providing) funds:			
Equity in undistributed earnings of unconsolidated subsidiaries	(6,473)	(9,019)	(6,712)
Increase in unpaid insurance losses and loss adjustment expenses	1,431	16,827	11,409
Increase (decrease) in unearned insurance premiums	(323)	4,236	12,240
Depreciation and amortization of property, plant and equipment, including leaseholds	5,144	4,651	4,602
Decrease (increase) in deferred insurance premium acquisition costs	(511)	194	(2,994)
Decrease (increase) in accounts receivable	2,370	(6,948)	(7,274)
Decrease (increase) in inventories	1,902	(2,675)	747
Increase (decrease) in liability for income taxes applicable to earnings	(861)	(518)	6,366
Increase (decrease) in liability for unredeemed trading stamps	(3,471)	692	623
Increase (decrease) in accounts payable	3,952	4,809	(1,001)
Reduction in carrying value of unconsolidated subsidiary, net of income tax benefit	400	—	—
Other	495	(574)	(1,339)
	4,055	11,675	46,669
Funds provided from operations	65,433	60,895	92,282
Proceeds from issuance of debt, net of expense	59,992	—	4,791
Decrease in cash	4,931	—	995
	$130,356	$ 60,895	$ 98,068
Funds used:			
Additions to property, plant and equipment, net of disposals	$ 6,835	$ 6,587	$ 5,450
Repayment of debt	10,857	1,972	4,824
Dividends paid to minority stockholders	502	529	564
Purchase of shares of Blue Chip Stamps from minority	—	2,233	4,891
Purchase of treasury stock	—	—	574
Cost of net purchases (sales) of investments:			
U.S. Treasury bills and short-term obligations	32,374	(42,884)	25,326
Bonds	705	26,735	23,722
Marketable equity securities	78,343	63,929	32,867
Unconsolidated subsidiaries	740	(100)	(150)
Net purchase of investments	112,162	47,680	81,765
Increase in cash	—	1,923	—
	$130,356	$ 60,895	$ 98,068

See accompanying Notes to Consolidated Financial Statements

Berkshire Hathaway Inc.
AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 3, 1981
(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. ("Berkshire") and the accounts of all significant majority-owned subsidiaries except the Illinois National Bank & Trust Co. of Rockford ("Bank"), control of which was divested on December 31, 1980 (Note 4). Subsidiaries which are consolidated include:

(1) wholly-owned companies engaged in the business of property/casualty insurance (the Insurance Group), textile products manufacturing, and apparel 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, of which one, Buffalo Evening News (News) is engaged in the newspaper business and others of which are engaged in the candy business (See's).

Berkshire's investment in the Bank was accounted for by the equity method of accounting. Blue Chip owns approximately 80% of the outstanding capital stock of Wesco Financial Corporation ("Wesco"). Berkshire'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 Berkshire, its textile and retailing subsidiaries, Blue Chip and See's are maintained on the basis of a 52-53 week fiscal year ending with respect to December 31. The 1980 operations of the textile and apparel retailing businesses covered the 53 weeks ended January 3, 1981. The 1980 operations of Blue Chip and See's covered the 52 week period ended December 27, 1980. Accounts of the News are maintained on the basis of a calendar year.

(b) Investments in Securities, Other Than Affiliates

Investments in bonds, including convertible 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 Berkshire and by subsidiaries of Berkshire which are not members of the Insurance Group are carried at the lower of aggregate cost or market.

Blue Chip, at both December 27, 1980 and at December 29, 1979 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 35% at December 27, 1980 (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. Berkshire's economic interest in the equity of PI is reduced to approximately 21% at January 3, 1981, taking into account the minority interest of Blue Chip which is outstanding.

(c) 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 $2,140 at December 31, 1980 and $1,530 at December 31, 1979. 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 $2,405 for 1980, $2,221 for 1979 and $1,344 for 1978.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(d) 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 $4,742 at December 31, 1980 and $5,632 at December 31, 1979. 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.

(e) Stamp Service Accounting

Blue Chip recognizes stamp revenues and related redemption costs upon issuance of its trading stamps. A liability account for unredeemed trading stamps is maintained consisting of management's estimates of the future cost of redemption merchandise and service; the estimates are periodically evaluated. As of December 27, 1980, the evaluation resulted in revisions to both the estimated rate of redemption, which was decreased, and to the estimated redemption service cost, which was increased. The effect of the 1980 revisions was to increase Berkshire's 1980 net earnings by approximately $970 (94 cents per share).

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

These items of property (including significant betterments and renewals) are carried at cost depreciated over their useful lives estimated at the date of acquisition. The double-declining balance method is used to calculate depreciation of new items of textile properties acquired after 1965, 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.

(g) Inventories

Inventories are stated at cost, determined for Berkshire 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.

(h) Income Taxes

Berkshire 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 Berkshire 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 $3,560 at January 3, 1981 and $2,773 at December 29, 1979.

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 $6,515 at January 3, 1981 and $6,280 at December 29, 1979 are recognized, is deferred insurance premium acquisition costs (see note 1(c) above). Other assets include prepaid income taxes of Blue Chip amounting to $11,211 at December 27, 1980 and $12,358 at December 29, 1979 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 $52,504 at January 3, 1981 and $42,355 at December 29, 1979, representing amounts computed at capital gain rates on the net excess of market value over cost of marketable equity securities held by members of the Insurance Group.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(2) 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:

Held by	January 3, 1981 Cost	Market	Carrying Value
Insurance Group	$237,016	$424,530	$424,530
Berkshire	21,526	22,407	21,526
Blue Chip Stamps and its wholly-owned subsidiaries	79,891	95,017	79,891
	$338,433	$541,954	$525,947

Held by	December 29, 1979 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

The net excess of aggregate market value over aggregate cost of marketable equity securities held at January 3, 1981 represented unrealized gains less unrealized losses as follows:

	Insurance Group	Berkshire, Blue Chip and its wholly-owned subsidiaries	Combined Total
Unrealized gains	$190,225	$ 17,516	$207,741
Unrealized losses	2,711	1,509	4,220
Net excess of gains	$187,514	$ 16,007	$203,521

(3) Investment in GEICO Corporation

Included in marketable equity securities held by the Insurance Group at December 31, 1980 are 7,200,000 common shares of GEICO Corporation, the approximate market value of which was $105,300 and the approximate cost of which was $47,000. The shares possessed approximately 33% of the voting rights of all GEICO shares outstanding at December 31, 1980. With respect to these shares of GEICO held by members of the Insurance Group, Berkshire is required, pursuant to Order of the Superintendent of Insurance of the District of Columbia, the corporate domicile of GEICO, to maintain an independent proxy arrangement. It is prohibited from seeking or causing to change the independent proxy. Also, under the Order, no officer or director of Berkshire, or any affiliate or subsidiary of Berkshire, is permitted to serve as a director of GEICO. As a result of the Order, Berkshire is divested of its voting rights with respect to its holdings of GEICO and, accordingly, does not use the equity method of accounting for this investment.

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

January 3, 1981

(dollars in thousands)

(4) Investment in the Illinois National Bank and Trust Co. of Rockford

From April 1, 1969 to December 31, 1980, the Company owned approximately 98% of the outstanding capital stock of the Illinois National Bank and Trust Co. of Rockford, a national bank conducting a commercial banking operation in Rockford, Illinois. The Federal Bank Holding Company Act, as amended, required the Company to divest of control of the bank prior to January 1, 1981. Accordingly, as of December 31, 1980, the Company reacquired from its shareholders 41,086 shares of its issued common stock in exchange for its interest in the bank, thereby accomplishing the required divestiture. The Company's carrying value of its investment in the bank at the date of divestiture was $28,967, representing the original cost of the investment plus equity in undistributed earnings of the bank since the date of acquisition; such amount was deemed the cost of the shares reacquired in the exchange transaction, which become Treasury Stock.

Upon divestiture of the bank, that portion of the Company's earnings representing equity in earnings of the bank became earnings from "discontinued operations"; statements of earnings for years prior to 1980 have been restated accordingly.

(5) Investment in Wesco Financial Corporation

Wesco is a savings and loan holding company, approximately 80% owned by Blue Chip. 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 was $19,430 at the end of 1980 and $20,069 at the end of 1979. This excess is being amortized by Blue Chip over 40 years; annual amortization ($624) is reflected under the caption "equity in operating earnings of unconsolidated subsidiaries" in the Statement of Earnings for each of the past three years. Wesco also has subsidiaries engaged in the steel products service business. Wesco and its consolidated subsidiaries hold investments in marketable securities which at December 31, 1980 had a cost of $82,024 and a market value of $91,940. Summarized consolidated financial information of Wesco and its subsidiaries on page 33 of this report.

On December 1, 1980, Wesco's savings and loan subsidiary consummated the previously announced sale of its fifteen branches. The transaction involved transfer to the buyer of (1) savings account liabilities of the branches (approximately $307 million), (2) mortgage loans of an equal amount, and (3) the physical assets of the branch offices. Blue Chip's equity in the net after tax gain recorded by Wesco from this transaction was approximately $2,332, which amount is included for 1980 in the item captioned "Equity in earnings excluding realized investment gain of Wesco Financial Corporation" in the accompanying consolidated Statements of Earnings. Net earnings for Berkshire for 1980, after taking into account the minority interest in Blue Chip and additional Berkshire taxes, benefited approximately $1,293 ($1.26 per share) from the transaction.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(6) Receivables

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

	Jan. 3, 1981	*Dec. 29, 1979*
Insurance Group:		
Agents' balances and premiums in course of collection	$ 21,759	$ 20,546
Investment income due and accrued	5,273	4,244
Reinsurance recoverable on loss payments	5,665	5,965
Amounts due from sales of securities	603	2,765
	$ 33,300	$ 33,520
Trade accounts receivable of other businesses:		
Textile business	7,620	10,291
Retailing business	473	555
Candy business	1,187	1,064
Newspaper business	5,503	5,015
Promotional services business	2,093	2,069
Other	446	477
	17,322	19,471
Less allowance for doubtful accounts	761	760
	16,561	18,711
Total receivables	$ 49,861	$ 52,231

(7) Inventories

A summary of inventories follows:

	Jan. 3, 1981	*Dec. 29, 1979*
Textile business	$ 7,700	$ 11,761
Retailing business	5,642	5,177
Candy business	6,260	5,153
Newspaper business	966	695
Promotional services business	2,764	2,485
Other	468	433
	$ 23,802	$ 25,704

The carrying amounts for inventories at Berkshire's textile business and of Blue Chip's newspaper business which were determined under the LIFO method were approximately $2,426 and $1,871 less than their aggregate replacement cost at year-end 1980 and 1979 respectively.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

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

The composition of property, plant and equipment at the end of the past two years is shown below:

	Jan. 3, 1981	*Dec. 29, 1979*
Land	$ 3,957	$ 3,806
Buildings	19,248	18,576
Machinery and equipment	59,840	56,085
Furniture, fixtures and leasehold improvements	11,391	9,869
	94,436	88,336
Less accumulated depreciation and amortization	42,952	38,543
	$ 51,484	$ 49,793

(9) Term Debt Payable

At the end of the past two years Berkshire's consolidated term debt payable was as follows:

	Jan. 3, 1981	*Dec. 29, 1979*
Berkshire:		
8% Senior Notes maturing through March 1, 1993 at $1,143 annually	$ 17,714	$ 18,857
9¼% Senior Notes maturing March 1, 1985 to March 1, 1993 at $777 annually	7,000	7,000
12¾% debentures maturing from August 1, 1991 through August 1, 2005 at $4,004 annually	60,000	—
8% debentures due 1985, with 1% additional participating interest contingently payable	6,600	6,600
Other notes and debentures maturing through 1992 in varying annual installments, with interest at rates varying from 6% to 9%	3,035	3,956
	94,349	36,413
Consolidated Subsidiaries:		
Term loan payable to bank by Blue Chip Stamps maturing April 30, 1983, bearing interest at rates based on prime and Eurodollar rates	5,000	13,500
Other notes maturing through 2006 in varying installments, with interest at rates varying from 6% to 15%	4,995	5,186
	$104,344	$ 55,099

(9) Term Debt Payable (Continued)

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 affiliates, has decreased to less than 15% of the Company's outstanding capital stock.

The Senior Note Agreements impose a limitation upon "restricted payments" by Berkshire. That term includes investments by Berkshire in subsidiaries not bound by the terms of the Agreements, dividends and other equity distributions. Berkshire's investment in Blue Chip Stamps is a "restricted payment" under the terms of the Agreements. Retained earnings of approximately $62,117 as of January 3, 1981 were free of restriction by this provision.

Principal payments on outstanding term debt at January 3, 1981 are required as follows:

1981	$ 1,547
1982	2,176
1983	6,536
1984	1,479
1985	8,863
Thereafter	83,743
	$104,344

The Company has a $10,000 line of credit with a bank for which it has agreed to maintain average balances with the bank of 5% of the line plus 10% of outstanding borrowings under the line. The line was not used in 1980.

Blue Chip has a line of credit arrangement of $10,000 with another bank requiring compensating balances of $500 and collateral of at least 150% of outstanding borrowings. Interest rates are at either ½% above Eurodollar rate or at prime.

(10) Dividend restrictions — Insurance subsidiaries

Retained earnings at January 3, 1981 includes approximately $167 million representing undistributed earnings since date of acquisition of members of the Insurance Group. Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations, to the extent that not more than approximately $49 million of dividends could be paid in 1981 by insurance subsidiaries to the Company, without prior regulatory approvals.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(11) Income Taxes

The consolidated statements of earnings reflects charges for income taxes:

Applicable to:	*1980*	*1979*	*1978*
Operating earnings	$13,943	$ 9,796	$10,735
Realized investment gain — continuing operations	4,401	2,703	4,416
Securities loss of bank	(345)	—	—
	$17,999	$12,499	$15,151
These taxes are comprised of:			
Federal	$15,348	$10,786	$13,418
State	2,489	1,583	1,625
Foreign	162	130	108
	$17,999	$12,499	$15,151

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 1980 and 1979 and 48% for 1978.

	1980	*1979*	*1978*
Earnings from consolidated operations including minority interests, before applicable income taxes and realized investment gain	$64,805	$51,600	$46,770
Hypothetical amounts applicable to above computed at Federal statutory rates	$29,810	$23,736	$22,453
Decrease, resulting from:			
Tax-exempt interest income	(3,042)	(2,747)	(2,652)
85% dividends received credit	(8,640)	(6,012)	(4,829)
100% exclusion relating to equity in net earnings of:			
Illinois National Bank	(2,176)	(2,282)	(2,036)
Wesco	(4,050)	(4,392)	(3,560)
Benefits from unconsolidated subsidiaries	(530)	—	—
Increases, resulting from:			
State income taxes, less Federal income tax benefit, plus Canadian income taxes	1,378	951	911
Provision relating to consolidated operating income of Blue Chip Stamps not distributed	777	580	522
Net other differences	416	(38)	(74)
Total income taxes applicable to operating earnings	$13,943	$ 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:

	1980	*1979*	*1978*
Current	$11,702	$ 9,339	$ 8,702
Change in prepaid	1,147	431	(219)
Change in deferred liability arising from operations	1,094	26	2,252
	$13,943	$ 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:

	1980	*1979*	*1978*
Undistributed income of Blue Chip Stamps	$ 777	$ 580	$ 522
Deferred insurance premium acquisition costs	235	(366)	1,437
Accretion of discount on bonds	102	318	266
Policyholder dividends and unbilled revenues	(20)	(506)	27
	$ 1,094	$ 26	$ 2,252

Income taxes deemed applicable to realized investment gain are essentially equal to amounts computed at the Federal statutory rate of 28% (1980 and 1979) and 30% (1978) applicable to long-term capital gains.

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(12) Realized Investment Gain — Continuing Operations

A summary of net realized investment gain — continuing operations — for each of the past three years is presented in the following table.

	1980	1979	1978
Pre-tax net gain realized by the Company and consolidated subsidiaries	$15,934	$ 9,385	$13,987
Applicable income taxes	(4,401)	(2,702)	(4,416)
Applicable minority interest	(609)	(196)	(313)
	10,924	6,487	9,258
Equity in net realized gain (loss) of Wesco Financial Corporation, an unconsolidated subsidiary	(134)	409	—
Realized investment gain — continuing operations, net	$10,790	$ 6,896	$ 9,258

The cost of securities sold is usually determined on a first-in first-out basis; occasionally, when specific identification of securities sold results in lower applicable income tax, identified cost is used.

(13) Lease Commitments

Berkshire's retailing subsidiary (Associated Retail Stores, Inc.) and Blue Chip and its subsidiaries had significant lease commitments outstanding, the minimum rentals under which were as follows at January 3, 1981:

Year	*Associated*	*Blue Chip*	*Total*
1981	$1,359	$3,218	$4,577
1982	1,026	2,652	3,678
1983	898	2,149	3,047
1984	637	1,882	2,519
1985	486	1,477	1,963
Thereafter	1,546	5,664	7,210

Leases of Berkshire and its consolidated subsidiaries in effect at January 3, 1981 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 $10,145 for 1980, $9,026 for 1979 and $7,486 for 1978, including contingent real estate rentals in excess of stated minimum amounting to $2,726 for 1980, $2,699 for 1979 and $2,157 for 1978.

(14) Pension Plans

Employees of Berkshire and its consolidated subsidiaries who meet certain eligibility requirements are covered under either employer-sponsored or union-sponsored pension plans. Total pension expense charged to consolidated earnings was $1,917 for 1980, $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. Berkshire and its subsidiaries generally fund pension costs as accrued.

The latest actuarial evaluations of employer-sponsored defined benefit plans of the Company and its consolidated subsidiaries were last performed as of January 1, 1980. The actuarial present values determined for accumulated benefits, using interest assumptions ranging from 6% to 7½%, segregated as between overfunded and underfunded plans, together with assets available for benefits as of that date, are presented in the following table.

	Overfunded plans	*Underfunded plans*
Actuarial present value of accumulated benefits:		
Vested	$ 6,317	$19,331
Not vested	326	530
Total	$ 6,643	$19,861
Assets available for benefits	$12,179	$16,720

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

January 3, 1981
(dollars in thousands)

(15) 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 the 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 News has filed an answer and counterclaim denying all liability and seeking affirmative relief of treble damages in an unspecified amount, injunction, attorney's fees and costs against the Courier-Express on the ground, among others, that the Courier-Express seeks to monopolize the Sunday newspaper business in the Buffalo metropolitan area in violation of the Federal antitrust laws. The Courier-Express was sold to the Minneapolis Star and Tribune Co. in 1979 and the litigation has been relatively dormant since that time. The company is presently unable to predict what effect, if any, this transaction will have on the lawsuit. If the Courier-Express 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 the News' potential exposure, if any, is uncertain.

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

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands except per share amounts)

(16) Quarterly Results

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

1980	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter**
Income items	$116,914	$119,662	$104,788	$149,755
Earnings from continuing operations before realized investment gain	$ 8,956	$ 9,001	$ 6,193	$ 14,324
Equity in earnings — before securities losses — Illinois National Bank (Divested December 31, 1980)*	1,289	1,078	1,055	1,309
Earnings before realized investment gain	10,255	10,079	7,248	15,633
Realized investment gain, net — continuing operations	7,271	1,819	1,343	357
Equity in securities losses of Illinois National Bank*	—	(709)	(88)	(86)
Net earnings	$ 17,526	$ 11,189	$ 8,503	$ 15,904
Per share:				
Earnings from continuing operations before realized investment gain*	$ 8.73	$ 8.76	$ 6.03	$ 13.95
Earnings before realized investment gain	9.98	9.81	7.06	15.22
Net earnings	17.06	10.89	8.28	15.48
1979				
Income items	$103,015	$116,432	$107,197	$142,481
Earnings from continuing operations before realized investment gain	$ 6,841	9,845	$ 5,423	$ 8,852
Equity in earnings of Illinois National Bank (Divested December 31, 1980)*	1,254	1,191	1,253	1,262
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 from continuing operations before realized investment gain*	$ 6.66	$ 9.58	$ 5.28	$ 8.62
Earnings before realized investment gain	7.88	10.74	6.50	9.85
Net earnings	9.15	11.56	7.59	13.38

*Upon divestiture of the Illinois National Bank as of December 31, 1980, that portion of the Company's earnings representing equity in earnings of the bank became earnings from "discontinued operations"; figures in the above tabulation for all quarters prior to the 4th quarter 1980 have been restated accordingly.

**In addition to the normal seasonally higher candy business earnings in the fourth quarter of 1980, earnings for such period include (1) a benefit of approximately $970 (94 cents per share) resulting from revisions to estimation factors applied in computing Blue Chip's liability for unredeemed trading stamps (See note 1(e) to Consolidated Financial Statements), and (2) the Company's equity of approximately $1,293 ($1.26 per share) attributable to sale by Wesco's savings and loan subsidiary of its fifteen branches. (See Note (5) to Consolidated Financial Statements).

Berkshire Hathaway Inc.

AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

January 3, 1981

(dollars in thousands)

(17) Segment Data

The tables below reflect data for each of the three most recent fiscal years, broken down as to business segments.

I. Revenues of Consolidated Companies

	Fiscal Year		
	1980	*1979*	*1978*
Insurance*	$216,298	$206,356	$206,017
Textiles	44,432	49,862	52,674
Retailing	44,374	42,709	40,762
Candy	98,600	88,189	73,954
Promotional services	25,637	23,628	24,841
Newspaper	49,977	46,414	44,791
Other	4,035	3,183	2,903
Total revenues of consolidated companies	$483,353	$460,341	$445,942

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

II. Operating Profit Before Taxes

Operating profit is total revenue less total expense identified with each segment. In computing operating profit identified with segments, none of the following items have been added or deducted: revenue earned at the corporate level and not derived from operations of any industry segment, general corporate expenses, interest expense, domestic and foreign income taxes, equity in income or loss from unconsolidated subsidiaries and other unconsolidated investees, minority interest and realized investment gain.

	Fiscal Year		
	1980	*1979*	*1978*
Insurance*	$ 37,677	$ 27,966	$ 22,706
Textiles	(508)	1,723	2,916
Retailing	2,440	2,775	2,757
Candy	15,031	12,785	12,482
Promotional services	7,699	2,397	2,151
Newspaper	(2,805)	(4,617)	(2,913)
Other	1,814	1,203	1,150
Operating profit before taxes identified with segments	$ 61,348	$ 44,232	$ 41,249

*See table VII below.

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

January 3, 1981
(dollars in thousands)

(17) Segment Data (Continued)

III. Identifiable Assets

	End of Fiscal Year		
	1980	1979	1978
Identified with segments:			
Insurance	$ 693,859	$585,103	$470,023
Textiles	19,388	25,139	22,606
Retailing	13,295	14,520	14,235
Candy	53,178	47,923	44,177
Promotional services	94,761	93,646	84,783
Newspaper	34,215	35,663	38,542
Other	2,215	2,245	2,147
	910,911	804,240	676,513
Not identified with segments:			
Investment in Illinois National Bank	—	28,785	27,146
Investment in Wesco	63,040	56,750	49,370
Investment in unconsolidated subsidiaries	1,187	1,377	1,477
Corporate cash and marketable securities	35,443	1,113	3,106
Combined and consolidated assets	$1,010,581	$892,265	$757,612

IV. Capital Expenditures

	Fiscal Year		
	1980	1979	1978
Insurance	$ 653	$ 1,133	$ 897
Textiles	1,019	1,116	450
Retailing	199	279	247
Candy	5,116	3,250	2,777
Promotional services	338	355	130
Newspaper	346	642	1,131
Other	45	18	8
Total capital expenditures	$ 7,716	$ 6,793	$ 5,640

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

	Fiscal Year		
	1980	1979	1978
Insurance	$ 535	$ 459	$ 305
Textiles	500	486	455
Retailing	164	151	135
Candy	1,486	1,199	1,007
Promotional services	174	146	96
Newspaper	2,230	2,159	2,554
Other	55	51	50
Total depreciation and amortization	$ 5,144	$ 4,651	$ 4,602

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

January 3, 1981
(dollars in thousands)

(17) Segment Data (Continued)

VI. Revenues of the Insurance Segment

	Fiscal Year		
	1980	*1979*	*1978*
Premiums earned:			
Specialized auto and general liability	$ 88,404	$ 90,646	$ 96,126
Workers' Compensation*	19,890	19,350	29,893
Reinsurance	33,804	30,864	30,160
Home State multiple lines	43,089	41,089	29,894
Total premiums earned	185,187	181,949	186,073
Investment income	31,111	24,407	19,944
Insurance segment revenues	$216,298	$206,356	$206,017

*Workers' Compensation coverage written by the Home State Companies, as part of their multiple lines business, is not disaggregated from their total earned premiums.

VII. Insurance Segment Operating Profit

	Fiscal Year		
	1980	*1979*	*1978*
Underwriting gain (loss):			
Specialized auto and general liability	$ 7,395	$ 7,845	$ 11,543
Workers' Compensation	4,870	5,130	(3,944)
Reinsurance	(233)	(4,338)	(2,443)
Home State multiple lines	(5,294)	(4,895)	(2,155)
Total underwriting gain (loss)	6,738	3,742	3,001
Net investment income	30,939	24,224	19,705
Insurance segment operating profit before taxes	$ 37,677	$ 27,966	$ 22,706

Peat, Marwick, Mitchell & Co.

Certified Public Accountants

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

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. and consolidated subsidiaries as of January 3, 1981 and December 29, 1979 and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for each of the years in the three year period ended January 3, 1981. 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, 1980, 1979 and 1978, and Wesco Financial Corporation, 1980 and 1979 only, the assets relating to such as reflected in the accompanying consolidated financial statements constitute 24 percent and 26 percent of the consolidated totals for 1980 and 1979, and total revenues constituting 37 percent, 35 percent and 32 percent of the consolidated totals for 1980, 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 (1980 and 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 January 3, 1981 and December 29, 1979 and the results of their operations and the changes in their financial position for each of the years in the three year period ended January 3, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

February 27, 1981

Berkshire Hathaway Inc.—Parent Company Only

CONDENSED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets	Jan. 3, 1980	Dec. 29, 1979
Assets:		
Investment in subsidiaries (includes unrealized appreciation of marketable equity securities held by insurance subsidiaries)	$445,063	$367,747
Cash and U.S. Treasury bills	13,917	1,113
Investment in marketable equity securities	21,526	—
Accounts receivable and inventories of parent company's textile business	13,196	14,853
Other assets	4,042	3,083
	$497,744	$386,796
Liabilities and stockholders' equity:		
Accounts payable and accrued expenses	$ 7,553	$ 4,558
Term debt payable	94,349	36,413
Current and deferred income taxes	628	863
	102,530	41,834
Stockholders' equity (See Consolidated Balance Sheet, page 13)	395,214	344,962
	$497,744	$386,796

Statements of Earnings	1980	1979	1978
Income:			
Cash dividends and interest from subsidiaries	$ 5,841	$ 8,395	$ 9,387
Dividends from subsidiaries in form of shares of Blue Chip Stamps stock	21,955	—	—
Equity in undistributed earnings of subsidiaries	32,071	36,267	31,804
Gross profit from textile product sales	3,157	4,838	4,141
Other income	276	107	31
	63,300	49,607	45,363
Costs and expenses:			
Administrative and selling expense	4,087	3,591	3,628
Interest expense	6,078	3,172	2,740
Income taxes (credit)	13	27	(247)
	10,178	6,790	6,121
Net earnings	$53,122	$42,817	$39,242

Berkshire Hathaway Inc. Insurance Group

CONDENSED COMBINED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets	December 31, 1980	1979
Assets:		
Investment other than in affiliates:		
Bonds, at amortized cost	$187,802	$185,564
Marketable equity securities, at market	424,530	336,680
Short term debt obligations, at cost	27,055	9,054
	639,387	531,298
Investment, Blue Chip	32,272	35,355
Cash	3,895	3,128
Accounts receivable from agents, reinsurers and others	33,299	33,520
Property and equipment, net	3,388	3,386
Deferred premium acqusition costs	14,163	13,652
Other assets	3,269	3,082
	$729,673	$623,421
Liabilities, capital stock and surplus:		
Losses and loss adjustment expenses	$199,128	$197,698
Unearned premiums	73,281	73,604
Current income taxes	3,521	5,006
Deferred income taxes	61,155	50,696
Other liabilities	14,275	13,570
	351,360	340,574
Net unrealized appreciation of marketable equity securities	135,010	108,913
Capital stock and surplus	243,303	173,934
	$729,673	$623,421

Statements of Income	1980	1979	1978
Underwriting:			
Premiums earned	$185,187	$181,950	$186,073
Losses and expenses incurred	178,449	178,207	183,072
Underwriting gain	6,738	3,743	3,001
Investment income	30,939	24,224	19,705
	37,677	27,967	22,706
Applicable income taxes	4,854	5,405	4,681
Earnings before items below	32,823	22,562	18,025
Equity in net earnings of Blue Chip Stamps	4,488	3,960	3,230
Earnings before realized gain on investments	37,311	26,522	21,255
Realized gain on investments, net of income taxes	10,588	6,241	8,873
Net income	$ 47,899	$ 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.

Wesco Financial Corporation

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands)

Balance Sheets

	December 31, 1980	December 31, 1979
Assets:		
Financial:		
Cash and temporary cash investments	$ 54,972	$ 50,387
Investments, at cost	105,875	100,623
Loans receivable	164,648	506,224
Other assets	16,843	22,538
	342,338	679,772
Steel service:		
Cash and temporary cash investments	1,695	1,413
Accounts receivable and inventories	11,151	10,741
Property, plant and equipment, net	6,175	4,410
Other assets	166	329
	19,187	16,893
	$361,525	$696,665
Liabilities and stockholders' equity:		
Financial liabilities:		
Savings deposits	$168,366	$508,912
Notes payable	73,719	79,010
Other liabilities, including income taxes	12,048	10,426
	254,133	598,348
Steel service liabilities:		
Note payable	2,188	307
Other liabilities, including income taxes	2,247	2,106
	4,435	2,413
Total liabilities	258,568	600,761
Stockholders' equity	102,957	95,904
	$361,525	$696,665

Statements of Income

	1980	1979	1978
Financial revenues:			
Interest on loans, loan fees and service charges	$45,244	$45,190	$36,754
Interest and dividends from investments	15,200	14,056	13,140
Gain on sale of branches	5,873	—	—
Other (including securities gain)	436	2,911	1,625
	66,753	62,157	51,019
Financial expenses:			
Interest on savings deposits	41,283	37,028	31,038
Interest on notes payable	7,180	7,106	2,722
General and administrative	6,586	6,136	5,592
Income taxes	3,163	2,454	3,186
	58,212	52,724	42,538
Net income from financial operations	8,541	9,433	8,481
Steel service:			
Revenues	41,074	37,883	—
Costs and expenses, including income taxes	39,570	36,176	—
Net income from steel service operations	1,504	1,707	—
Net income	$10,045	$11,140	$ 8,481

Wesco is an approximately 80% owned subsidiary of Blue Chip Stamps. Blue Chip's equity in net income including securities gains of Wesco was $8,804 – 1980, $8,784 – 1979, and $7,417 – 1978, including for each year $624 amortization of the excess of Blue Chip's equity in Wesco's net assets over the cost of Blue Chip's investment in Wesco. The Company's economic interest in Wesco is less than Blue Chips interest, taking into account the outstanding minority interest in Blue Chip.

Berkshire Hathaway Inc.

BUSINESS ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES

(a) Banking. From April 1, 1969 until December 31, 1980, the Company owned approximately 98% of the outstanding capital stock of the Illinois National Bank and Trust Co. of Rockford, Illinois, a commercial bank. Federal statute required the Company to divest of control of this entity prior to January 1, 1981. Accordingly, as of December 31, 1980, the Company divested, through an exchange with electing shareholders, of the Company's interest in the bank in return for shares of the Company's issued common stock. The Company no longer has any interest in the bank, and the number of outstanding common shares of the Company was reduced by the 41,086 Treasury shares reacquired in the transaction.

(b) Underwriting of property and casualty insurance. The insurance business is conducted through several wholly-owned or substantially wholly-owned subsidiaries referred to throughout this report as the "Insurance Group." Principal insurance subsidiaries are National Indemnity Company and National Fire and Marine Insurance Company, companion carriers sharing a home office in Omaha, Nebraska, and specializing in non-standard automobile and general liability insurance. A reinsurance operation is also conducted through National Indemnity and through Columbia Insurance Company, a Nebraska domiciled insurer. "Home state" multiple line property and casualty insurance operations are conducted through subsidiaries formed for that purpose in Colorado, Kansas, Minnesota, Nebraska and Texas. Underwriting operations of a similar company in Iowa were discontinued in the fourth quarter of 1980. Workers' compensation coverages are provided by other subsidiaries of the Company. Currently the most significant workers' compensation insurance provider owned by the Company is Cypress Insurance Company, a Pasadena, California based insurer purchased in late 1977. Redwood Fire and Casualty Insurance Company, Los Angeles, California and Southern Casualty Insurance Company, Alexandria, Louisiana, are additional subsidiaries of the Company underwriting primarily workers' compensation coverages. Redwood succeeded in 1980 to the business formerly conducted by a branch office of National Indemnity. Home and Automobile Insurance Company, based in Chicago, is a subsidiary of the Company which underwrites non-standard automobile and general liability insurance.

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

(c) 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; a Canadian subsidiary maintains a textile products sales office and warehouse in Toronto, Canada. In 1980, operations of a subsidiary textile operation in Manchester, New Hampshire, purchased in 1975, were discontinued.

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.

(d) Retailing of popularly priced women's and children's apparel. The Company's retailing business is conducted through Associated Retail Stores, Inc., a wholly-owned subsidiary. Associated's headquarters and central warehouse are in Long Island City, New York; it had 73 retail outlets at January 3, 1981, 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.

(e) Blue Chip Stamps. Blue Chip is an approximately 60% owned subsidiary of the Company. Blue Chip is engaged directly in the promotional services business, and wholly-owned subsidiaries of Blue Chip are engaged in the candy business — See's Candy Shops, Incorporated, and the newspaper business — Buffalo Evening News, Inc.

(i) The promotional services business. Blue Chip offers two principal types of promotional services: (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).

Blue Chip's trading stamp service continues to be the pre-eminent trading stamp operation in the California-Nevada area. However, revenues have declined from their historical peak of $124 million for the fiscal year ended February 28, 1970 to $17 million in 1980. Practically all of the decline occurred in the early 1970's when many supermarket operators converted to discount merchandising and service stations were faced with their first major shortage of gasoline. One customer accounted for approximately 45% of stamp volume in 1980. From inception, Blue Chip has not required customers to enter into agreements binding them to use Blue Chip stamps for specified periods of time. One customer which accounted for about 9% of 1980 stamp volume discontinued use of the program at the end of August, 1980.

Over the past nine years, Blue Chip has reduced the number of its redemption outlets from a peak of 90 to 41 at present. Funds held for future redemption of stamps are invested in marketable securities.

(ii) See's Candy Shops, Incorporated. See's produces boxed chocolates and other confectionery products of high quality in two large kitchen facilities in California. See's is believed to be one of the largest candy manufacturers distributing through its own chain of retail shops; it now has 191 in eleven continental western and midwestern states plus Hawaii.

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

(iii) Buffalo Evening News, Inc. The assets of this entity, subject to certain liabilities, were purchased by Blue Chip in 1977. It publishes a daily newspaper in Buffalo, New York. Advertising revenues of the News, representing most of its revenues, peak during the fourth quarter of the year due to holiday advertising. The News is involved in litigation proceedings. See Note (15) to the accompanying Consolidated Financial Statements.

In addition to the above businesses, the Company has approximately 48% economic interest in **Wesco Financial Corporation**, through Blue Chip's ownership of approximately 80% of the outstanding stock of Wesco. 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 invests in marketable securities and real estate, and owns all of the outstanding stock of Mutual Savings and Loan Association, Pasadena, California ("Mutual"). Wesco also owns 100% of Precision Steel Warehouse, Inc. which is primarily engaged in the steel service center business. It buys specialty steel and other metals, at its facilities in Illinois and North Carolina it cuts the metals to the order of, and sells the finished pieces to a wide variety of customers.

On December 1, 1980, Mutual, which had been operating at seventeen locations in southern California, consummated the sale of all of its offices except its Pasadena headquarters office and a satellite office in a new shopping mall across the street. The financial leverage of Mutual was greatly reduced by the sale of its branches since, in the transaction, Mutual eliminated savings account liabilities of the branches of approximately $307 million (against which it transferred a like amount of its highest yielding mortgage loans receivable). Mutual intends to continue in the savings and loan business, and until other businesses are acquired by Wesco, that business plus the specialty steel business will be Wesco's primary sources of income.

Berkshire Hathaway Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

This discussion should be read in conjunction with the Selected Financial Data and with the Consolidated Financial Statements and notes thereto appearing elsewhere in this report. In particular, business segment data for the past three years are presented in Note (17) to Consolidated Financial Statements (the "Segment Note"). Operating profit before taxes is presented in Table II and Table VII of such Segment Note. The impact of income taxes is not proportional to the pre-tax income of the segments because of the tax-free nature of municipal bond interest income and the virtually tax-free nature of dividend income earned by certain segments. Also, the minority interest in Blue Chip's segments is significant. Therefore, presented below is a summary of net earnings — after giving effect to income taxes and after deduction of the applicable minority interest — for the past three years.

	Berkshire's Net Earnings (dollars in thousands)		
	1980	*1979*	*1978*
Insurance:			
Underwriting gain	$ 3,637	$ 2,214	$ 1,560
Net investment income	25,607	20,106	16,400
Sub-total — Insurance	29,244	22,320	17,960
Equity in operating earnings[1] of:			
Blue Chip Stamps and its wholly-owned subsidiaries	6,456	3,739	3,693
Wesco Financial Corporation[2]	4,885	4,793	3,775
Textiles and retailing	1,371	2,128	2,518
	41,956	32,980	27,946
Net unallocated costs — principally interest[3]	(3,472)	(2,019)	(2,204)
Earnings from continuing operations before realized investment gain	38,484	30,961	25,742
Equity in earnings (before securities losses in 1980) of Illinois National Bank	4,731	4,960	4,242
Earnings before realized investment gain	43,215	35,921	29,984
Realized investment gain, net[4]	9,907	6,896	9,258
Net earnings	$53,122	$42,817	$39,242

[1] "Operating earnings" of Blue Chip has been computed before deduction of its interest expense, net of tax effect. Any significant realized gain or loss from sale of securities by Blue Chip and Wesco is excluded from the computation of "operating earnings" of these subsidiaries.

[2] "Operating earnings" of Wesco for 1980 include gain from sale of Mutual Savings and Loan Association's fifteen branches. Berkshire's share of such gain included in the above table was $1,293,000 in 1980.

[3] Net unallocated costs include Berkshire's proportionate share of Blue Chip's interest expense, net of tax effect.

[4] Realized investment gain includes Berkshire's proportionate share of any significant net securities gains or losses of Blue Chip, Wesco and the Illinois National Bank.

Income taxes have been assigned in the above tabulation to the income or deduction items which created the tax or generated the benefit; amounts so assigned may differ from amounts allocated to the various legal entities in accordance with tax sharing agreements effective as between the entities.

Berkshire Hathaway Inc.
MANAGEMENT DISCUSSION *(Continued)*

Insurance

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 98.2 for 1978, 97.1 for 1979 and 96.6 for 1980.

Table VII in the Segment Note reveals sizable workers' compensation underwriting profits in both 1979 and 1980, compared to a sizable loss in 1978. The results benefited in both 1979 and 1980 from favorable development of loss reserves previously established (principally those established in 1978) for National Indemnity Company's workers' compensation claims in southern California. The combined ratios for the Insurance Group excluding results from National Indemnity's workers' compensation underwriting are possibly more meaningful; such ratios were 94.8 for 1978, 99.6 for 1979 and 98.3 for 1980.

Net investment income of the Insurance Group, in both 1979 and 1980, reflects increased yields earned on higher levels of investment. Insurance Group investments in non-affiliates — stated at their cost — have increased from an aggregate of approximately $335 million at the beginning of 1979 to approximately $380 million at the end of 1979, and further to approximately $450 million at the end of 1980; the additional funds for investment were derived principally from operations, but also from $28,750,000 cash contribution in the last half of 1980 by Berkshire to the equity capital of the Group. The funds contributed by Berkshire represented part of the proceeds from Berkshire's public offering in August, 1980 of its 12¾% debentures due 2005.

Blue Chip and its Wholly-Owned Subsidiaries

The significant increase in 1980 from 1979 reflected in the above table for Berkshire's equity in operating earnings of Blue Chip Stamps and its wholly-owned subsidiaries resulted from improved results recorded by each of Blue Chip's three constituent business segments, as summarized below:

	Berkshire's Equity in Operating Earnings (dollars in thousands)		
	1980	*1979*	*1978*
See's Candies	4,212	3,448	3,049
Promotional services	3,060	1,624	1,382
Buffalo Evening News	(816)	(1,333)	(738)
	6,456	3,739	3,693

Berkshire's ownership of Blue Chip averaged approximately 55.5% in 1978, 59% in 1979 and 59.6% in 1980.

Earnings of See's candy business increased about 20% in 1980 over 1979; See's earnings in 1979 were virtually unchanged from 1978. (Berkshire's increased ownership in 1979 caused an increase in its equity in such earnings.) The dollar volume of candy revenues in 1980 exceeded those of 1979 by approximately 12% due almost completely to price increases and, in contrast to the prior year, the revenue increases were not totally offset by cost increases. In 1979, candy revenues increased from 1978 by a higher percentage amount (19%), but just over half of the 1979 increase resulted from price increases, and the revenue increases were almost totally offset by cost increases.

While there was only relatively immaterial change in 1979, compared to 1978, in total revenues or earnings of the promotional services segment of Blue Chip's business, increases in both were recorded in 1980. Motivation service revenues were higher in 1980, the result of a sizable motivation program marketed to a financial institution in 1980. Dividend and interest income increased in each of the past two years due to an increase in Blue Chip's portfolio of investment securities, particularly in 1979 and from improved yield on the portfolio, particularly in 1980. Promotional services earnings in 1980 benefited from revisions to Blue Chip's liability for redemption of trading stamps; approximately $970 of Berkshire's 1980 equity in Blue Chip's earnings resulted from those revisions.

Blue Chip's newspaper subsidiary, the Buffalo Evening News, recorded a loss for 1980 and for each of the prior two years; however, the litigation in which the News is involved (see Note (15) to the Consolidated Financial Statements) was less active and costly in 1980, permitting that business to record a decreased loss.

Berkshire Hathaway Inc.

MANAGEMENT DISCUSSION *(Continued)*

Wesco Financial Corporation

As shown in the table presented at the beginning of this discussion of results of operations, the Company's equity in earnings of Wesco Financial Corporation, 80% owned by Blue Chip, was approximately the same in 1980 as it was in 1979. However, the 1980 figure of $4,885 includes $1,293 gain recorded by Wesco's savings and loan subsidiary from sale of its branches, so that Berkshire's 1980 equity in Wesco's earnings from sources other than the sale of branches was $3,592 compared to $4,793 reflected for 1979 and $3,775 for 1978. The profits of Mutual Savings, the principal Wesco operation, are under pressure from both high interest rates — reducing its net interest margin — and from competitive pressures created by removal, in part, of the distinctions between banks and savings and loan associations.

Textiles and Retailing

The decline in 1979 from 1978 in earnings from textiles and retailing reflects deterioration in the textile operations; textile sales, margins and profit declined. Additional competitive pressures resulted in further deterioration in textile results in 1980. The Company's textile manufacturing and finishing operations in Manchester were discontinued in the last half of the year for lack of profitability.

Net Unallocated Costs

Interest expense increased in 1980 as a result of the issuance in August, 1980 by Berkshire of its $60 million 12¾% debentures due 2005, and to a lesser degree from higher interest rates paid by Blue Chip.

Liquidity and Capital Resources

Berkshire's consolidated balance sheet at January 3, 1981 reflects significant liquidity. In management's opinion, the fiduciary nature of obligations to policyholders of Berkshire's insurance subsidiaries and to savers of Blue Chip's trading stamps requires maintenance of high liquidity. Management expects to meet this requirement with a significant margin of safety. Maintenance of liquidity considerably above industry norms in Berkshire's insurance subsidiaries allows those operations to perform their underwriting function with a sole view towards underwriting profitability; they are not forced to accept premiums to maintain positive cash flow.

Berkshire's businesses are not capital-intensive; i.e., they do not require significant investment or reinvestment in property, plant and equipment. Generally, management tends to avoid deployment of assets in businesses of such a nature; on the contrary, Berkshire desires to own companies engaged in businesses that produce positive cash flow.

Berkshire's total equity capital has increased about sixteen-fold over the past fifteen years. Total stockholders' equity at September 30, 1965 was approximately $24.5 million. Increases in that time frame came from retained earnings and unrealized increases in the market value of investments in marketable equity securities. Debt has been used by Berkshire in relatively modest amounts, and management does not expect the Company to rely upon a high degree of leverage in its financing at any time in the foreseeable future. Management is averse to reliance on any significant amount of short-term debt. In August, 1980, Berkshire issued, in a public offering, $60 million 12¾% debentures, the principal amount of which is repayable through operation of a sinking fund in the years 1991 through 2005. Berkshire did not undertake this financing because of any specific needs, but rather to have it in place when attractive opportunities arise to profitably use the funds. Management believes that such opportunities may present themselves when credit is extremely expensive or even unavailable.

The Parent company is largely dependent upon dividends received from its subsidiaries to provide its own cash requirements including debt service requirements. Dividend payments by insurance subsidiaries are subject to regulatory restrictions; the possibility that such restrictions may significantly restrict dividend payments to the Parent is provided for (1) by retaining direct ownership by the Parent of five of its insurance subsidiaries (so that a limitation as to one company would not be a limitation as to all), (2) by direct ownership by the Parent of shares of Blue Chip Stamps, and (3) by retention of significant liquid assets at the Parent company level.

Inflation

Berkshire management does not believe that, to date, inflation has seriously affected Berkshire's businesses. Generally, Berkshire receives current revenues in any year which have substantially the same purchasing power as the dollars which represent its current costs. Very few of Berkshire's costs are stated in dollars which are other than current dollars.

Very large changes in the rate of inflation that were not anticipated could seriously impact Berkshire's insurance businesses, particularly since premium rates are established well in advance of incurrence of the related costs. Management believes that to date, however, underwriting results have not been impacted materially by inflation or changes in inflation rates.

The 1980 Annual Report of Blue Chip Stamps included the following letter to Blue Chip stockholders from the Chairman and the President of that Company

To Our Shareholders

Consolidated operating income (i.e., before all net gains from sales of corporate securities and important fixed assets) for the calendar year 1980 increased to $16,564,000 ($3.20 per share) from $14,312,000 ($2.76 per share) in the previous year.

Consolidated net income (i.e., after net gains from sale of corporate securities and important fixed assets) increased to $20,389,000 ($3.94 per share) from $15,526,000 ($3.00 per share) in the previous year.

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), in addition to the basic business (primarily trading stamps) operated by the parent company. Our consolidated income for our two reporting years just ended breaks down as follows (in 000s except for per-share amounts):

	Blue Chip's equity in						
	Net operating income (loss) of						
Year ended about	See's*1	Mutual Savings*2	Steel Business	Buffalo Evening News*3	All other net operating income*4	Net gains on sales of securities and important fixed assets*5	Blue Chip consolidated net income
December 31, 1980	$7,270	$4,181	$1,205	$(1,472)	$5,380	$3,825	$20,389
Per Blue Chip share	1.40	.81	.23	(.28)	1.04	.74	3.94
December 31, 1979	5,997	6,804	1,367	(2,410)	2,554	1,214	15,526
Per Blue Chip share	1.16	1.31	.26	(.46)	.49	.24	3.00

*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.

*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) in 1980 a net adjustment of Blue Chip's stamp liability account in the amount of $1,747 or $.34 per Blue Chip share, net of taxes, as explained below under "Promotional Services Business and Miscellaneous Sources of Operating Income."

*5 The 1980 figures comprise $2,332 or $.45 per Blue Chip share attributable to Mutual's sale of 15 branch offices, as explained below under "Mutual Savings and Loan Association," and $1,493 or $.29 per Blue Chip share of net securities gains realized by the various entities including Mutual, net of taxes and minority interest. The 1979 figures relate solely to such net securities gains.

The foregoing breakdown (of the same aggregate earnings) differs somewhat from that used in (1) our letter to shareholders last year, and (2) our audited financial statements.

We have taken the pains to prepare our unconventional breakdown of earnings and to furnish it in this letter because we believe it better explains what is really happening than does our accompanying consolidated income statement in conventional form. Generally, we are trying to improve our annual letter to shareholders each year so as better to disclose the things we would want to be told if the roles were reversed and we were passive investors.

SEE'S CANDY SHOPS, INCORPORATED

The earnings of our 100%-owned subsidiary, See's Candy Shops, Incorporated, increased 19.7% last year. This was a welcome change from the nominal increases in earnings which occurred in the two previous years. Comparative figures for See's for the last four years are set forth below:

Reproduced from 1980 Annual Report of Blue Chip Stamps.

Year ended about	Sales	Profits after taxes*	Number of pounds of candy sold	Number of stores open at yearend
December 31, 1980	$97,715,000	$7,747,000	24,065,000	191
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
December 31, 1977	62,886,000	6,262,000	20,921,000	179

*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, 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 pressures. When See's increases prices to reflect these cost pressures it never knows whether consumer resistance will cause net profits to fall instead of rise. Thus far, consumers have been willing to keep buying in the amounts required to keep See's profits rising at a moderate rate, but a continuation of this state of affairs logically cannot continue forever if See's costs keep increasing faster than the general rate of inflation.

Perhaps because price increases deter purchases for personal consumption more than purchases for gifts, See's seasonal sales peak becomes more extreme each year, causing many operating problems and a growing concentration of See's net income into the single month of December. Nonetheless, See's continues to make moderate average yearly progress under 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, despite all the problems, 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 ensure rigorous quality control and cheerful retail service. These qualities are rewarded by truly 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 guarded forecast is that See's earnings will increase at least modestly in 1981.

MUTUAL SAVINGS AND LOAN ASSOCIATION

In last year's letter to shareholders we made the following prediction regarding our 80%-owned subsidiary, Mutual Savings:

> "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 interest rates below current market. Thus our best guess is that Mutual Savings' earnings will decline sharply from the record level of 1979."

We also reported last year that Mutual Savings had contracted to sell, to Brentwood Savings and Loan Association, all its offices except its headquarters office and satellite thereto directly across the street.

As predicted, and for the reason predicted, our equity in Mutual Savings' operating income declined sharply in 1980 to $4,181,000 from $6,804,000 in the previous year.

The sale of Mutual Savings' branch offices closed December 1, 1980, after all regulatory approvals had been obtained, pursuant to the contract with Brentwood Savings.

Reproduced from 1980 Annual Report of Blue Chip Stamps.

The financial leverage of Mutual Savings, and the proportion of its assets not in cash and equivalents and marketable securities, were greatly reduced by the sale of the branch offices. These changes are evident when one compares the condensed balance sheets of Mutual Savings at December 31, 1980, and at December 31, 1979, set forth below:

ASSETS	December 31, 1980	December 31, 1979
Cash	$ 2,182,000	$ 2,744,000
Receivables, including accruals	2,580,000	6,070,000
Interest-bearing cash equivalents	73,982,000	54,239,000
Marketable securities	27,395,000	45,118,000
Loans on real estate, including participations	156,438,000	481,395,000
Office property	291,000	2,679,000
Other assets	9,630,000	9,361,000
	$272,498,000	$601,606,000
LIABILITIES AND NET WORTH		
Accounts payable, including accruals	$ 11,422,000	$ 11,318,000
Savings accounts, net of loans on the security thereof to savers*1	169,237,000	484,925,000
Notes payable to Federal Home Loan Bank	43,382,000	48,626,000
	224,041,000	544,869,000
Total capital and surplus (virtually all in reserves, withdrawal of which would cause imposition of income taxes)*2	48,457,000	56,737,000
	$272,498,000	$601,606,000

*1 Includes $8,944,000 deposited by parent company in 1980 and $1,667,000 in 1979

*2 The lower capital and surplus in 1980 results from dividends paid to the parent company

Real estate loans, before the sale of branch offices were earning at an average annual interest rate of approximately 9.33%. Late in December, after the sale, the average annual interest rate being earned on the retained residue of real estate loans had been reduced to approximately 7.68%. The reduction occurred because most of the loans sold were from the highest-earning part of the pre-existing portfolio.

The income-reducing effects of these low-interest-rate retained loans, so long as interest rates are roughly at their current level, will be more than offset by the income-increasing effects of (1) the high after-tax yields from other retained assets and (2) the elimination of all revenues and costs attributable to the branch offices, with the result that both Mutual Savings' average gross return on assets and its net earnings should be a little higher than they would have been had no sale of branch offices occurred.

However, if interest rates decline significantly and more or less permanently, aggregate future earnings will be much lower than would have been reported without the sale of branch offices. On the other hand, if, some time within the next few years, inflation and interest rates rise significantly and more or less permanently, the sale of branch offices will much improve aggregate future earnings. Thus Mutual Savings has taken action designed to protect itself from adverse effects of high inflation rather than action to position itself for maximum profit from low inflation. The action taken was not based on the belief that high inflation and high interest rates in the future are inevitable, or even more likely than not. Instead the action reflects a desire, motivated by the margin-of-safety considerations intrinsic in engineering and still appropriate, we think, in financial institutions, to restructure Mutual Savings so that a sort of "earthquake risk" was reduced.

This "earthquake risk" was that at some future time interest rates would rise to such an extent that net operating losses might be created by a negative spread between interest rates on old, fixed-interest mortgage loans and the interest rates which would have to be paid to hold savings accounts. The savings and loan industry, with Mutual Savings included, has traditionally "lent long and borrowed short," to an extreme degree. The extremism worked well for decades but has not been wise in recent years. We should have learned this lesson earlier.

Reproduced from 1980 Annual Report of Blue Chip Stamps.

As part of the sale of the branch offices, the fixed assets (primarily real estate) of such offices were sold to the buyer at their current market value, which exceeded Mutual Savings' depreciated cost. Our equity in the capital gain thus created was $2,332,000 and is included in the portion of earnings designated in this letter under the heading "Net Gains From Sales of Securities and Important Fixed Assets."

It is not pleasant work for a savings and loan association, motivated by a prudent concern for its shareholders and a desire to retain unquestioned financial strength, to sell off its carefully developed branch office network and see many of its long-term employees leave, even when they join a high-class organization like Brentwood Savings. Louis Vincenti, long-time chief executive of Mutual Savings, performed this unpleasant duty well, as he has every other duty in a long and successful career.

Mutual Savings plans to continue indefinitely in the savings and loan business, under Mr. Vincenti's able leadership so long as he is willing to serve. The savings and loan business is currently in considerable turmoil, not only because of generally poor operating results attributable to a combination of a high interest-rate environment with a borrowed-short, lent-long position, but also because the distinctions between banks and savings and loan associations are being reduced and the regulatory framework revised to increase competitive pressures. We expect Mutual Savings to adapt successfully to the new environment in some manner not presently predictable, which could even include eventual re-expansion by acquisition.

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 $1,205,000 to our consolidated net income in 1980 from 12 months of operation compared with $1,367,000 in 1979 from 10 months of operation. The decline in earnings was roughly consonant with general conditions in the steel industry.

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 1980 annual report. Simply make your request to:

Wesco Financial Corporation
315 East 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. It now constitutes only approximately $29 million of our consolidated net worth, as a result of about $5 million of aggregate after-tax operating losses after acquisition. This translates roughly into $10 million of aggregate operating losses before taxes.

However, the operating loss, before taxes, of the News in 1980 was lower than that of 1979, having declined to $2,805,000 from $4,617,000 in the previous year.

In our letter to shareholders last year we reported that "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," and that "we now believe that the worst may be behind us in Buffalo . . ."

In 1980 the Buffalo Evening News experienced a continuation of all the above-listed factors which caused losses in previous years, plus two new factors: (1) Buffalo's greater-than-proportionate share of the national

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economic recession and (2) the first labor strike at the News since 1970, when publication was very briefly interrupted by a labor dispute, creating the only such interruption before last year which anyone now at the News can remember. Nonetheless, the operating loss did decrease as predicted and as above noted.

It is, of course, a temptation when writing an annual letter to shareholders to gloss over difficulties, like those in Buffalo, and comment extensively concerning successes. We recommend exactly the opposite emphasis to business managers who report to us, and we believe in practicing what we preach. Accordingly, year after year, we re-tell and extend the history of the News, creating the largest single section of our annual letter. This year will be no exception.

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 through 1979 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, no matter how extreme its past record of prosperity and popularity, 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. Moreover, the three other survivors all were in serious trouble in 1977. 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 minority share of a joint operation with approval of the U.S. Attorney General as required by the Federal Newspaper Preservation Act of 1970. A second of these "no-Sunday" survivors of 1977, the Cleveland Press, after also incurring huge losses, was recently sold by its experienced Ohio-based newspaper-chain owner (Scripps-Howard), under distress conditions, to a wealthy Cleveland man who forthwith announced that his resuscitation program included a plan to expend many millions of dollars in an attempt to publish Sundays as well as weekdays. Because of continuing and apparently irreversible operating losses, the Cleveland Press appears almost surely doomed, despite its belated recognition of the cause of its difficulty, as does what will shortly be the only remaining "no-Sunday" survivor, the New York Post. And, within a few years, when this last survivor disappears, the "no-Sunday" paper, competing in an important American city against a "with-Sunday" competitor, will be as extinct as the dodo bird.]

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.

These interlocutory injunctions against the News 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, the elimination of the harmful interlocutory injunctions did not automatically improve the circulation and advertising linage of the News' Sunday edition. Success in the market had to be won slowly, if it could be won at all, through creating a desirable value for customers. Moreover, achieving success was made more difficult by the fact that it was beyond the power of the appellate court to reverse certain material damage suffered by the News as a result of the interlocutory injunctions and accompanying publicity. Damage inflicted on an infant at birth impairs its subsequent life even after the people in charge of the operating room have decided that different delivery procedures would have been appropriate.

Despite the damage at birth, there was a gradual trend toward success. The Sunday edition of the News has been recognized by subscribers for editorial merit and rewarded by steady circulation growth, needed considering the substantial Sunday-circulation lead of its principal competitor. Great credit must be given to Murray Light, Editor of the News, and other editors and reporters, for consistent delivery of a product which

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deserves and has received increased acceptance by the Greater Buffalo community. The circulation of the News' Sunday edition reached approximately 178,000 copies in February 1981, up from approximately 173,000 copies in February 1980 which, in turn, was up from 156,000 copies in February 1979. Weekday circulation has also increased in 1980, as it did in 1979, and the weekday News continues to be greatly preferred to the weekday Courier-Express by both readers and advertisers.

However, the 1980 gains which occurred in both the Sunday and the weekday circulation of the News were not accompanied by declines in either the weekday or the Sunday circulation of the competing Courier-Express, both of which also increased. Thus Buffalo, suffering more than its share of a national recession, nonetheless saw circulation of every edition published by its two competing major newspaper operations increase last year, exactly as one might expect in a boom city in an oil-saturated Sunbelt state like Texas. The twin gains on Sunday were particularly impressive. This every-edition-of-each-paper circulation growth obviously can't occur each year in the future if such growth remains inconsistent, as it was last year, with national and regional trends. Aggregate weekday circulation in Buffalo may well decline at some point as circulation prices increase and/or promotional efforts decrease in response to business conditions. Aggregate Sunday circulation is likely to continue to increase, reflecting the overwhelming and growing relative importance of Sunday newspapers.

The News' share of the total advertising linage of the two major newspaper operations in Buffalo increased very slightly in 1980, to about 59.6%. The increase in the News' share would have been greater, except for its strike which prevented publication and shifted business to its competitor on two big advertising days shortly before Christmas.

The News, and presumably the competing Courier-Express as well, lost money last year despite very substantial increases in prices forced by economic pressure. Overall, this situation is not desirable for employees or shareholders. And labor relations are affected in a none-too-predictable fashion when employers are unable to incur additional costs without bearing unacceptable losses.

Approximately 83% of the News' employees are members of its 13 different labor unions which through bargained settlements over many years have helped create collective bargaining agreements some of which contain provisions, designed to save jobs, which prevent technological change. With occasional exceptions, all in recent years, as each new collective bargaining agreement was negotiated the union involved sought to improve, from its own point of view, on the expiring collective bargaining agreement, with the net effect that (1) the newspaper was often left weaker on account of inefficient operations and (2) there was often some leapfrogging of benefits, giving a particular union more than its proportionate share of aggregate available economic advantage.

By the time Blue Chip Stamps purchased the News in 1977, this process, combined with a similar process at the Courier-Express and the general state of the newspaper business in Buffalo, had greatly reduced profits of both newspapers. In fact, profits were so minimal that unless more rapid technological progress were allowed and the leapfrogging process ended in favor of conservative pattern settlements, one of the two major newspapers eventually would be forced to cease publication, as has happened in response to similar pressures in major city after major city, on both sides of the Atlantic. In recognition of these facts, the Courier-Express in the years immediately preceding 1977 obtained needed union concessions and suffered no strikes.

There were also grounds for optimism concerning labor relations at the News. We believed in 1977 when we purchased the News that the enterprise-destroying pattern of labor relations which had killed so many metropolitan newspapers was unlikely to kill the News in Buffalo. For one thing, the News had an up-from-the-ranks labor-relations executive, Richard Feather, whom we instantly admired and trusted as fair-minded and constructive and perceived as likely to be so regarded by union members at the News. For another, we made a point, before closing the acquisition, of meeting some of the union leaders and their counsel, and they likewise impressed us favorably. Further, we noticed a great professionalism in employees at the News. Production people and reporters alike cared about the quality of their product, causing us to conclude that they would care similarly about the security and continuation of a common enterprise. Still further, we perceived a high level of friendship and communication among employees of the News, across craft-union lines. Indeed, the enterprise is so old and its jobs so well regarded that jobholders of all kinds have for decades urged their relatives and friends to join the News, often in different craft unions, creating as the years went by something more like a family business than might seem possible to anyone not familiar with it. Finally, we had

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enjoyed constructive relations with diverse and major labor unions elsewhere and did not enter Buffalo with any plan to seek destruction of long-established benefits, although we did hope to use negotiated voluntary "buy-outs" to make some particularly important reductions in future costs. All these factors, together with the News' long history of labor peace, contributed to our willingness to purchase the News, although at least two other prospective buyers, perhaps more fearful of the risks from having an unusually large number of separate unions, had refused to pay the asking price for the paper.

Until 1980 the long no-strike history continued much as we expected, despite economic forces and troubles which frequently caused operating losses for the News and disappointing wage and salary increases for union members and other employees.

However, with 13 different unions and serious external pressures from competition and inflation, labor peace requires that 14 different groups (the News' management plus all 13 unions), without any exception, understand well the common danger, and, even if moving backward in inflation-adjusted economic terms, be wise and considerate of one another at all times. Even in the presence of the unusually favorable conditions for labor peace at the News, such unanimous wisdom and restraint are a lot to expect, given (1) the limitations of human nature, including that on management's side of the table, (2) the tradition, carried over from a different era, at each union that its main preoccupation should be vigorously to enhance and protect the interests of its own members, and (3) the fact that technological changes do not arrive at a steady pace and with effects allocated equally to each union.

The long labor peace ended in December 1980, when one small union group went on strike in an effort to insert new manning requirements, and new requirements of pay for work even if not performed, into its collective bargaining agreement. Most of the other unions' members, recognizing the pattern-breaking nature of the striking union group's demands, ignored a picket line and reported for work, but, finally, most of the News' pressmen refused to continue working, and the News was unable to continue publishing.

The gravity of the strike, its harmful effect on the potentiality for continued existence of the News, can hardly be overstated. An area-wide metropolitan newspaper which is closed down by a strike while a similar competitor continues publishing does not merely lose a lot of money while the strike goes on and then return to publishing at approximately the same annual profit (or loss) as before. Instead, because the competing paper gains circulation rapidly during the strike, the closed-down paper usually suffers such a loss of competitive position that it fairly soon reaches a point where it is unwise to reopen at all. For instance, in Montreal what had long been the overwhelmingly dominant English-language newspaper recently lost many millions of dollars, before its ultimate expiration, in a fruitless and foolish attempt to reopen after a strike of several months during which its main competitor continued to publish.

Such being the facts of life, the News had no practicable alternative, when its strike occurred last year, except to prepare to face rationally whatever degree of impaired position resulted from the strike. Clearly, if the strike was an extended one, the sensible decision would be not to renew publication. Nor was the News willing to settle its disagreement with the striking union group in any manner unfair to other unions involved, under conditions of common external hazard, in serial bargaining of union contracts. A resolution of the dispute unfair to unions which had settled earlier would lead to a ruinous resumption of leapfrogging to the ultimate detriment of the News and all its employees, including those attempting to take the first jump.

Fortunately, the amount of good will and good sense at the News was sufficient, as the matter worked out, to cause the strike to end in two days without, in the News' view, unfairness to unions which had settled earlier. However, the strike augmented the News' pre-tax losses by several hundred thousand dollars and also caused a small loss of competitive position. Both economic results, of course, diminish the capacity of the News to compensate its employees in the future as well as its prospects for beginning to pull its economic weight for shareholders.

The litigation against the News, filed by the Courier-Express in 1977 when the News commenced publishing on Sundays, remains pending. However, the litigation has been less active and costly in 1980, following purchase of the Courier-Express by the Minneapolis Star and Tribune Company, which has a history of preferring the exercise of business and journalistic skills over court battles. On the other hand, possibly as a result of this preference, the Courier-Express is now a more effective competitor than it was under its former owners.

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Encouraged by the News' reduced operating loss in 1980, despite the strike and Buffalo's depressed economy, we expect a further improvement in operating results in 1981. Moreover, because we own what we believe to be one of society's best service institutions and much the better of Buffalo's two major newspapers, we still hope and expect that the News in due course will earn annual profits consistent with its value to Buffalo and appropriate to our level of investment. Our policy remains to improve and hold the News and not to sell it.

The News remains a salable property, even with its current troubles, so long as its share of circulation and advertising is stable-to-inching-ahead, and we could easily improve our consolidated operating earnings and the percentage return we earn on our shareholders' investment by selling the News and reinvesting the proceeds, after tax effects, in profit-earning assets. That we are not even slightly tempted to do so demonstrates our conviction that the proper course is to stay with the News until it either expires, or, much more likely, becomes a solid earner and employer.

Despite our confidence in the probable long-term success of the News, a certain caution is probably appropriate based on the record to date and the nature of the situation. We therefore repeat to our shareholders our warning in previous years regarding what we now believe are unlikely contingencies: "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."

PROMOTIONAL SERVICES BUSINESS AND MISCELLANEOUS SOURCES OF OPERATING INCOME

The final components of our consolidated net operating income last year were provided by (1) operating 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 operating 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 sharply increased operating profit, after parent company interest and other general expense and taxes, last year, up to $4,293,000 from $1,932,000 after (properly) giving it credit for the entire income (dividends and interest, plus income tax benefits caused by dividends) from investment of the funds available through "float" caused by trading stamps issued but not yet redeemed. Our shareholders should not be much impressed by most of the increase in operating profit, which was attributable primarily to revisions in our estimates of our liability to redeem outstanding trading stamps. The revisions, which by their nature will not frequently recur, increased 1980 operating income by $1,747,000. However, operating income was also increased by $721,000 through changing our motivation business from a loss to a profit position, a condition we hope will recur indefinitely.

Trading stamp service revenues increased by a minor amount to $16,672,000 last year compared with $15,967,000 in the previous year. Motivation business revenues increased to $2,771,000 from $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 1980 revenues of $16,672,000 therefore represented a decline of 87% from peak volume.) Eventually, unless stamp issuances improve, earnings from investing "float" will decline greatly. The decline in "float" in recent years, however, has proceeded at an extremely slow rate, and our "float" was $64,053,000 at yearend 1980.

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

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percentage. We periodically revise our estimated future redemption liability as conditions warrant. In 1980 we made revisions increasing operating income as above described, as explained in detail in Note 2 to our accompanying financial statements.

We intend to remain in the trading stamp business. Many of our present customers, aided by our stamp service, operate unusually successful supermarkets, bowling alleys 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 operating income. Our share of operating 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, amounted to $695,000 in 1980, compared with $492,000 in the previous year.

NET GAINS ON SALES OF CORPORATE SECURITIES AND IMPORTANT FIXED ASSETS

In our total assets, located among our five operating businesses, we hold considerably more corporate securities than might be expected in a consolidated enterprise of our size at the close of 1980, as we report consolidated revenues of $219 million and consolidated net worth of $146 million (see Note 3 to our accompanying consolidated financial statements).

Most of these holdings of corporate securities are held because of the very nature of the particular business in which they are owned. For instance, the trading stamp business owns liquid assets to provide for ultimate redemption of stamps, and the savings and loan business holds liquid assets to provide for repayment of savings account holders. The remaining security holdings exist temporarily, primarily in Wesco Financial Corporation, pending their disposition to provide funds for use in buying additional businesses.

Only Mutual Savings, which is barred by law from owning most common stocks, has significant holdings of preferred stocks. Most holdings, therefore, are of common stocks. Our reported operating earnings include only the dividends from our stockholdings, after taxes. And, because the corporations whose common stock we own also have and reinvest earnings not paid out as dividends, a process which ultimately raises market value of the stock we own, we also realize irregularly net capital gains from sales of portions of our holdings.

In addition, our various businesses occasionally sell important buildings, machinery or other fixed assets, as such businesses adjust to changing conditions. In 1980 the sale of branch office facilities by Mutual Savings fell into this category.

In 1980 our share of the gain from sale of Mutual Savings' branch office facilities was $2,332,000, and our total share of the net gains from sale of corporate securities was $1,493,000. Our aggregate share of both types of capital gains combined was $3,825,000, compared with $1,214,000 in the previous year.

PINKERTON'S, INC.

At yearend 1980 we owned non-voting stock representing 35% of the equity in Pinkerton's, Inc., the leading national security and investigation service company.

Our ownership of this non-voting interest demonstrates that, when all factors are considered, we often would rather buy stock we can't or won't vote than absolute control. We think the rationality of use-of-capital decisions is improved when the repertoire of a corporate manager includes purchases of business interests which do not augment the number of people to whom the manager can give orders. However, we have generally observed a low interest among corporate managers in passive investments, even when available at much better price/earnings and price/book value ratios than controlling positions. The strong preference for controlling positions is ordinarily justified by (1) expected improvements from a change in control based on a high appraisal

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of the business skills of the managers of the corporate investor compared to the managers of the corporate investee and (2) a low appraisal of the likelihood that the managers of the corporate investee, if free to act independently, will make decisions which best serve the interests of ultimate shareholders. Our view is different, and, although we expect always to concentrate our activities primarily in operating businesses, we also have an uncommon interest in passive positions for the following reasons:

(1) We know that our business skills are frequently inferior by a wide margin to those of others, as we can prove from comparative figures and our audited record reflecting gross errors;

(2) We believe that many corporate managers can be trusted to serve the shareholders' interests even when the shareholders have no practical power to control or replace management;

(3) We think the advantage of buying at a non-premium price, because control is absent, often counterbalances the disadvantage, if any, from lack of control;

(4) Our consolidated enterprise includes operating businesses required by their nature to own significant passive investments.

We hope to become better known for our uncommon willingness to own "non-voting-partnership" interests in businesses and to attract other offerings like that which produced our Pinkerton's holding. And we are sure, based on five years' observation from our non-voting position, that Pinkerton's wouldn't have been managed one whit better or one whit more in its shareholders' interests if we had purchased voting control.

Our total investment in Pinkerton's at cost was $23,364,000 which, with respect to the major portion thereof constituting marketable securities, is substantially below current market value. See Note 3 to our accompanying financial statements. Only the dividends we receive from Pinkerton's are included in our reported income. These dividends have increased regularly in recent years, creating part of the income reported above under the heading: "Promotional Services Business and Miscellaneous Sources of Operating Income." The part created by Pinkerton's dividends was $1,429,000 in 1980 and $1,201,000 in 1979.

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 3 to the accompanying financial statements, the aggregate market value of our marketable securities was higher than their aggregate cost at December 27, 1980. We remain in a prudent position when total debt is compared to total net worth and total liquid assets.

Retaining the impeccable bank credit facilitated by a prudent balance sheet position is very important to us. When combined with our practice of doing a certain amount of long-term borrowing in advance of specific need, it gives us maximum financial flexibility to face both hazards and opportunities.

Sections entitled "Principal Business Activities," "Selected Financial Data" and "Management's Discussion and Analysis" are presented beginning on page 13. We invite your careful attention to these items and to our audited financial statements.

A LOOK BACK AND A LOOK AHEAD

We began the 1970s with a single business, trading stamps, which was destined to decline to a small fraction of its former size, and a portfolio of securities, offsetting stamp redemption liabilities, which had been selected by previous owners and would have led to a disastrous result 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.)

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We began the 1980s with five constituent businesses instead of one. In order of acquisition they are: (1) trading stamps and other promotional services, (2) See's Candy Shops, Incorporated, (3) Mutual Savings, (4) Buffalo Evening News, and (5) Precision Steel.

Our five constituent businesses have more in common than might be noted by a casual observer:

(1) They are all high-grade operations, manned by high-grade people operating within a long tradition emphasizing reliable and effective service, and

(2) When functioning properly each business will usually generate substantial amounts of cash not claimed by compulsory reinvestment in the same business and therefore available for purchases of new businesses or debt repayment.

The second of these two common characteristics needs additional explanation. Many businesses, once good investments when inflation was low, are now, under inflationary conditions, unable to produce much, if any, cash even when physical volume is constant. Any such business, always cash-starved even while reporting apparently satisfactory profits, is not a candidate, absent some special factor, to become a new subsidiary of ours.

Our balance sheet net worth at February 27, 1971 was about $43 million. By the end of 1980 our balance sheet net worth had increased to approximately $146 million, up 240% in ten years. At February 27, 1971 our equity in aggregate securities was worth about $5 million less than balance sheet cost. At the end of 1980 our equity was worth about $25.6 million more than balance sheet cost. Our average annual total percentage return earned on shareholders investment over the ten years ending December 27, 1980 was approximately 15% per annum, without counting the favorable swing from unrealized loss to unrealized profit in our equity in marketable securities. The percentage return earned was acceptable in a moderate-inflation environment, considering the headwinds in our initial trading stamp business.

In 1980, the year just ended, our total percentage return on the beginning investment of our shareholders was approximately 16%. This percentage return fluctuates from year to year, depending upon various factors including changes in amounts of capital gains realized. The percentage return figure for any one year is not very significant, although the average figure over a period of years, and the trend in such average figure, are of vital importance.

We hope to earn a higher average (though fluctuating) annual total percentage return on shareholders' investment in the future than we have in the past. Our total percentage return on shareholders' investment is now depressed by our substantial commitment to the Buffalo Evening News, producing losses instead of profits. We are trying to correct this condition. Moreover, we expect from time to time to acquire additional businesses which will produce higher returns than the assets disposed of to fund their purchase.

However, even if we succeed in increasing our average annual total percentage return on shareholders' investment (no sure thing), our performance as a company may not do very much for our shareholders as investors if inflation continues at the present rate. As we stated last year, "A 16% return on equity 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."

Inflation is a very effective form of indirect taxation on capital represented by holdings of common stock. We know of no adequate countermeasure, generally available to corporate managers who wish to protect shareholders, to this form of indirect taxation. But, even so, we think a habit of always thinking about shareholders' interests in real terms, instead of rationalizing growth of managed assets regardless of real effects on shareholders, is quite useful and may fairly be expected of corporate managements. We make a very conscious effort, perhaps with occasional inadvertent lapses, to have and reinforce this habit.

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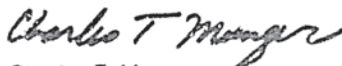
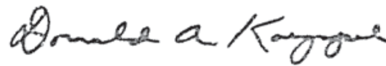
For one example, low stock prices, caused by inflation, together with our preoccupation with real shareholder interests, have intensified our resistance to most proposals that we issue new common stock. We haven't issued a new share, for any reason, for a long time. With rare exceptions American corporations now cannot get as much intrinsic value as they give when new common stock is issued. Our corporation is no exception. And, quite clearly, a corporation can't further its own shareholders' long-term interests by diluting, through new stock issuances, the value underlying each outstanding share. Our unwillingness to accept any such dilution explains our long-unchanged common stock capitalization.

We believe that our (1) heavy emphasis on the cash-generating characteristics of businesses, (2) reluctance to issue new stock and (3) strong balance sheet position are all likely to enjoy increased recognition in future years as qualities to be emphasized by selectors of common stocks for investment.

Cordially yours,





Charles T. Munger
Chairman of the Board

Donald A. Koeppel
President

February 25, 1981

The 1980 Annual Report of Wesco Financial Corporation included the following letter from Louis R. Vincenti, Chairman of the Board and President of Wesco

TO THE STOCKHOLDERS OF WESCO FINANCIAL CORPORATION

Consolidated net income of Wesco Financial Corporation and its subsidiaries for 1980 amounted to $10,045,000 ($1.41 per share) compared to $11,140,000 ($1.56 per share) in 1979, a decrease of 10%. Sources of net income are as follows:

	1980	1979
Mutual Savings	$ 6,243,000	$ 7,703,000
Parent Company and subsidiaries other than Mutual Savings	3,802,000	3,437,000
	$10,045,000	$11,140,000

On December 1, 1980, Mutual Savings consummated the previously announced sale of all its offices, except its Pasadena headquarters office and a satellite office in a new shopping mall across the street, to Brentwood Savings and Loan Association, a subsidiary of Jim Walter Corporation. This transaction resulted in a gain net of related taxes and expenses of $2,911,000 ($.41 per share). Under terms of the sale, Mutual Savings sold the physical facilities of the branches and transferred net branch deposits (approximately $307,000,000) and an equal amount of mortgage loans with an average yield of approximately 10% to Brentwood Savings. The average annual yield of the real estate loan portfolio was reduced from 9.3% to 7.7%.

The financial leverage of Mutual Savings, and the proportion of assets not in cash and marketable securities, were greatly reduced by the sale of the branch offices. While interest rates are at their approximate current level, the income-reducing effect of the low yield from retained loans is more than offset by income-increasing effects of the high after-tax yields of other retained assets, with the result that Mutual Savings' average gross percentage return on assets should be higher than if no sale had occurred.

If interest rates decline significantly, future earnings will be less than the amount which would have been reported without the sale of the branch offices. If inflation and interest rates rise significantly, the sale of the branch offices will improve future earnings. The sale of the branch offices was accomplished by Mutual Savings to protect itself from the adverse effects of high inflation. The savings and loan industry, including Mutual Savings, has traditionally "lent long and borrowed short" to an extreme degree. This worked well for many years, but has not been wise in recent years. What the future holds is yet to be determined.

In January 1980, Mutual Savings sold its remaining stock in the Federal National Mortgage Association (FNMA) at a profit of $948,000 net of taxes. Mutual Savings' earnings in 1979 included a profit net of taxes of $269,000 on the sale of FNMA stock. Mutual Savings sold, shortly prior to the sale of its branches, approximately $24,000,000 in public utility preferred stocks at a loss after taxes of $2,057,000 in order to reinvest in other preferred stocks. This switch could not have been accomplished after the sale as regulations limit the purchase of preferred stocks to an amount equal to 5% of assets at the time of purchase. If there had been no sale of branches and no switching of preferred stocks, the consolidated earnings for 1980 would have been $9,191,000 ($1.29 per share) compared with $11,140,000 ($1.56 per share) actually reported for 1979.

The Association experienced extremely volatile and significantly higher interest rates during 1980. Mutual Savings' operating earnings for the year were severely impacted by these high interest rates. The weighted average cost of savings increased from 7.40% in 1979 to 8.75% in 1980. This increase is due not only to the higher level of interest rates, but also to the continuing shift of the savings portfolio to interest-sensitive accounts. Savings accounts which reflect market rates increased from 11% of total savings accounts at December 31, 1978 to 30% at December 31, 1979, and to 38% at December 31, 1980. Excluding the deposits at branches transferred to Brentwood Savings, total deposits in Mutual Savings (including interest credited to savings accounts) decreased $12,109,000 in 1980 compared to an increase of $20,584,000 in 1979.

During 1980, real estate loan disbursements were $13,618,000, compared with $54,157,000 in 1979. In addition, participation loans purchased were $19,000,000 in 1980 compared with $50,002,000 in 1979. In December 1980 Mutual Savings sold, at book value, the $19,000,000 in participation loans purchased earlier in the year.

Properties acquired by foreclosure at December 31, 1980 are carried at a cost basis of $1,582,000 and consist principally of 22 acres of vacant land on the ocean front near the Biltmore Hotel in Santa Barbara, California, carried at $1,113,000. 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 required time for such processing is indeterminate. We believe, that subject to successful processing, a substantial profit would be realized at the time of any disposition. The remainder, carried at $469,000, consists principally of a commercial development of nine retail stores in a shopping center in Upland, California. All of the shops are presently rented. We plan to hold this property for a substantial period as prospects for an increase in its value are good. Profits derived from sale of foreclosed property are not subject to Federal or State income taxes.

Reproduced from 1980 Annual Report of Wesco Financial Corporation

The savings and loan business is currently in considerable turmoil with poor operating results attributable to high interest rates. There are many problems because of the removal, in part, of the distinctions between banks and savings and loan associations, which has increased competitive pressures. Because of many uncertainties and the lack of an acceptable variable-rate instrument for lending, Mutual Savings at the present time is not active in real estate lending. Participation in mortgage banking operations does not presently appear attractive. We expect to successfully adapt to whatever new environment may exist in the future, but the manner of doing so is presently not predictable. The net worth of Mutual Savings is many times greater than that of other savings and loan associations and will assure its ability to produce continued substantial earnings.

In 1980, Wesco made a profit of $940,000 net of taxes on the sale of its stock in Knight-Ridder Newspapers, while in 1979 a profit after taxes of $984,000 was realized on the sale of Detroit International Bridge Company stock.

The earnings of Precision Steel, Wesco's wholly-owned subsidiary located in Franklin Park, Illinois, include ten months of operations in 1979 from its February 28, 1979 date of acquisition, and twelve months in 1980. The decline in Precision Steel's earnings from $1,707,000 in 1979 to $1,504,000 in 1980 reflects the impact of the general recessionary conditions of the economy on the steel industry.

The increase from 1979 to 1980 in the net profit of the Parent Company and subsidiaries other than Mutual Savings, which occurred despite the lower earnings of Precision Steel, is due to the advantageous temporary use by Wesco of (1) the sum of $2,700,000 received in January 1980 as a dividend from Mutual Savings (additional dividends of $9,600,000 and $2,400,000 were paid in December 1980 and January 1981, respectively) and (2) the net proceeds, after purchase of the assets of Precision Steel for $15,000,000, of the successful June 1979 Note offering in the amount of $25,000,000 at 10⅛%.

As a result of net sales of common and preferred stocks in 1980, Wesco's consolidated holdings in such investments decreased to $84,631,000 (market value $94,546,000) at December 31, 1980 from $93,953,000 (market value $104,644,000) at December 31, 1979. Mutual Savings increased its investment in municipal obligations to $21,244,000 at December 31, 1980, as compared with $6,670,000 at December 31, 1979.

Only Wesco's savings and loan subsidiary has significant holdings of preferred stock, which holdings it will probably retain. It is expected that the common stock held outside the savings and loan subsidiary will be sold to provide funds with which to acquire other businesses when suitable oportunities occur. Until other businesses are acquired, consolidated net income will continue to depend primarily on earnings from the savings and loan and steel businesses.

Later in this report, under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Financial Data," is provided more detailed information as to the results of Wesco and its subsidiaries. Of particular interest is the table of 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 common and preferred stocks and in municipal bonds, by reason of the fact that only 15% of the income from stocks is subject to Federal income tax, and all of the income from municipal bonds is exempt therefrom.

On January 28, 1981, Wesco increased its regular cash dividend from $.10½ per share to $.11½ per share payable March 17, 1981 to shareholders of record at the close of business on February 23, 1981.

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 DATA

Shareholders

The Company had approximately 1,350 record holders of its common stock at February 27, 1981.

Market Prices

The common stock of Berkshire Hathaway Inc. is traded in the over the counter market and is regularly quoted in the NASDAQ System under the symbol BKHT. The high and low bid prices for stock in each quarter of 1980 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.

1980	High	Low	1979	High	Low
First Quarter	340	260	First Quarter	185	154
Second Quarter	320	245	Second Quarter	215	185
Third Quarter	400	300	Third Quarter	350	215
Fourth Quarter	475	375	Fourth Quarter	335	240

Dividends

Berkshire has not declared a cash dividend since 1967. No change is contemplated in Berkshire's policy of investing its earnings in expansion of its businesses rather than paying cash dividends.

Berkshire Hathaway Inc.

SELECTED FINANCIAL DATA

(dollars in thousands – except per share amounts)

	Fiscal Year Ended Saturday Nearest December 31				
	1976[1]	1977	1978	1979	1980
Revenues of consolidated companies:					
Insurance premiums earned	$ 84,871	$143,087	$186,073	$181,949	$ 185,187
Interest and dividend income	11,344	16,796	24,293	30,440	38,966
Other revenues of consolidated companies	86,195	203,752	235,576	247,952	259,200
Equity of consolidated companies in earnings excluding significant securities gains or losses of companies not consolidated:					
Blue Chip Stamps[1]	$ 5,107	$ —	$ —	$ —	$ —
Wesco Financial Corporation[2]	-	5,715	7,417	8,784	8,804
Illinois National Bank[3]	3,750	3,550	4,242	4,960	4,731
Earnings:					
Earnings from continuing operations before realized investment gain	$ 14,386	$ 19,922	$ 25,742	$ 30,961	$ 38,484
Equity in earnings excluding significant securities losses of Illinois National Bank (divested as of December 31, 1980)	3,750	3,550	4,242	4,960	4,731
Earnings before realized investment gain	18,136	23,472	29,984	35,921	43,215
Realized investment gain, net — including equity in significant securities gains or losses of companies not consolidated	6,830	6,921	9,258	6,896	9,907
Net earnings	$ 24,966	$ 30,393	$ 39,242	$ 42,817	$ 53,122
Average shares of common stock outstanding — in thousands	1,070	1,038	1,029	1,027	1,027[4]
Earnings per share:					
Earnings from continuing operations before realized investment gain	$ 13.45	$ 19.20	$ 25.02	$ 30.14	$ 37.47
Earnings before realized investment gain	16.95	22.62	29.15	34.97	42.07
Net earnings	23.33	29.29	38.15	41.68	51.72
Balance Sheet items (at end of Fiscal Year):					
Total assets	$364,125	$646,678	$757,612	$892,265	$[illegible]10,581
Term debt	33,092	55,104	57,071	55,099	[illegible]04,344
Minority shareholders' interest	—	47,926	48,520	52,097	59,851
Shareholders' equity — total	157,790	206,735	254,166	344,962	[illegible]
Shareholders' equity — per outstanding share	147.47	199.17	247.00	335.85	400.80

[1]*Blue Chip Stamps was accounted for by the equity method of accounting for 1976 (and for several prior years) when the Company's ownership of Blue Chip was less than 50%. In 1977 the Company's ownership came to exceed 50% and accordingly, for that year and thereafter, the accounts of Blue Chip and its wholly-owned subsidiaries are included in the consolidated figures.*

[2]*Wesco Financial Corporation, for each of the five years presented, was a less-than-wholly-owned subsidiary of Blue Chip.*

[3]*The Company divested of its interest in the Illinois National Bank as of December 31, 1980; accordingly, earnings from continuing operations excludes the Company's equity in earnings of that unconsolidated subsidiary.*

[4]*Shares of common stock reacquired at December 31, 1980, in bank divestiture transaction, are deemed outstanding for all of 1980.*

1980

BERKSHIRE HATHAWAY INC.

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

1980