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BERKSHIRE HATHAWAY INC.

1983

ANNUAL REPORT TO THE STOCKHOLDERS

BERKSHIRE HATHAWAY INC.

1983 ANNUAL REPORT

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BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

This past year our registered shareholders increased from about 1900 to about 2900. Most of this growth resulted from our merger with Blue Chip Stamps, but there also was an acceleration in the pace of "natural" increase that has raised us from the 1000 level a few years ago.

With so many new shareholders, it's appropriate to summarize the major business principles we follow that pertain to the manager-owner relationship:

- Although our form is corporate, our attitude is partnership. Charlie Munger and I think of our shareholders as owner-partners, and of ourselves as managing partners. (Because of the size of our shareholdings we also are, for better or worse, controlling partners.) We do not view the company itself as the ultimate owner of our business assets but, instead, view the company as a conduit through which our shareholders own the assets.

- In line with this owner-orientation, our directors are all major shareholders of Berkshire Hathaway. In the case of at least four of the five, over 50% of family net worth is represented by holdings of Berkshire. We eat our own cooking.

- Our long-term economic goal (subject to some qualifications mentioned later) is to maximize the average annual rate of gain in intrinsic business value on a per-share basis. We do not measure the economic significance or performance of Berkshire by its size; we measure by per-share progress. We are certain that the rate of per-share progress will diminish in the future — a greatly enlarged capital base will see to that. But we will be disappointed if our rate does not exceed that of the average large American corporation.

- Our preference would be to reach this goal by directly owning a diversified group of businesses that generate cash and consistently earn above-average returns on capital. Our second choice is to own parts of similar businesses, attained primarily through purchases of marketable common stocks by our insurance subsidiaries. The price and availability of businesses and the need for insurance capital determine any given year's capital allocation.

- Because of this two-pronged approach to business ownership and because of the limitations of conventional accounting, consolidated reported earnings may reveal relatively little about our true economic performance. Charlie and I, both as owners and managers, virtually ignore such consolidated numbers. However, we will also report to you the earnings of each major business we control, numbers we consider of great importance. These figures, along with other information we will supply about the individual businesses, should generally aid you in making judgments about them.

- Accounting consequences do not influence our operating or capital-allocation decisions. When acquisition costs are similar, we much prefer to purchase $2 of earnings that is not reportable by us under standard accounting principles than to purchase $1 of earnings that is reportable. This is precisely the choice that often faces us since entire businesses (whose earnings will be fully reportable) frequently sell for double the pro-rata price of small portions (whose earnings will be largely unreportable). In aggregate and over time, we expect the unreported earnings to be fully reflected in our intrinsic business value through capital gains.

- We rarely use much debt and, when we do, we attempt to structure it on a long-term fixed-rate basis. We will reject interesting opportunities rather than over-leverage our balance sheet. This conservatism has penalized our results but it is the only behavior that leaves us comfortable, considering our fiduciary obligations to policyholders, depositors, lenders and the many equity holders who have committed unusually large portions of their net worth to our care.

• A managerial "wish list" will not be filled at shareholder expense. We will not diversify by purchasing entire businesses at control prices that ignore long-term economic consequences to our shareholders. We will only do with your money what we would do with our own, weighing fully the values you can obtain by diversifying your own portfolios through direct purchases in the stock market.

• We feel noble intentions should be checked periodically against results. We test the wisdom of retaining earnings by assessing whether retention, over time, delivers shareholders at least $1 of market value for each $1 retained. To date, this test has been met. We will continue to apply it on a five-year rolling basis. As our net worth grows, it is more difficult to use retained earnings wisely.

• We will issue common stock only when we receive as much in business value as we give. This rule applies to all forms of issuance — not only mergers or public stock offerings, but stock-for-debt swaps, stock options, and convertible securities as well. We will not sell small portions of your company — and that is what the issuance of shares amounts to — on a basis inconsistent with the value of the entire enterprise.

• You should be fully aware of one attitude Charlie and I share that hurts our financial performance: regardless of price, we have no interest at all in selling any good businesses that Berkshire owns, and are very reluctant to sell sub-par businesses as long as we expect them to generate at least some cash and as long as we feel good about their managers and labor relations. We hope not to repeat the capital-allocation mistakes that led us into such sub-par businesses. And we react with great caution to suggestions that our poor businesses can be restored to satisfactory profitability by major capital expenditures. (The projections will be dazzling — the advocates will be sincere — but, in the end, major additional investment in a terrible industry usually is about as rewarding as struggling in quicksand.) Nevertheless, gin rummy managerial behavior (discard your least promising business at each turn) is not our style. We would rather have our overall results penalized a bit than engage in it.

• We will be candid in our reporting to you, emphasizing the pluses and minuses important in appraising business value. Our guideline is to tell you the business facts that we would want to know if our positions were reversed. We owe you no less. Moreover, as a company with a major communications business, it would be inexcusable for us to apply lesser standards of accuracy, balance and incisiveness when reporting on ourselves than we would expect our news people to apply when reporting on others. We also believe candor benefits us as managers: the CEO who misleads others in public may eventually mislead himself in private.

• Despite our policy of candor, we will discuss our activities in marketable securities only to the extent legally required. Good investment ideas are rare, valuable and subject to competitive appropriation just as good product or business acquisition ideas are. Therefore, we normally will not talk about our investment ideas. This ban extends even to securities we have sold (because we may purchase them again) and to stocks we are incorrectly rumored to be buying. If we deny those reports but say "no comment" on other occasions, the no-comments become confirmation.

That completes the catechism, and we can now move on to the high point of 1983 — the acquisition of a majority interest in Nebraska Furniture Mart and our association with Rose Blumkin and her family.

Nebraska Furniture Mart

Last year, in discussing how managers with bright, but adrenalin-soaked minds scramble after foolish acquisitions, I quoted Pascal: "It has struck me that all the misfortunes of men spring from the single cause that they are unable to stay quietly in one room."

Even Pascal would have left the room for Mrs. Blumkin.

About 67 years ago Mrs. Blumkin, then 23, talked her way past a border guard to leave Russia for America. She had no formal education, not even at the grammar school level, and knew no English. After some years in this country, she learned the language when her older daughter taught her, every evening, the words she had learned in school during the day.

In 1937, after many years of selling used clothing, Mrs. Blumkin had saved $500 with which to realize her dream of opening a furniture store. Upon seeing the American Furniture Mart in Chicago — then the center of the nation's wholesale furniture activity — she decided to christen her dream Nebraska Furniture Mart.

She met every obstacle you would expect (and a few you wouldn't) when a business endowed with only $500 and no locational or product advantage goes up against rich, long-entrenched competition. At one early point, when her tiny resources ran out, "Mrs. B" (a personal trademark now as well recognized in Greater Omaha as Coca-Cola or Sanka) coped in a way not taught at business schools: she simply sold the furniture and appliances from her home in order to pay creditors precisely as promised.

Omaha retailers began to recognize that Mrs. B would offer customers far better deals than they had been giving, and they pressured furniture and carpet manufacturers not to sell to her. But by various strategies she obtained merchandise and cut prices sharply. Mrs. B was then hauled into court for violation of Fair Trade laws. She not only won all the cases, but received invaluable publicity. At the end of one case, after demonstrating to the court that she could profitably sell carpet at a huge discount from the prevailing price, she sold the judge $1400 worth of carpet.

Today Nebraska Furniture Mart generates over $100 million of sales annually out of one 200,000 square-foot store. No other home furnishings store in the country comes close to that volume. That single store also sells more furniture, carpets, and appliances than do all Omaha competitors combined.

One question I always ask myself in appraising a business is how I would like, assuming I had ample capital and skilled personnel, to compete with it. I'd rather wrestle grizzlies than compete with Mrs. B and her progeny. They buy brilliantly, they operate at expense ratios competitors don't even dream about, and they then pass on to their customers much of the savings. It's the ideal business — one built upon exceptional value to the customer that in turn translates into exceptional economics for its owners.

Mrs. B is wise as well as smart and, for far-sighted family reasons, was willing to sell the business last year. I had admired both the family and the business for decades, and a deal was quickly made. But Mrs. B, now 90, is not one to go home and risk, as she puts it, "losing her marbles". She remains Chairman and is on the sales floor seven days a week. Carpet sales are her specialty. She personally sells quantities that would be a good departmental total for other carpet retailers.

We purchased 90% of the business — leaving 10% with members of the family who are involved in management — and have optioned 10% to certain key young family managers.

And what managers they are. Geneticists should do handsprings over the Blumkin family. Louie Blumkin, Mrs. B's son, has been President of Nebraska Furniture Mart for many years and is widely regarded as the shrewdest buyer of furniture and appliances in the country. Louie says he had the best teacher, and Mrs. B says she had the best student. They're both right. Louie and his three sons all have the Blumkin business ability, work ethic, and, most important, character. On top of that, they are really nice people. We are delighted to be in partnership with them.

Corporate Performance

During 1983 our book value increased from $737.43 per share to $975.83 per share, or by 32%. We never take the one-year figure very seriously. After all, why should the time required for a planet to circle the sun synchronize precisely with the time required for business actions to pay off? Instead, we recommend not less than a five-year test as a rough yardstick of economic performance. Red lights should start flashing if the five-year average annual gain falls much below the return on equity earned over the period by American industry in aggregate. (Watch out for our explanation if that occurs — as Goethe observed, "When ideas fail, words come in very handy.")

During the 19-year tenure of present management, book value has grown from $19.46 per share to $975.83, or 22.6% compounded annually. Considering our present size, nothing close to this rate of return can be sustained. Those who believe otherwise should pursue a career in sales, but avoid one in mathematics.

We report our progress in terms of book value because in our case (though not, by any means, in all cases) it is a conservative but reasonably adequate proxy for growth in intrinsic business value — *the measurement that really counts*. Book value's virtue as a score-keeping measure is that it is easy to calculate and doesn't involve the subjective (but important) judgments employed in calculation of intrinsic business value. It is important to understand, however, that the two terms — book value and intrinsic business value — have very different meanings.

Book value is an accounting concept, recording the accumulated financial input from both contributed capital and retained earnings. Intrinsic business value is an economic concept, estimating future cash output discounted to present value. Book value tells you what has been put in; intrinsic business value estimates what can be taken out.

An analogy will suggest the difference. Assume you spend identical amounts putting each of two children through college. The book value (measured by financial input) of each child's education would be the same. But the present value of the future payoff (the intrinsic business value) might vary enormously — from zero to many times the cost of the education. So, also, do businesses having equal financial input end up with wide variations in value.

At Berkshire, at the beginning of fiscal 1965 when the present management took over, the $19.46 per share book value considerably overstated intrinsic business value. All of that book value consisted of textile assets that could not earn, on average, anything close to an appropriate rate of return. In the terms of our analogy, the investment in textile assets resembled investment in a largely-wasted education.

Now, however, our intrinsic business value considerably exceeds book value. There are two major reasons:

(1) Standard accounting principles require that common stocks held by our insurance subsidiaries be stated on our books at market value, but that other stocks we own be carried at the lower of aggregate cost or market. At the end of 1983, the market value of this latter group exceeded carrying value by $70 million pre-tax, or about $50 million after tax. This excess belongs in our intrinsic business value, but is not included in the calculation of book value;

(2) More important, we own several businesses that possess economic Goodwill (which is properly includable in intrinsic business value) far larger than the accounting Goodwill that is carried on our balance sheet and reflected in book value.

Goodwill, both economic and accounting, is an arcane subject and requires more explanation than is appropriate here. The appendix that follows this letter — "Goodwill and its Amortization: The Rules and The Realities" — explains why economic and accounting Goodwill can, and usually do, differ enormously.

You can live a full and rewarding life without ever thinking about Goodwill and its amortization. But students of investment and management should understand the nuances of the subject. My own thinking has changed drastically from 35 years ago when I was taught to favor tangible assets and to shun businesses whose value depended largely upon economic Goodwill. This bias caused me to make many important business mistakes of omission, although relatively few of commission.

Keynes identified my problem: "The difficulty lies not in the new ideas but in escaping from the old ones." My escape was long delayed, in part because most of what I had been taught by the same teacher had been (and continues to be) so extraordinarily valuable. Ultimately, business experience, direct and vicarious, produced my present strong preference for businesses that possess large amounts of enduring Goodwill and that utilize a minimum of tangible assets.

I recommend the Appendix to those who are comfortable with accounting terminology and who have an interest in understanding the business aspects of Goodwill. Whether or not you wish to tackle the Appendix, you should be aware that Charlie and I believe that Berkshire possesses very significant economic Goodwill value above that reflected in our book value.

Sources of Reported Earnings

The table below shows the sources of Berkshire's reported earnings. In 1982, Berkshire owned about 60% of Blue Chip Stamps whereas, in 1983, our ownership was 60% throughout the first six months and 100% thereafter. In turn, Berkshire's net interest in Wesco was 48% during 1982 and the first six months of 1983, and 80% for the balance of 1983. Because of these changed ownership percentages, the first two columns of the table provide the best measure of underlying business performance.

All of the significant gains and losses attributable to unusual sales of assets by any of the business entities are aggregated with securities transactions on the line near the bottom of the table, and are not included in operating earnings. (We regard any annual figure for realized capital gains or losses as meaningless, but we regard the aggregate realized and unrealized capital gains over a period of years as very important.) Furthermore, amortization of Goodwill is not charged against the specific businesses but, for reasons outlined in the Appendix, is set forth as a separate item.

	Earnings Before Income Taxes				*Net Earnings After Tax*	
	Total		*Berkshire Share*		*Berkshire Share*	
	1983	*1982*	*1983*	*1982*	*1983*	*1982*
			(000s omitted)			
Operating Earnings:						
Insurance Group:						
Underwriting	$ (33,872)	$ (21,558)	$ (33,872)	$ (21,558)	$ (18,400)	$ (11,345)
Net Investment Income	43,810	41,620	43,810	41,620	39,114	35,270
Berkshire-Waumbec Textiles	(100)	(1,545)	(100)	(1,545)	(63)	(862)
Associated Retail Stores	697	914	697	914	355	446
Nebraska Furniture Mart[1]	3,812	—	3,049	—	1,521	—
See's Candies	27,411	23,884	24,526	14,235	12,212	6,914
Buffalo Evening News	19,352	(1,215)	16,547	(724)	8,832	(226)
Blue Chip Stamps[2]	(1,422)	4,182	(1,876)	2,492	(353)	2,472
Wesco Financial — Parent	7,493	6,156	4,844	2,937	3,448	2,210
Mutual Savings and Loan	(798)	(6)	(467)	(2)	1,917	1,524
Precision Steel	3,241	1,035	2,102	493	1,136	265
Interest on Debt	(15,104)	(14,996)	(13,844)	(12,977)	(7,346)	(6,951)
Special GEICO Distribution	21,000	—	21,000	—	19,551	—
Shareholder-Designated Contributions	(3,066)	(891)	(3,066)	(891)	(1,656)	(481)
Amortization of Goodwill	(532)	151	(563)	90	(563)	90
Other	10,121	3,371	9,623	2,658	8,490	2,171
Operating Earnings	82,043	41,102	72,410	27,742	68,195	31,497
Sales of securities and unusual sales of assets	67,260	36,651	65,089	21,875	45,298	14,877
Total Earnings	$149,303	$ 77,753	$137,499	$ 49,617	$113,493	$ 46,374

[1] October through December

[2] 1982 and 1983 are not comparable; major assets were transferred in the merger.

For a discussion of the businesses owned by Wesco, please read Charlie Munger's report on pages 46-51. Charlie replaced Louie Vincenti as Chairman of Wesco late in 1983 when health forced Louie's retirement at age 77. In some instances, "health" is a euphemism, but in Louie's case nothing but health would cause us to consider his retirement. Louie is a marvelous man and has been a marvelous manager.

The special GEICO distribution reported in the table arose when that company made a tender offer for a portion of its stock, buying both from us and other shareholders. At GEICO's request, we tendered a quantity of shares that kept our ownership percentage the same after the transaction as before. The proportional nature of our sale permitted us to treat the proceeds as a dividend. Unlike individuals, corporations net considerably more when earnings are derived from dividends rather than from capital gains, since the effective Federal income tax rate on dividends is 6.9% versus 28% on capital gains.

Even with this special item added in, our total dividends from GEICO in 1983 were considerably less than our share of GEICO's earnings. Thus it is perfectly appropriate, from both an accounting and economic standpoint, to include the redemption proceeds in our reported earnings. It is because the item is large and unusual that we call your attention to it.

The table showing you our sources of earnings includes dividends from those non-controlled companies whose marketable equity securities we own. But the table does not include earnings those companies have retained that are applicable to our ownership. In aggregate and over time we expect those undistributed earnings to be reflected in market prices and to increase our intrinsic business value on a dollar-for-dollar basis, just as if those earnings had been under our control and reported as part of our profits. That does not mean we expect all of our holdings to behave uniformly: some will disappoint us, others will deliver pleasant surprises. To date our experience has been better than we originally anticipated. In aggregate, we have received far more than a dollar of market value gain for every dollar of earnings retained.

The following table shows our 1983 yearend net holdings in marketable equities. All numbers represent 100% of Berkshire's holdings, and 80% of Wesco's holdings. The portion attributable to minority shareholders of Wesco has been excluded.

No. of Shares		*Cost*	*Market*
		(000s omitted)	
690,975	Affiliated Publications, Inc.	$ 3,516	$ 26,603
4,451,544	General Foods Corporation[a]	163,786	228,698
6,850,000	GEICO Corporation	47,138	398,156
2,379,200	Handy & Harman	27,318	42,231
636,310	Interpublic Group of Companies, Inc.	4,056	33,088
197,200	Media General	3,191	11,191
250,400	Ogilvy & Mather International	2,580	12,833
5,618,661	R. J. Reynolds Industries, Inc.[a]	268,918	314,334
901,788	Time, Inc.	27,732	56,860
1,868,600	The Washington Post Company	10,628	136,875
		$558,863	$1,287,869
	All Other Common Stockholdings	7,485	18,044
	Total Common Stocks	$566,348	$1,305,913

[a] Wesco owns shares in these companies.

Based upon present holdings and present dividend rates — excluding any special items such as the GEICO proportional redemption last year — we would expect reported dividends from this group to be approximately $39 million in 1984. We can also make a very rough guess about the earnings this group will retain that will be attributable to our ownership: these may total about $65 million for the year. These retained earnings could well have no immediate effect on market prices of the securities. Over time, however, we feel they will have real meaning.

In addition to the figures already supplied, information regarding the businesses we control appears in Management's Discussion on pages 40-44. The most significant of these are Buffalo Evening News, See's, and the Insurance Group, to which we will give some special attention here.

Buffalo Evening News

First, a clarification: our corporate name is Buffalo Evening News, Inc. but the name of the newspaper, since we began a morning edition a little over a year ago, is Buffalo News.

In 1983 the News somewhat exceeded its targeted profit margin of 10% after tax. Two factors were responsible: (1) a state income tax cost that was subnormal because of a large loss carry-forward, now fully utilized, and (2) a large drop in the per-ton cost of newsprint (an unanticipated fluke that will be reversed in 1984).

Although our profit margins in 1983 were about average for newspapers such as the News, the paper's performance, nevertheless, was a significant achievement considering the economic and retailing environment in Buffalo.

Buffalo has a concentration of heavy industry, a segment of the economy that was hit particularly hard by the recent recession and that has lagged the recovery. As Buffalo consumers have suffered, so also have the paper's retailing customers. Their numbers have shrunk over the past few years and many of those surviving have cut their linage.

Within this environment the News has one exceptional strength: its acceptance by the public, a matter measured by the paper's "penetration ratio" — the percentage of households within the community purchasing the paper each day. Our ratio is superb: for the six months ended September 30, 1983 the News stood number one in weekday penetration among the 100 largest papers in the United States (the ranking is based on "city zone" numbers compiled by the Audit Bureau of Circulations).

In interpreting the standings, it is important to note that many large cities have two papers, and that in such cases the penetration of either paper is necessarily lower than if there were a single paper, as in Buffalo. Nevertheless, the list of the 100 largest papers includes many that have a city to themselves. Among these, the News is at the top nationally, far ahead of many of the country's best-known dailies.

Among Sunday editions of these same large dailies, the News ranks number three in penetration — ten to twenty percentage points ahead of many well-known papers. It was not always this way in Buffalo. Below we show Sunday circulation in Buffalo in the years prior to 1977 compared with the present period. In that earlier period the Sunday paper was the Courier-Express (the News was not then publishing a Sunday paper). Now, of course, it is the News.

Average Sunday Circulation

Year	*Circulation*
1970	314,000
1971	306,000
1972	302,000
1973	290,000
1974	278,000
1975	269,000
1976	270,000
1984 (Current)	376,000

We believe a paper's penetration ratio to be the best measure of the strength of its franchise. Papers with unusually high penetration in the geographical area that is of prime interest to major local retailers, and with relatively little circulation elsewhere, are exceptionally efficient buys for those retailers. Low-penetration papers have a far less compelling message to present to advertisers.

In our opinion, three factors largely account for the unusual acceptance of the News in the community. Among these, points 2 and 3 also may explain the popularity of the Sunday News compared to that of the Sunday Courier-Express when it was the sole Sunday paper:

(1) The first point has nothing to do with merits of the News. Both emigration and immigration are relatively low in Buffalo. A stable population is more interested and involved in the activities of its community than is a shifting population — and, as a result, is more interested in the content of the local daily paper. Increase the movement in and out of a city and penetration ratios will fall.

(2) The News has a reputation for editorial quality and integrity that was honed by our long-time editor, the legendary Alfred Kirchhofer, and that has been preserved and extended by Murray Light. This reputation was enormously important to our success in establishing a Sunday paper against entrenched competition. And without a Sunday edition, the News would not have survived in the long run.

(3) The News lives up to its name — it delivers a very unusual amount of news. During 1983, our "news hole" (editorial material — not ads) amounted to 50% of the newspaper's content (excluding preprinted inserts). Among papers that dominate their markets and that are of comparable or larger size, we know of only one whose news hole percentage exceeds that of the News. Comprehensive figures are not available, but a sampling indicates an average percentage in the high 30s. In other words, page for page, our mix gives readers over 25% more news than the typical paper. This news-rich mixture is by intent. Some publishers, pushing for higher profit margins, have cut their news holes during the past decade. We have maintained ours and will continue to do so. Properly written and edited, a full serving of news makes our paper more valuable to the reader and contributes to our unusual penetration ratio.

Despite the strength of the News' franchise, gains in ROP linage (advertising printed within the newspaper pages as contrasted to preprinted inserts) are going to be very difficult to achieve. We had an enormous gain in preprints during 1983: lines rose from 9.3 million to 16.4 million, revenues from $3.6 million to $8.1 million. These gains are consistent with national trends, but exaggerated in our case by business we picked up when the Courier-Express closed.

On balance, the shift from ROP to preprints has negative economic implications for us. Profitability on preprints is less and the business is more subject to competition from alternative means of delivery. Furthermore, a reduction in ROP linage means less absolute space devoted to news (since the news hole percentage remains constant), thereby reducing the utility of the paper to the reader.

Stan Lipsey became Publisher of the Buffalo News at midyear upon the retirement of Henry Urban. Henry never flinched during the dark days of litigation and losses following our introduction of the Sunday paper — an introduction whose wisdom was questioned by many in the newspaper business, including some within our own building. Henry is admired by the Buffalo business community, he's admired by all who worked for him, and he is admired by Charlie and me. Stan worked with Henry for several years, and has worked for Berkshire Hathaway since 1969. He has been personally involved in all nuts-and-bolts aspects of the newspaper business from editorial to circulation. We couldn't do better.

See's Candy Shops

The financial results at See's continue to be exceptional. The business possesses a valuable and solid consumer franchise and a manager equally valuable and solid.

In recent years See's has encountered two important problems, at least one of which is well on its way toward solution. That problem concerns costs, except those for raw materials. We have enjoyed a break on raw material costs in recent years though so, of course, have our competitors. One of these

days we will get a nasty surprise in the opposite direction. In effect, raw material costs are largely beyond our control since we will, as a matter of course, buy the finest ingredients that we can, regardless of changes in their price levels. We regard product quality as sacred.

But other kinds of costs are more controllable, and it is in this area that we have had problems. On a per-pound basis, our costs (not including those for raw materials) have increased in the last few years at a rate significantly greater than the increase in the general price level. It is vital to our competitive position and profit potential that we reverse this trend.

In recent months much better control over costs has been attained and we feel certain that our rate of growth in these costs in 1984 will be below the rate of inflation. This confidence arises out of our long experience with the managerial talents of Chuck Huggins. We put Chuck in charge the day we took over, and his record has been simply extraordinary, as shown by the following table:

52-53 Week Year Ended About December 31	*Sales Revenues*	*Operating Profits After Taxes*	*Number of Pounds of Candy Sold*	*Number of Stores Open at Year End*
1983 (53 weeks)	$133,531,000	$13,699,000	24,651,000	207
1982	123,662,000	11,875,000	24,216,000	202
1981	112,578,000	10,779,000	24,052,000	199
1980	97,715,000	7,547,000	24,065,000	191
1979	87,314,000	6,330,000	23,985,000	188
1978	73,653,000	6,178,000	22,407,000	182
1977	62,886,000	6,154,000	20,921,000	179
1976 (53 weeks)	56,333,000	5,569,000	20,553,000	173
1975	50,492,000	5,132,000	19,134,000	172
1974	41,248,000	3,021,000	17,883,000	170
1973	35,050,000	1,940,000	17,813,000	169
1972	31,337,000	2,083,000	16,954,000	167

The other problem we face, as the table suggests, is our recent inability to achieve meaningful gains in pounds sold. The industry has the same problem. But for many years we outperformed the industry in this respect and now we are not.

The poundage volume in our retail stores has been virtually unchanged each year for the past four, despite small increases every year in the number of shops (and in distribution expense as well). Of course, dollar volume has increased because we have raised prices significantly. But we regard the most important measure of retail trends to be units sold per store rather than dollar volume. On a same-store basis (counting only shops open throughout both years) with all figures adjusted to a 52-week year, poundage was down .8 of 1% during 1983. This small decline was our best same-store performance since 1979; the cumulative decline since then has been about 8%. Quantity-order volume, about 25% of our total, has plateaued in recent years following very large poundage gains throughout the 1970s.

We are not sure to what extent this flat volume — both in the retail shop area and the quantity order area — is due to our pricing policies and to what extent it is due to static industry volume, the recession, and the extraordinary share of market we already enjoy in our primary marketing area. Our price increase for 1984 is much more modest than has been the case in the past few years, and we hope that next year we can report better volume figures to you. But we have no basis to forecast these.

Despite the volume problem, See's strengths are many and important. In our primary marketing area, the West, our candy is preferred by an enormous margin to that of any competitor. In fact, we believe most lovers of chocolate prefer it to candy costing two or three times as much. (In candy, as in stocks, price and value can differ; price is what you give, value is what you get.) The quality of

customer service in our shops — operated throughout the country by us and not by franchisees — is every bit as good as the product. Cheerful, helpful personnel are as much a trademark of See's as is the logo on the box. That's no small achievement in a business that requires us to hire about 2000 seasonal workers. We know of no comparably-sized organization that betters the quality of customer service delivered by Chuck Huggins and his associates.

Because we have raised prices so modestly in 1984, we expect See's profits this year to be about the same as in 1983.

Insurance — Controlled Operations

We both operate insurance companies and have a large economic interest in an insurance business we don't operate, GEICO. The results for all can be summed up easily: in aggregate, the companies we operate and whose underwriting results reflect the consequences of decisions that were my responsibility a few years ago, had absolutely terrible results. Fortunately, GEICO, whose policies I do not influence, simply shot the lights out. The inference you draw from this summary is the correct one. I made some serious mistakes a few years ago that came home to roost.

The industry had its worst underwriting year in a long time, as indicated by the table below:

	Yearly Change in Premiums Written (%)	*Combined Ratio after Policy-holder Dividends*
1972	10.2	96.2
1973	8.0	99.2
1974	6.2	105.4
1975	11.0	107.9
1976	21.9	102.4
1977	19.8	97.2
1978	12.8	97.5
1979	10.3	100.6
1980	6.0	103.1
1981	3.9	106.0
1982 (Revised)	4.4	109.7
1983 (Estimated)	4.6	111.0

Source: Best's Aggregates and Averages.

Best's data reflect the experience of practically the entire industry, including stock, mutual, and reciprocal companies. The combined ratio represents total insurance costs (losses incurred plus expenses) compared to revenue from premiums: a ratio below 100 indicates an underwriting profit and one above 100 indicates a loss.

For the reasons outlined in last year's report, we expect the poor industry experience of 1983 to be more or less typical for a good many years to come. (As Yogi Berra put it: "It will be déjà vu all over again.") That doesn't mean we think the figures won't bounce around a bit; they are certain to. But we believe it highly unlikely that the combined ratio during the balance of the decade will average significantly below the 1981-1983 level. Based on our expectations regarding inflation — *and we are as pessimistic as ever on that front* — industry premium volume must grow about 10% annually merely to stabilize loss ratios at present levels.

Our own combined ratio in 1983 was 121. Since Mike Goldberg recently took over most of the responsibility for the insurance operation, it would be nice for me if our shortcomings could be placed at his doorstep rather than mine. But unfortunately, as we have often pointed out, the insurance business has a long lead-time. Though business policies may be changed and personnel improved, a significant period must pass before the effects are seen. (This characteristic of the business enabled

us to make a great deal of money in GEICO: we could picture what was likely to happen well before it actually occurred.) So the roots of the 1983 results are operating and personnel decisions made two or more years back when I had direct managerial responsibility for the insurance group.

Despite our poor results overall, several of our managers did truly outstanding jobs. Roland Miller guided the auto and general liability business of National Indemnity Company and National Fire and Marine Insurance Company to improved results, while those of competitors deteriorated. In addition, Tom Rowley at Continental Divide Insurance — our fledgling Colorado homestate company — seems certain to be a winner. Mike found him a little over a year ago, and he was an important acquisition.

We have become active recently — and hope to become much more active — in reinsurance transactions where the buyer's overriding concern should be the seller's long-term creditworthiness. In such transactions our premier financial strength should make us the number one choice of both claimants and insurers who must rely on the reinsurer's promises for a great many years to come.

A major source of such business is structured settlements — a procedure for settling losses under which claimants receive periodic payments (almost always monthly, for life) rather than a single lump-sum settlement. This form of settlement has important tax advantages for the claimant and also prevents his squandering a large lump-sum payment. Frequently, some inflation protection is built into the settlement. Usually the claimant has been seriously injured, and thus the periodic payments must be unquestionably secure for decades to come. We believe we offer unparalleled security. No other insurer we know of — even those with much larger gross assets — has our financial strength.

We also think our financial strength should recommend us to companies wishing to transfer loss reserves. In such transactions, other insurance companies pay us lump sums to assume all (or a specified portion of) future loss payments applicable to large blocks of expired business. Here also, the company transferring such claims needs to be certain of the transferee's financial strength for many years to come. Again, most of our competitors soliciting such business appear to us to have a financial condition that is materially inferior to ours.

Potentially, structured settlements and the assumption of loss reserves could become very significant to us. Because of their potential size and because these operations generate large amounts of investment income compared to premium volume, we will show underwriting results from those businesses on a separate line in our insurance segment data. We also will exclude their effect in reporting our combined ratio to you. We "front end" no profit on structured settlement or loss reserve transactions, and all attributable overhead is expensed currently. Both businesses are run by Don Wurster at National Indemnity Company.

Insurance — GEICO

Geico's performance during 1983 was as good as our own insurance performance was poor. Compared to the industry's combined ratio of 111, GEICO wrote at 96 *after* a large voluntary accrual for policyholder dividends. A few years ago I would not have thought GEICO could so greatly outperform the industry. Its superiority reflects the combination of a truly exceptional business idea and an exceptional management.

Jack Byrne and Bill Snyder have maintained extraordinary discipline in the underwriting area (including, crucially, provision for full and proper loss reserves), and their efforts are now being further rewarded by significant gains in new business. Equally important, Lou Simpson is the class of the field among insurance investment managers. The three of them are some team.

We have approximately a one-third interest in GEICO. That gives us a $270 million share in the company's premium volume, an amount some 80% larger than our own volume. Thus, the major portion of our total insurance business comes from the best insurance book in the country. This fact does not moderate by an iota the need for us to improve our own operation.

Stock Splits and Stock Activity

We often are asked why Berkshire does not split its stock. The assumption behind this question usually appears to be that a split would be a pro-shareholder action. We disagree. Let me tell you why.

One of our goals is to have Berkshire Hathaway stock sell at a price rationally related to its intrinsic business value. (But note "rationally related", not "identical": if well-regarded companies are generally selling in the market at large discounts from value, Berkshire might well be priced similarly.) The key to a rational stock price is rational shareholders, both current and prospective.

If the holders of a company's stock and/or the prospective buyers attracted to it are prone to make irrational or emotion-based decisions, some pretty silly stock prices are going to appear periodically. Manic-depressive personalities produce manic-depressive valuations. Such aberrations may help us in buying and selling the stocks of other companies. But we think it is in both your interest and ours to minimize their occurrence in the market for Berkshire.

To obtain only high quality shareholders is no cinch. Mrs. Astor could select her 400, but anyone can buy any stock. Entering members of a shareholder "club" cannot be screened for intellectual capacity, emotional stability, moral sensitivity or acceptable dress. Shareholder eugenics, therefore, might appear to be a hopeless undertaking.

In large part, however, we feel that high quality ownership can be attracted and maintained if we consistently communicate our business and ownership philosophy — *along with no other conflicting messages* — and then let self selection follow its course. For example, self selection will draw a far different crowd to a musical event advertised as an opera than one advertised as a rock concert — even though anyone can buy a ticket to either.

Through our policies and communications — our "advertisements" — we try to attract investors who will understand our operations, attitudes and expectations. (And, fully as important, we try to dissuade those who won't.) We want those who think of themselves as business owners and invest in companies with the intention of staying a long time. And, we want those who keep their eyes focused on business results, not market prices.

Investors possessing those characteristics are in a small minority, but we have an exceptional collection of them. I believe well over 90% — probably over 95% — of our shares are held by those who were shareholders of Berkshire or Blue Chip five years ago. And I would guess that over 95% of our shares are held by investors for whom the holding is at least double the size of their next largest. Among companies with at least several thousand public shareholders and more than $1 billion of market value, we are almost certainly the leader in the degree to which our shareholders think and act like owners. Upgrading a shareholder group that possesses these characteristics is not easy.

Were we to split the stock or take other actions focusing on stock price rather than business value, we would attract an entering class of buyers inferior to the exiting class of sellers. At $1300, there are very few investors who can't afford a Berkshire share. Would a potential one-share purchaser be better off if we split 100 for 1 so he could buy 100 shares? Those who think so and who would buy the stock because of the split or in anticipation of one would definitely downgrade the quality of our present shareholder group. (Could we really improve our shareholder group by trading some of our present clear-thinking members for impressionable new ones who, preferring paper to value, feel wealthier with nine $10 bills than with one $100 bill?) People who buy for non-value reasons are likely to sell for non-value reasons. Their presence in the picture will accentuate erratic price swings unrelated to underlying business developments.

We will try to avoid policies that attract buyers with a short-term focus on our stock price and try to follow policies that attract informed long-term investors focusing on business values. Just as you purchased your Berkshire shares in a market populated by rational informed investors, you deserve a chance to sell — should you ever want to — in the same kind of market. We will work to keep it in existence.

One of the ironies of the stock market is the emphasis on activity. Brokers, using terms such as "marketability" and "liquidity", sing the praises of companies with high share turnover (those who cannot fill your pocket will confidently fill your ear). But investors should understand that what is good for the croupier is not good for the customer. A hyperactive stock market is the pickpocket of enterprise.

For example, consider a typical company earning, say, 12% on equity. Assume a very high turnover rate in its shares of 100% per year. If a purchase and sale of the stock each extract commissions of 1% (the rate may be much higher on low-priced stocks) and if the stock trades at book value, the owners of our hypothetical company will pay, in aggregate, 2% of the company's net worth annually for the privilege of transferring ownership. This activity does nothing for the earnings of the business, and means that 1/6 of them are lost to the owners through the "frictional" cost of transfer. (And this calculation does not count option trading, which would increase frictional costs still further.)

All that makes for a rather expensive game of musical chairs. Can you imagine the agonized cry that would arise if a governmental unit were to impose a new 16 2/3% tax on earnings of corporations or investors? By market activity, investors can impose upon themselves the equivalent of such a tax.

Days when the market trades 100 million shares (and that kind of volume, when over-the-counter trading is included, is today abnormally low) are a curse for owners, not a blessing — for they mean that owners are paying twice as much to change chairs as they are on a 50-million-share day. If 100-million-share days persist for a year and the average cost on each purchase and sale is 15¢ a share, the chair-changing tax for investors in aggregate would total about $7.5 billion — an amount roughly equal to the combined 1982 profits of Exxon, General Motors, Mobil and Texaco, the four largest companies in the Fortune 500.

These companies had a combined net worth of $75 billion at yearend 1982 and accounted for over 12% of both net worth and net income of the entire Fortune 500 list. Under our assumption investors, in aggregate, every year forfeit all earnings from this staggering sum of capital merely to satisfy their penchant for "financial flip-flopping". In addition, investment management fees of over $2 billion annually — sums paid for chair-changing advice — require the forfeiture by investors of all earnings of the five largest banking organizations (Citicorp, Bank America, Chase Manhattan, Manufacturers Hanover and J. P. Morgan). These expensive activities may decide who eats the pie, but they don't enlarge it.

(We are aware of the pie-expanding argument that says that such activities improve the rationality of the capital allocation process. We think that this argument is specious and that, on balance, hyperactive equity markets subvert rational capital allocation and act as pie shrinkers. Adam Smith felt that all noncollusive acts in a free market were guided by an invisible hand that led an economy to maximum progress; our view is that casino-type markets and hair-trigger investment management act as an invisible foot that trips up and slows down a forward-moving economy.)

Contrast the hyperactive stock with Berkshire. The bid-and-ask spread in our stock currently is about 30 points, or a little over 2%. Depending on the size of the transaction, the difference between proceeds received by the seller of Berkshire and cost to the buyer may range downward from 4% (in trading involving only a few shares) to perhaps 1 1/2% (in large trades where negotiation can reduce both the market-maker's spread and the broker's commission). Because most Berkshire shares are traded in fairly large transactions, the spread on all trading probably does not average more than 2%.

Meanwhile, true turnover in Berkshire stock (excluding inter-dealer transactions, gifts and bequests) probably runs 3% per year. Thus our owners, in aggregate, are paying perhaps 6/100 of 1% of Berkshire's market value annually for transfer privileges. By this very rough estimate, that's $900,000 — not a small cost, but far less than average. Splitting the stock would increase that cost, downgrade the quality of our shareholder population, and encourage a market price less consistently related to intrinsic business value. We see no offsetting advantages.

Miscellaneous

Last year in this section I ran a small ad to encourage acquisition candidates. In our communications businesses we tell our advertisers that repetition is a key to results (which it is), so we will again repeat our acquisition criteria.

We prefer:

(1) large purchases (at least $5 million of after-tax earnings).
(2) demonstrated consistent earning power (future projections are of little interest to us, nor are "turn-around" situations).
(3) businesses earning good returns on equity while employing little or no debt.
(4) management in place (we can't supply it).
(5) simple businesses (if there's lots of technology, we won't understand it).
(6) an offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown).

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer — customarily within five minutes — as to whether we're interested. We prefer to buy for cash, but will consider issuance of stock when we receive as much in intrinsic business value as we give. We invite potential sellers to check us out by contacting people with whom we have done business in the past. For the right business — and the right people — we can provide a good home.

* * * * *

About 96.4% of all eligible shares participated in our 1983 shareholder-designated contributions program. The total contributions made pursuant to this program — disbursed in the early days of 1984 but fully expensed in 1983 — were $3,066,501, and 1353 charities were recipients. Although the response measured by the percentage of shares participating was extraordinarily good, the response measured by the percentage of holders participating was not as good. The reason may well be the large number of new shareholders acquired through the merger and their lack of familiarity with the program. We urge new shareholders to read the description of the program on pages 52-53.

If you wish to participate in future programs, we strongly urge that you immediately make sure that your shares are registered in the actual owner's name, not in "street" or nominee name. Shares not so registered on September 28, 1984 will not be eligible for any 1984 program.

* * * * *

The Blue Chip/Berkshire merger went off without a hitch. Less than one-tenth of 1% of the shares of each company voted against the merger, and no requests for appraisal were made. In 1983, we gained some tax efficiency from the merger and we expect to gain more in the future.

One interesting sidelight to the merger: Berkshire now has 1,146,909 shares outstanding compared to 1,137,778 shares at the beginning of fiscal 1965, the year present management assumed responsibility. For every 1% of the company you owned at that time, you now would own .99%. Thus, all of today's assets — the News, See's, Nebraska Furniture Mart, the Insurance Group, $1.3 billion in marketable stocks, etc. — have been added to the original textile assets with virtually no net dilution to the original owners.

We are delighted to have the former Blue Chip shareholders join us. To aid in your understanding of Berkshire Hathaway, we will be glad to send you the Compendium of Letters from the Annual Reports of 1977-1981, and/or the 1982 Annual report. Direct your request to the Company at 1440 Kiewit Plaza, Omaha, Nebraska 68131.

Warren E. Buffett
Chairman of the Board

March 14, 1984

Goodwill and its Amortization: The Rules and The Realities

This appendix deals only with economic and accounting Goodwill — not the goodwill of everyday usage. For example, a business may be well liked, even loved, by most of its customers but possess no economic goodwill. (AT&T, before the breakup, was generally well thought of, but possessed not a dime of economic Goodwill.) And, regrettably, a business may be disliked by its customers but possess substantial, and growing, economic Goodwill. So, just for the moment, forget emotions and focus only on economics and accounting.

When a business is purchased, accounting principles require that the purchase price first be assigned to the fair value of the identifiable assets that are acquired. Frequently the sum of the fair values put on the assets (after the deduction of liabilities) is less than the total purchase price of the business. In that case, the difference is assigned to an asset account entitled "excess of cost over equity in net assets acquired". To avoid constant repetition of this mouthful, we will substitute "Goodwill".

Accounting Goodwill arising from businesses purchased before November 1970 has a special standing. Except under rare circumstances, it can remain an asset on the balance sheet as long as the business bought is retained. That means no amortization charges to gradually extinguish that asset need be made against earnings.

The case is different, however, with purchases made from November 1970 on. When these create Goodwill, it must be amortized over not more than 40 years through charges - - of equal amount in every year — to the earnings account. Since 40 years is the maximum period allowed, 40 years is what managements (including us) usually elect. This annual charge to earnings is not allowed as a tax deduction and, thus, has an effect on after-tax income that is roughly double that of most other expenses.

That's how accounting Goodwill works. To see how it differs from economic reality, let's look at an example close at hand. We'll round some figures, and greatly oversimplify, to make the example easier to follow. We'll also mention some implications for investors and managers.

Blue Chip Stamps bought See's early in 1972 for $25 million, at which time See's had about $8 million of net tangible assets. (Throughout this discussion, accounts receivable will be classified as tangible assets, a definition proper for business analysis.) This level of tangible assets was adequate to conduct the business without use of debt, except for short periods seasonally. See's was earning about $2 million after tax at the time, and such earnings seemed conservatively representative of future earning power in constant 1972 dollars.

Thus our first lesson: businesses logically are worth far more than net tangible assets when they can be expected to produce earnings on such assets considerably in excess of market rates of return. The capitalized value of this excess return is economic Goodwill.

In 1972 (and now) relatively few businesses could be expected to consistently earn the 25% after tax on net tangible assets that was earned by See's — doing it, furthermore, with conservative accounting and no financial leverage. It was not the fair market value of the inventories, receivables or fixed assets that produced the premium rates of return. Rather it was a combination of intangible assets, particularly a pervasive favorable reputation with consumers based upon countless pleasant experiences they have had with both product and personnel.

Such a reputation creates a consumer franchise that allows the value of the product to the purchaser, rather than its production cost, to be the major determinant of selling price. Consumer franchises are a prime source of economic Goodwill. Other sources include governmental franchises not subject to profit regulation, such as television stations, and an enduring position as the low cost producer in an industry.

Let's return to the accounting in the See's example. Blue Chip's purchase of See's at $17 million over net tangible assets required that a Goodwill account of this amount be established as an asset on Blue Chip's books and that $425,000 be charged to income annually for 40 years to amortize that asset. By 1983, after 11 years of such charges, the $17 million had been reduced to about $12.5 million. Berkshire, meanwhile, owned 60% of Blue Chip and, therefore, also 60% of See's. This ownership meant that Berkshire's balance sheet reflected 60% of See's Goodwill, or about $7.5 million.

In 1983 Berkshire acquired the rest of Blue Chip in a merger that required purchase accounting as contrasted to the "pooling" treatment allowed for some mergers. Under purchase accounting, the "fair value" of the shares we gave to (or "paid") Blue Chip holders had to be spread over the net assets acquired from Blue Chip. This "fair value" was measured, as it almost always is when public companies use their shares to make acquisitions, by the market value of the shares given up.

The assets "purchased" consisted of 40% of everything owned by Blue Chip (as noted, Berkshire already owned the other 60%). What Berkshire "paid" was more than the net identifiable assets we received by $51.7 million, and was assigned to two pieces of Goodwill: $28.4 million to See's and $23.3 million to Buffalo Evening News.

After the merger, therefore, Berkshire was left with a Goodwill asset for See's that had two components: the $7.5 million remaining from the 1971 purchase, and $28.4 million newly created by the 40% "purchased" in 1983. Our amortization charge now will be about $1.0 million for the next 28 years, and $.7 million for the following 12 years, 2002 through 2013.

In other words, different purchase dates and prices have given us vastly different asset values and amortization charges for two pieces of the same asset. (We repeat our usual disclaimer: we have no better accounting system to suggest. The problems to be dealt with are mind boggling and require arbitrary rules.)

But what are the economic realities? One reality is that the amortization charges that have been deducted as costs in the earnings statement each year since acquisition of See's were not true economic costs. We know that because See's last year earned $13 million after taxes on about $20 million of net tangible assets — a performance indicating the existence of economic Goodwill far larger than the total original cost of our accounting Goodwill. In other words, while accounting Goodwill regularly decreased from the moment of purchase, economic Goodwill increased in irregular but very substantial fashion.

Another reality is that annual amortization charges in the future will not correspond to economic costs. It is possible, of course, that See's economic Goodwill will disappear. But it won't shrink in even decrements or anything remotely resembling them. What is more likely is that the Goodwill will *increase* — in current, if not in constant, dollars — because of inflation.

That probability exists because true economic Goodwill tends to rise in nominal value proportionally with inflation. To illustrate how this works, let's contrast a See's kind of business with a more mundane business. When we purchased See's in 1972, it will be recalled, it was earning about $2 million on $8 million of net tangible assets. Let us assume that our hypothetical mundane business then had $2 million of earnings also, but needed $18 million in net tangible assets for normal operations. Earning only 11% on required tangible assets, that mundane business would possess little or no economic Goodwill.

A business like that, therefore, might well have sold for the value of its net tangible assets, or for $18 million. In contrast, we paid $25 million for See's, even though it had no more in earnings and less than half as much in "honest-to-God" assets. Could less really have been more, as our purchase price implied? The answer is "yes" — *even if both businesses were expected to have flat unit volume* — as long as you anticipated, as we did in 1972, a world of continuous inflation.

To understand why, imagine the effect that a doubling of the price level would subsequently have on the two businesses. Both would need to double their nominal earnings to $4 million to keep themselves even with inflation. This would seem to be no great trick: just sell the same number of units at double earlier prices and, assuming profit margins remain unchanged, profits also must double.

But, crucially, to bring that about, both businesses probably would have to double their nominal investment in net tangible assets, since that is the kind of economic requirement that inflation usually imposes on businesses, both good and bad. A doubling of dollar sales means correspondingly more dollars must be employed immediately in receivables and inventories. Dollars employed in fixed assets will respond more slowly to inflation, but probably just as surely. And all of this inflation-required investment will produce no improvement in rate of return. The motivation for this investment is the survival of the business, not the prosperity of the owner.

Remember, however, that See's had net tangible assets of only $8 million. So it would only have had to commit an additional $8 million to finance the capital needs imposed by inflation. The mundane business, meanwhile, had a burden over twice as large — a need for $18 million of additional capital.

After the dust had settled, the mundane business, now earning $4 million annually, might still be worth the value of its tangible assets, or $36 million. That means its owners would have gained only a dollar of nominal value for every new dollar invested. (This is the same dollar-for-dollar result they would have achieved if they had added money to a savings account.)

See's, however, also earning $4 million, might be worth $50 million if valued (as it logically would be) on the same basis as it was at the time of our purchase. So it would have gained $25 million in nominal value while the owners were putting up only $8 million in additional capital — over $3 of nominal value gained for each $1 invested.

Remember, even so, that the owners of the See's kind of business were forced by inflation to ante up $8 million in additional capital just to stay even in real profits. Any unleveraged business that requires some net tangible assets to operate (and almost all do) is hurt by inflation. Businesses needing little in the way of tangible assets simply are hurt the least.

And that fact, of course, has been hard for many people to grasp. For years the traditional wisdom — long on tradition, short on wisdom — held that inflation protection was best provided by businesses laden with natural resources, plants and machinery, or other tangible assets ("In Goods We Trust"). It doesn't work that way. Asset-heavy businesses generally earn low rates of return — rates that often barely provide enough capital to fund the inflationary needs of the existing business, with nothing left over for real growth, for distribution to owners, or for acquisition of new businesses.

In contrast, a disproportionate number of the great business fortunes built up during the inflationary years arose from ownership of operations that combined intangibles of lasting value with relatively minor requirements for tangible assets. In such cases earnings have bounded upward in nominal dollars, and these dollars have been largely available for the acquisition of additional businesses. This phenomenon has been particularly evident in the communications business. That business has required little in the way of tangible investment — yet its franchises have endured. During inflation, Goodwill is the gift that keeps giving.

But that statement applies, naturally, only to true economic Goodwill. Spurious accounting Goodwill — and there is plenty of it around — is another matter. When an overexcited management purchases a business at a silly price, the same accounting niceties described earlier are observed. Because it can't go anywhere else, the silliness ends up in the Goodwill account. Considering the lack of managerial discipline that created the account, under such circumstances it might better be labeled "No-Will". Whatever the term, the 40-year ritual typically is observed and the adrenalin so capitalized remains on the books as an "asset" just as if the acquisition had been a sensible one.

* * * * *

If you cling to any belief that accounting treatment of Goodwill is the best measure of economic reality, I suggest one final item to ponder.

Assume a company with $20 per share of net worth, all tangible assets. Further assume the company has internally developed some magnificent consumer franchise, or that it was fortunate enough to obtain some important television stations by original FCC grant. Therefore, it earns a great deal on tangible assets, say $5 per share, or 25%.

With such economics, it might sell for $100 per share or more, and it might well also bring that price in a negotiated sale of the entire business.

Assume an investor buys the stock at $100 per share, paying in effect $80 per share for Goodwill (just as would a corporate purchaser buying the whole company). Should the investor impute a $2 per share amortization charge annually ($80 divided by 40 years) to calculate "true" earnings per share? And, if so, should the new "true" earnings of $3 per share cause him to rethink his purchase price?

* * * * *

We believe managers and investors alike should view intangible assets from two perspectives:

(1) In analysis of operating results — that is, in evaluating the underlying economics of a business unit — amortization charges should be ignored. What a business can be expected to earn on unleveraged net tangible assets, excluding any charges against earnings for amortization of Goodwill, is the best guide to the economic attractiveness of the operation. It is also the best guide to the current value of the operation's economic Goodwill.

(2) In evaluating the wisdom of business acquisitions, amortization charges should be ignored also. They should be deducted neither from earnings nor from the cost of the business. This means forever viewing purchased Goodwill at its full cost, before any amortization. Furthermore, cost should be defined as including the full intrinsic business value — not just the recorded accounting value — of all consideration given, irrespective of market prices of the securities involved at the time of merger and irrespective of whether pooling treatment was allowed. For example, what we truly paid in the Blue Chip merger for 40% of the Goodwill of See's and the News was considerably more than the $51.7 million entered on our books. This disparity exists because the market value of the Berkshire shares given up in the merger was less than their intrinsic business value, which is the value that defines the true cost to us.

Operations that appear to be winners based upon perspective (1) may pale when viewed from perspective (2). A good business is not always a good purchase — although it's a good place to look for one.

We will try to acquire businesses that have excellent operating economics measured by (1) and that provide reasonable returns measured by (2). Accounting consequences will be totally ignored.

At yearend 1983, net Goodwill on our accounting books totaled $62 million, consisting of the $79 million you see stated on the asset side of our balance sheet, and $17 million of negative Goodwill that is offset against the carrying value of our interest in Mutual Savings and Loan.

We believe net economic Goodwill far exceeds the $62 million accounting number.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Kiewit Plaza Building
Thirty-Sixth and Farnam Street
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 December 31, 1983 and January 1, 1983 and the related consolidated statements of earnings and changes in financial position for each of the years in the three-year period ended December 31, 1983. 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 consolidated financial statements of Blue Chip Stamps and Wesco Financial Corporation at January 1, 1983 and for each of the years in the two years then ended, which statements reflect total assets constituting 25 percent at January 1, 1983 and total revenues constituting 49 percent and 47 percent in 1982 and 1981, respectively, of the related consolidated totals. These financial statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to Blue Chip Stamps and Wesco Financial Corporation as of and prior to January 1, 1983, is based solely upon the report of the other auditors.

In our opinion, based upon our examinations and the report of other auditors, the aforementioned consolidated financial statements present fairly the financial position of Berkshire Hathaway Inc. and consolidated subsidiaries at December 31, 1983 and January 1, 1983 and the results of their operations and the changes in their financial position for each of the years in the three-year period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis, as restated (note 1).

Peat, Marwick, Mitchell & Co.

March 16, 1984

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	Dec. 31, 1983	*Jan. 1 1983* (Restated)
ASSETS		
Cash	$ 6,161	$ 7,762
Investments, other than investments in affiliates:		
Fixed maturities, principally bonds (market value: Dec. 31, 1983 — $204,801; Jan. 1, 1983 — $182,153)	208,245	189,330
Marketable equity securities (Notes 4 and 5)	1,232,150	979,024
Invested cash, represented by various short-term investments at cost which approximates market	75,343	58,765
Total investments, other than affiliates	1,515,738	1,227,119
Investment in Mutual Savings and Loan Association (Note 6)	27,004	23,758
Accounts receivable from customers, agents and others (Note 7)	72,813	113,770
Inventories (Note 8)	37,516	26,039
Real estate, equipment, furniture and leasehold improvements, at cost less allowance for depreciation and amortization (Note 9)	69,749	63,020
Goodwill of acquired businesses	79,327	13,823
Other assets	48,084	57,993
	$1,856,392	$1,533,284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Losses and loss adjustment expenses	$ 212,706	$ 193,477
Unearned premiums	55,783	58,414
Liability for unredeemed trading stamps	60,669	60,240
Accounts payable, accruals and other liabilities	58,094	50,552
Current income taxes	8,511	22,007
Deferred income taxes (Note 10)	194,462	149,987
Term debt and other borrowings (Notes 11 and 12)	128,984	169,947
Minority shareholders' interests	17,990	101,177
	737,199	805,801
Stockholders' equity (Notes 12, 13, and 14):		
Common stock of $5 par value. Authorized at Dec. 31, 1983, 1,500,000 shares, at Jan. 1, 1983, 1,250,000 shares; issued at Dec. 31, 1983, 1,375,183 shares, at Jan. 1, 1983, 1,214,283 shares, including shares held in treasury	6,876	6,071
Capital in excess of par value	157,377	3,517
Unrealized appreciation of marketable equity securities, net of provision for deemed applicable income taxes	481,953	358,121
Retained earnings	513,925	400,432
	1,160,131	768,141
Less common stock in treasury, at cost (Dec. 31, 1983, 228,274 shares; Jan. 1, 1983, 227,774 shares)	40,938	40,658
Total stockholders' equity	1,119,193	727,483
Commitments (Note 15)		
	$1,856,392	$1,533,284

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,		
	1983	*1982*	*1981*
		(Restated)	(Restated)
Income items:			
Insurance premiums earned	$ 152,480	$152,945	$159,013
Sales and service revenues	381,674	306,564	312,105
Interest and dividend income	85,903	58,003	54,035
Equity in earnings excluding realized investment gain of Mutual Savings and Loan Association	3,669	3,960	4,081
	623,726	521,472	529,234
Cost and expense items:			
Insurance losses and loss adjustment expenses	134,109	121,996	103,417
Cost of products and services sold	214,362	177,508	193,080
Insurance underwriting expenses	52,243	52,508	54,119
Selling, general and administrative expenses	122,023	110,021	101,028
Interest and financing costs	15,104	14,995	14,656
	537,841	477,028	466,300
Earnings from operations including minority interest in consolidated subsidiaries, before applicable income taxes and before realized investment gain	85,885	44,444	62,934
Income taxes applicable to above (Note 16)	10,353	2,524	13,154
	75,532	41,920	49,780
Minority interest applicable to above	7,337	10,423	10,057
Earnings before realized investment gain	68,195	31,497	39,723
Realized investment gain, net (Note 17)	45,298	14,877	22,881
Net earnings	$ 113,493	$ 46,374	$ 62,604
Average shares outstanding	1,066,709	986,509	986,322
Per share:			
Earnings before realized investment gain	$ 63.93	$ 31.93	$ 40.27
Net earnings	106.40	47.01	63.47

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.		
	1983	1982	1981
		(Restated)	(Restated)
Funds provided:			
From operations:			
Net earnings	$113,493	$ 46,374	$ 62,604
Minority interest in earnings	8,801	20,609	13,108
Earnings including minority interest	122,294	66,983	75,712
Charges (credits) not requiring (providing) funds:			
Equity in undistributed earnings of unconsolidated subsidiaries	(3,046)	(534)	(1,681)
Depreciation and amortization	7,953	7,09[illegible]	6,563
Decrease (increase) in accounts receivable	57,972	(58,756)	222
Decrease (increase) in inventories	(3,871)	3,063	941
Increase (decrease) in losses and loss adjustment expenses	19,229	2,507	(8,158)
Decrease in unearned premiums	(2,631)	(3,855)	(11,012)
Increase (decrease) in liability for unredeemed trading stamps	429	(4,022)	209
Increase (decrease) in liability for income taxes applicable to earnings	(13,817)	7,620	6,018
Increase (decrease) in accounts payable, accruals and other liabilities	(999)	(3,892)	8,228
Other	11,441	(20,110)	6,553
	72,660	(70,887)	7,883
Funds provided from (used in) operations	194,954	(3,904)	83,595
Proceeds from issuance of debt, net of expense	—	41,900	—
Issuance of common stock in Blue Chip merger	154,665	—	—
Decrease in cash	1,913	—	4,241
	$351,532	$37,996	$ 87,836
Funds used:			
Purchase of minority shareholders' interest in net tangible assets of Blue Chip Stamps	$108,987	$ —	$ —
Purchase of majority interest in net tangible assets of Nebraska Furniture Mart, Inc.	35,045	—	—
Goodwill — excess of purchase cost over value of net tangible assets acquired	66,682	—	—
Net assets of acquired businesses	210,714	—	—
Additions to property, plant and equipment, net	6,210	9,229	6,363
Repayment of debt	40,963	2,245	6,677
Dividends paid to minority stockholders	890	1,210	1,154
Cost of net purchases (sales) of investments:			
Bonds and other fixed maturity securities	18,611	(16,748)	18,276
Marketable equity securities	70,424	49,663	39,237
U.S. Treasury bills and short-term obligations	3,720	(7,865)	16,084
Unconsolidated subsidiaries	—	—	45
Net purchase of investments	92,755	25,050	73,642
Increase in cash	—	262	—
	$351,532	$ 37,996	$ 87,836

See accompanying Notes to Consolidated Financial Statements

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1983
(dollars in thousands except per share amounts)

(1) Basis of Consolidation

The accompanying Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (the "Company" or "Berkshire") consolidated with accounts of all of its subsidiaries except Mutual Savings and Loan Association ("Mutual") and a wholly-owned subsidiary of Mutual, and except certain other subsidiaries in which the Company's aggregate investment is minor.

The Company at December 31, 1983 owned, beneficially, 80.1% of Mutual and Mutual's subsidiary. It accounts for this investment pursuant to the equity method of accounting. Accounts of certain subsidiaries (Wesco Financial Corporation — hereafter "Wesco" — 80.1% beneficially owned at December 31, 1983, and Wesco's subsidiaries other than Mutual and Mutual's subsidiary) are currently consolidated but were not included on a consolidated basis in the Company's previously issued Consolidated Financial Statements. The accompanying Consolidated Financial Statements for prior periods or dates have been restated to conform to current consolidation practices. No change in prior periods' Net Earnings or Stockholders' Equity results from the restatements. Income items for 1982 and 1981 as previously reported are reconciled to those reported in the accompanying restated Consolidated Statements of Earnings as follows:

	1982	*1981*
As previously reported	$479,391	$478,696
Deduct: Equity in earnings of Wesco included above	(6,408)	(7,120)
Add: Revenues of Wesco herein consolidated	48,489	57,658
As restated	$521,472	$529,234

Consolidated financial position and results reflect those of companies engaged in a number of diverse businesses. See Note 20.

(2) Corporate changes

During 1983, Blue Chip Stamps ("Blue Chip") was merged with and into the Company. For several years prior to the merger, Berkshire owned approximately 59.6% of Blue Chip's outstanding shares. In the merger, Berkshire issued shares of its common stock and provided for payment of cash in lieu of issuance of fractional shares for the 40.4% of Blue Chip's outstanding shares not already owned by Berkshire. The Company accounted for the transaction as a purchase of the minority interest in Blue Chip's net assets.

In the merger, subsidiaries of the merged Blue Chip became subsidiaries of Berkshire, directly or beneficially, to the same extent as previously owned by the merged Blue Chip. Thus, See's Candy Shops, Incorporated and the Buffalo Evening News became wholly-owned by Berkshire, and Wesco Financial Corporation and wholly-owned subsidiaries of Wesco became 80.1% beneficially owned by Berkshire. Just prior to the merger, Blue Chip transferred its promotional service business (and its 80.1% ownership of Wesco Financial Corporation) to a newly formed wholly-owned subsidiary. After the merger, such subsidiary adopted the name of its former parent company and it continues to operate directly the promotional services business as a wholly-owned subsidiary of Berkshire under the name and style of Blue Chip Stamps.

On September 30, 1983, Berkshire purchased for cash the majority of the outstanding capital stock of Nebraska Furniture Mart, Inc., a corporation engaged in the business of retailing of home furnishings. Results of operation of the business from the date of purchase are reflected in the accompanying Consolidated Statement of Earnings for 1983.

The pro forma figures shown in the following table assume that the merger of Blue Chip Stamps and purchase of majority interest in Nebraska Furniture Mart, Inc. took place at the beginning of the periods presented:

	1983	*1982*
Pro forma income items	$691,962	$613,236
Pro forma net earnings	$120,127	$ 63,993
Pro forma net earnings per share	$ 104.74	$ 55.80

(3) **Significant Accounting Policies and Practices**

(a) Accounting Period

Accounts of Berkshire and certain of its subsidiaries are maintained on the basis of a 52-53 week fiscal year ending with respect to December 31. For 1983, the accounting period for See's candy business consisted of 53 weeks. The calendar year is the annual accounting period of the insurance subsidiaries, the newspaper subsidiary and certain other of the consolidated companies.

(b) Investments in Securities, Other Than Affiliates

Investments in obligations with fixed dates of maturity -- bonds and redeemable preferred stocks -- are stated at cost, adjusted where appropriate for accretion of discount or amortization of premium.

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 consolidated subsidiaries which are not members of the Insurance Group are carried at the lower of aggregate cost or market.

(c) Inventories

Inventories are stated at cost, determined principally under the first-in, first-out ("FIFO"), or average cost method, but in part under the last-in, first-out ("LIFO") method.

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

These items of property (including significant betterments and renewals) are carried at cost, depreciated principally on a straight line basis over their useful lives estimated at the date of acquisition. Maintenance, repairs and renewals of a minor nature are generally charged to operations as incurred.

(e) Goodwill or Negative Goodwill of Acquired Businesses

The difference between purchase cost and the fair value of the net assets of acquired businesses is amortized on a straight line basis over forty years.

(f) Premium Acquisition Costs

For financial reporting purposes, premium acquisition costs such as commissions, premium taxes and a portion of certain other underwriting costs are deferred, subject to ultimate recoverability generally estimated on a company by company basis without regard to anticipated investment income; such deferred costs are charged against financial statement income in subsequent periods when the related premiums are earned. For statutory insurance accounting and income tax reporting purposes, premium acquisition costs are charged against income when incurred.

(g) Losses and Loss Adjustment Expenses

The Insurance Group provides for losses and loss adjustment expenses for unsettled cases based on estimates of ultimate liability with respect to reported cases, plus estimates of aggregate liability with respect to incurred but not reported losses. Estimates of liability relating to assumed reinsurance are based on loss reports received from the primary insurers. The liability provision is reduced for amounts recoverable on account of reinsurance ceded; these reductions amounted to $10,115 and $6,620 at December 31, 1983 and 1982, respectively.

An aggregate liability amounting to $8,182 and $3,566 at December 31, 1983 and 1982, respectively, was additionally established at present value on a contract-by-contract basis with respect to periodic payment settlement contract obligations ("Structured Settlements") of members of the Insurance Group. The range of interest rates used to discount those

(3) **Significant Accounting Policies and Practices** *(Continued)*

liabilities, for financial reporting purposes, ranged from 10% to 15%, with a weighted average of approximately 12%. The specific rate applicable to a given contract is dependent upon market rates at the inception date of the contract. For statutory insurance accounting and tax reporting purposes, these liabilities were discounted at a rate of 7% as prescribed by regulatory authority.

Additionally at December 31, 1983, an aggregate liability amounting to $8,055 was established with respect to portfolio reinsurance obligations assumed in December, 1983 by National Indemnity Company, a member of the Berkshire Insurance Group. Such amount is equal to the aggregate cash consideration received by National Indemnity from unrelated ceding insurers whose obligations were assumed. Such consideration was based on estimates of both the ultimate loss amount, which is limited to $13,575, and the timing of loss payments with respect to the assumed obligations. No income or loss in 1983 was recorded with respect to these portfolio reinsurance transactions.

Incurred losses and loss adjustment expenses in the accompanying Consolidated Statements of Earnings are net of recoveries of salvage and subrogation collected or in process of collection in accordance with statutory accounting requirements for insurance companies. Any additional amounts that may be 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.

(h) *Insurance Premiums*

Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on a monthly or daily pro rata basis and are stated after deduction for reinsurance placed with reinsurers in the amount of $1,647 and $1,717 at December 31, 1983 and 1982, respectively.

Dividends to policyholders, primarily relating to workers' compensation coverages, are reflected in the accompanying statements of earnings as a deduction from earned premiums. This reduction amounted to $4,955 for 1983, $3,262 for 1982, and $3,534 for 1981.

(i) *Stamp Service Accounting*

Trading stamp revenues and related redemption costs of Blue Chip Stamps, a consolidated subsidiary engaged in the promotional services business, are recognized upon issuance of the trading stamps. A liability for unredeemed trading stamps is maintained based on estimates of the future cost of redemption merchandise and service; the estimates are periodically revised to take into account the effect of changing facts and circumstances including, among other factors, the probable effects of Blue Chip's declining volume of stamp issuance.

(j) *Income Taxes*

Current income taxes payable at December 31, 1983 were determined taking into account that a consolidated Federal income tax return will be filed by Berkshire and its subsidiaries. Blue Chip Stamps and its subsidiaries also filed a consolidated Federal income tax return for periods up to the merger of Blue Chip into Berkshire.

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.

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands except per share amounts)

(4) Investments in Marketable Equity Securities

A summary of investment in marketable equity securities is as follows:

	December 31, 1983			
	Cost	Unrealized Gain	Market	Carrying Value
Common stock of:				
GEICO Corporation	$ 47,138	$ 351,018	$ 398,156	$ 398,156
General Foods Corporation	168,273	67,215	235,488	197,543
R.J. Reynolds Industries, Inc.	260,210	71,620	331,830	302,140
The Washington Post Company	10,628	126,247	136,875	136,875
All others	75,877	124,973	200,850	197,436
	$562,126	$ 741,073	$1,303,199	$1,232,150

	January 1, 1983			
	Cost	Unrealized Gain	Market	Carrying Value
Common stock of:				
GEICO Corporation	$ 47,138	$ 262,462	$ 309,600	$ 309,600
General Foods Corporation	83,657	21,642	105,299	89,785
R.J. Reynolds Industries, Inc.	180,372	21,970	202,342	188,786
The Washington Post Company	10,628	92,612	103,240	103,240
All others	159,837	135,420	295,257	287,613
	$481,632	$ 534,106	$1,015,738	$ 979,024

The $741,073 net excess of aggregate market value over aggregate cost of marketable equity securities at December 31, 1983 represented unrealized gains of $741,781 less an unrealized loss of $708.

(5) Investment in GEICO Corporation

At both December 31, 1983 and January 1, 1983, an investment in common shares of GEICO Corporation is included in marketable equity securities. The market and balance sheet carrying value of this investment was $398,156 at December 31, 1983 and $309,600 at January 1, 1983; the cost to the Company of this investment is $47,138. Although the shares possessed approximate 33½% of the voting rights of all GEICO shares outstanding, Berkshire is required by Order of the Superintendent of Insurance of the District of Columbia, the corporate domicile of GEICO, to maintain an independent proxy arrangement for voting of these shares. Berkshire 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, which divests Berkshire of its voting rights with respect to its GEICO holdings, Berkshire does not use the equity method of accounting for its investment in GEICO.

In September, 1983, in an unusual and non-recurring transaction, Berkshire received and recorded as dividend income $21 million from GEICO Corporation. This transaction was structured as a redemption by GEICO of shares of its common stock but to Berkshire it was equivalent to a dividend, since Berkshire's percentage ownership of GEICO was unchanged. The amount received in this transaction plus regular quarterly dividends received from GEICO in 1983 represent approximately $24,319 of Berkshire's 1983 consolidated net earnings, equivalent to $22.80 per average outstanding Berkshire share. Dividend income from GEICO in 1982 amounted to approximately $3,754, ($3.81 per Berkshire share), and in 1981 approximately $3,218 ($3.26 per Berkshire share).

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(6) Investment in Mutual Savings and Loan Association

Mutual is 80.1% beneficially owned by Berkshire at December 31, 1983. Until the merger in 1983 of Blue Chip Stamps into the Company (See Note 2), Mutual was for several years 80.1% beneficially owned by Blue Chip. The investment in Mutual of $27,004 and $23,758 at December 31, 1983 and 1982, respectively, represents this 80.1% equity in Mutual's net assets less the unamortized excess of such equity over cost of the investment. The unamortized excess of equity over original cost was $17,558 at the end of 1983 and $18,182 at the end of 1982.

Summarized financial information of Mutual is as follows:

	December 31	
Balance Sheet Data	*1983*	*1982*
Assets		
Cash and marketable securities	$143,461	$112,309
Loans receivable, net	106,831	123,329
Other assets	15,944	12,690
	$266,236	$248,328
Liabilities and Shareholder's Equity		
Savings accounts*	$203,284	$167,537
Other liabilities	7,[illegible]	28,432
Total liabilities	210,831	195,969
Shareholder's equity, substantially restricted	55,405	52,359
	$266,236	$248,328

**Included in Mutual's liability for savings accounts is $15,025 at December 31, 1983 and $15,008 at December 31, 1982, representing an account maintained for Wesco Financial Corporation, Mutual's parent company.*

Earnings Statement Data	*1983*	*1982*	*1981*
Total revenues	$22,741	$23,360	$24,945
Net income	$ 3,047	$ 910	$ 3,457

(7) Receivables

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

	Dec. 31, 1983	*Jan. 1, 1983*
Trade accounts receivable, net of allowances for doubtful accounts	$42,390	$ 22,082
Agents' balances and premiums in course of collection	20,856	20,569
Reinsurance recoverable on loss payments	324	659
Investment income due and accrued	9,014	5,926
Amounts due from sales of securities	229	64,534
Total receivables	$72,813	$113,770

(8) Inventories

Inventories of the various consolidated businesses at the end of the current and prior year were as follows:

	Dec. 31, 1983	*Jan. 1, 1983*
Candy business	$ 5,724	$ 5,616
Retailing of home furnishings	7,964	—
Retailing of apparel	5,850	5,802
Steel service business	6,893	5,369
Textile business	5,424	4,355
Other	5,661	4,897
	$37,516	$26,039

The carrying amounts for inventories determined under the LIFO method were approximately $7,078 and $7,348 less than their aggregate replacement cost at year-end 1983 and 1982 respectively.

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

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

	Dec. 31, 1983	*Jan. 1, 1983*
Land	$ 7,486	$ 6,309
Buildings	37,758	29,437
Machinery and equipment	61,236	59,375
Furniture, fixtures and leasehold improvements	30,720	26,009
	137,200	121,130
Less accumulated depreciation and amortization	67,451	58,110
	$ 69,749	$ 63,020

(10) Deferred Income Taxes

The liability for deferred income taxes reflected in the Consolidated Balance Sheets includes $188,071 at December 31, 1983, and $139,270 at January 1, 1983 relating to unrealized appreciation included in carrying value of marketable equity securities. The remainder of this liability relates to items of income and deductions that are recognized for financial reporting purposes in time periods that differ from those in which they are recognized for income tax reporting purposes.

(11) Revolving Credit and Term Loan Agreements

In 1982, Berkshire and Blue Chip each entered into a Revolving Credit and Term Loan Agreement which provided for loans of up to $50 million to each during the revolving term period of the Agreements. In May 1983, the Agreements were terminated without penalty; thereafter in 1983 neither Berkshire nor its subsidiaries had outstanding bank borrowings.

In February, 1984, Berkshire entered into new Revolving Credit and Term Loan Agreements with banks. The revolving credit period under the new Agreements extends to January 31, 1987. During this period, the banks will make loans to Berkshire, at Berkshire's request, aggregating up to $175 million outstanding. For borrowings during the revolving credit period, Berkshire will pay interest at not more than the respective bank's prime rate. For unused portions of the commitments, Berkshire will quarterly pay fees at the per annum rate of ¼ of 1%. Any borrowings outstanding under the Agreements at January 31, 1987 will be repayable in sixteen equal quarterly installments commencing April 30, 1987. Berkshire may borrow specified amounts within the aggregate limits of the Agreements for a specified term of up to one year at fixed interest rates. Subject to the expiration of the term

(11) Revolving Credit and Term Loan Agreements *(Continued)*

periods with respect to any such borrowings. Berkshire may at any time, without penalty, terminate the Agreements upon repayment of borrowings thereunder.

The Agreements provide for optional termination by either bank of its commitment and require repayment of borrowings thereunder in twelve equal quarterly installments if Warren E. Buffett ceases to act as chairman and the chief executive officer of the Company or if total borrowings of the Company and its consolidated subsidiaries exceeds a formula amount, generally 35% of Capitalization as defined.

(12) Term Debt Payable and Other Borrowings

Consolidated term debt and other borrowings were as follows:

	Dec. 31, 1983	*Jan. 1, 1983*
Berkshire:		
8% Senior Notes maturing through March 1, 1993 at $1,143 annually	$ 14,285	$ 15,428
9¾% 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	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 7½% to 9%	1,560	1,829
	89,445	90,857
Consolidated Subsidiaries:		
10⅛% notes maturing in June, 1991	25,000	25,000
9¼% note, secured by land, building and assignment of leases, due in monthly installments through March, 2007	5,166	5,228
Notes maturing through 2006 in varying installments, with interest at rates varying from 6% to 15%	9,373	9,862
Total consolidated term debt	128,984	130,947
Berkshire — revolving credit agreement borrowings	—	39,000
	$128,984	$169,947

Berkshire's Senior Note Agreements include 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. Among the covenants of Berkshire's various borrowing agreements, the Senior Note Agreements include the most limiting of provisions restricting retained earnings. Thereunder, retained earnings of approximately $146 million as of December 31, 1983 were free of restriction, the balance is restricted.

Principal payments on term debt outstanding at December 31, 1983 are required during the succeeding five years as follows:

1984	$1,916
1985	9,287
1986	2,846
1987	2,740
1988	2,808

BERKSHIRE HATHAWAY INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(13) Stockholders' Equity Accounts

Changes in Stockholders' Equity accounts during the most recent three years were as follows:

	Net Unrealized Appreciation	Retained Earnings	Trasury Stock
Balance at January 3, 1981	$135,010	$291,454	$40,838
Increase during 1981 in unrealized appreciation included in carrying value of marketable equity securities	85,368		
Income taxes deemed applicable to above	(23,903)		
Net earnings 1981		62,604	
Value of 450 treasury shares reissued in 1981			(180)
Balance at January 2, 1982	196,475	354,058	40,658
Increase during 1982 in unrealized appreciation included in carrying value of marketable equity securities	224,509		
Income taxes deemed applicable to above	(62,863)		
Net earnings 1982		46,374	
Balance at January 1, 1983	358,121	400,432	40,658
Increase during 1983 in unrealized appreciation included in carrying value of marketable equity securities	172,633		
Income taxes deemed applicable to above	(48,801)		
Net earnings 1983		113,493	
Value of 500 treasury shares acquired in Blue Chip merger			280
Balance at December 31, 1983	$481,953	$513,925	$40,938

At December 31, 1983, 225,988 shares of the Company's issued common stock were held by the Company, and 2,286 shares were held by two insurance subsidiaries of the Company.

On July 28, 1983, Berkshire increased by $805 its issued common stock when it exchanged 160,900 shares of its $5 par value shares for the 40.4% in Blue Chip's net assets that it did not already own. Additionally in recording this transaction $153,860 was credited to capital in excess of par value.

(14) Dividend Restrictions — Insurance Subsidiaries

Payments of dividends by Insurance Group members are restricted by insurance statutes and regulations, to the extent that not more than approximately $104 million could be paid to the Company in 1984 by insurance subsidiaries of the Company, without prior regulatory approvals.

(15) Lease Commitments

Berkshire's retailing subsidiary, Associated Retail Stores, Inc. occupies real property which is subject to a 15 year lease commitment to the New York State Industrial Development Agency: the commitment has been capitalized in the accompanying consolidated financial statements. Additionally, Berkshire and subsidiaries of Berkshire have significant commitments outstanding with respect to real estate occupied under agreements classified as operating leases, minimum rentals under which were as follows at December 31, 1983:

Year	*Total*
1984	$ 7,753
1985	6,710
1986	5,626
1987	4,761
1988	4,001
Thereafter	12,074

Total rental expense, including equipment rentals, charged to consolidated earnings was $12,477 for 1983, $12,809 for 1982, and $10,219 for 1981; such figures include contingent real estate rentals in excess of stated minimums amounting to $3,412 for 1983, $3,265 for 1982, and $3,071 for 1981.

BERKSHIRE HATHAWAY INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(16) Income Taxes

The consolidated statements of earnings reflects charges for income taxes applicable to operating earnings and to realized investment gain as shown below.

Applicable to	*Applicable income taxes* 1983	1982	1981
Operating earnings	$ 10,353	$ 2,524	$ 13,154
Realized investment gain of consolidated companies	20,498	13,734	11,450
Realized investment loss — Mutual Savings	—	(80)	—
	$ 30,851	$16,178	$ 24,604
These taxes are comprised of:			
Federal	$ 26,826	$11,854	$ 21,444
State	3,920	4,293	3,024
Foreign	105	31	136
	$ 30,851	$16,178	$ 24,604

Charges for income taxes are reconciled in the table which follows to hypothetical amounts computed at the Federal statutory rate.

	1983	*1982*	*1981*
Net earnings including minority interest, before applicable income taxes	$153,145	$83,161*	$100,316
Hypothetical amounts applicable to above computed at the Federal statutory rate (46%)	$ 70,446	$38,254	$ 46,145
Decreases, resulting from:			
Tax-exempt interest income	(4,310)	(3,722)	(3,190)
85% dividends received credit	(25,925)	(13,873)	(12,828)
Rate differential relating to realized investment gains	(11,737)	(5,384)	(5,736)
State income taxes, less Federal income tax benefit	2,117	2,619	1,591
Net other differences	260	(1,716)	(1,378)
Total income taxes	$ 30,851	$16,178	$ 24,604

**Pre-tax net earnings for 1982 includes a realized investment loss of $2,426 of Mutual.*

For each of the past three years, the net change in prepaid/deferred taxes applicable to earnings was insubstantial so that total income taxes as shown above essentially represent current income tax expense.

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIA[illegible]ATEMENTS (Co[illegible]d)
December 31, 19[illegible]
(dollars in thousa[illegible])

(17) Realized investment Gain

A summary of net realized investment gain for each of the past three years is presented in the following table:

	1983	1982	1981
Pre-tax net gain realized by consolidated companies	$67,260	$41,143	$37,382
Applicable income taxes	(20,498)	(13,734)	(11,450)
Applicable minority interest	(1,46[illegible]	([illegible],454)	(3,051)
	4[illegible]	15,955	22,881
Equity in net realized loss of Mutual Savings and Loan Association, an unconsolidated subsidiary	—	(1,078)	—
Realized investment gain, net	$45,298	$14,877	$22,881

In February 1982, Mutual Savings and Loan Association sustained a loss of $2,426 on the sale of GNMA backed real estate mortgage certificates. The Company's equity in such loss (net of applicable minority interests and income taxes) was approximately $1,078.

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.

(18) 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 consoldiated earnings was $2,362 for 1983, $2,636 for 1982 and $2,547 for 1981, 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 various dates from January 1, 1981 to June 1, 1983. The actuarial present values determined for accumulated benefits, using interest assumptions ranging from 6% to 10%, 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	$16,403	$13,597
Not vested	1,059	683
Total	$17,462	$14,280
Assets available for benefits	$25,980	$12,109

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands except per share amounts)

(19) Quarterly Data

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

	1st Quarter	2nd Quarter	3rd Quarter[a]	4th Quarter[b]
1983				
Income items	$130,875	$138,039	$144,326	$210,486
Earnings before realized investment gain	9,254	8,554	27,885	22,502
Realized investment gain	10,120	20,938	11,326	2,914
Net earnings	$ 19,374	$ 29,492	$ 39,211	$ 25,416
Per average outstanding share:				
Earnings before realized investment gain	$ 9.38	$ 8.67	$ 24.31	$ 19.62
Net earnings	19.64	29.90	34.19	22.16
1982				
Income items	$118,343	$126,337	$110,005	$166,787
Earnings before realized investment gain	7,955	7,472	3,508	12,562
Realized investment gain (loss)	(3,426)	2,500	4,477	11,326
Net earnings	$ 4,529	$ 9,972	$ 7,985	$ 23,888
Per average outstanding share:				
Earnings before realized investment gain	$ 8.06	$ 7.57	$ 3.56	$ 12.74
Net earnings	4.59	10.11	8.09	24.22

[a] *Revenues of $21,000 and earnings of $19,551 in the third quarter of 1983 reflect dividend income recorded by Berkshire in a GEICO Corporation share redemption transaction (See Note 5). Per share figures for the 1983 3rd quarter include $17.05 representing such dividend income.*

[b] *Candy business revenues and earnings are significantly higher in the fourth quarter of the year compared to earlier quarters. More than half of See's Candies annual sales are normally recorded in the fourth quarter. Newspaper revenues and earnings also peak in the fourth quarter of the year.*

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(20) Business Segment Data

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

Revenues

	1983	*1982*	*1981*
Insurance	$217,729	$194,736	$198,032
Candy	133,616	122,770	112,794
Newspaper	90,161	63,630	54,669
Steel service center	46,266	37,483	46,521
Retailing of apparel	41,997	42,609	44,239
Retailing of home furnishings	28,910	—	—
Textiles	26,611	21,755	30,389
Revenues not identified with segments	38,436	37,489	42,590
	$623,726	$521,472	$529,234

Operating Profit Before Taxes

	1983	*1982*	*1981*
Insurance	$ 30,938	$ 20,062	$ 40,301
Candy	26,697	23,440	20,517
Newspaper	19,039	(1,244)	(1,246)
Steel service center	3,241	703	3,222
Retailing of apparel	697	914	1,763
Retailing of home furnishings	3,642	—	—
Textiles	(100)	(1,545)	(2,669)
Pre-tax operating profits not identified with segments	21,173	19,227	18,615
Corporate expenses	(1,272)	(1,227)	(1,129)
Shareholder designated contributions	(3,066)	(891)	(1,784)
Interest expense	(15,104)	(14,995)	(14,656)
	$ 85,885	$ 44,444	$ 62,934

Amounts are stated before deduction of any applicable minority interest. Charges or credits for depreciation and amortization of tangible and intangible assets have been taken into account. See below. Realized investment gains are not reflected.

Capital Expenditures

	1983	*1982*	*1981*
Insurance	$ 282	$ 342	$ 645
Candy	2,406	2,711	3,528
Newspaper	788	2,931	335
Steel service center	159	315	577
Retailing of apparel	1,269	2,588	398
Textiles	470	720	859
Other	972	358	647
	$ 6,346	$ 9,965	$ 6,989

Excludes expenditures which were part of business acquisitions.

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(20) Business Segment Data *(Cont.: ed)*

Depreciation and Amortization of Tangible Assets

	1983	*1982*	*1981*
Insurance	$ 550	$ 651	$ 644
Candy	2,264	2,087	1,804
Newspaper	2,557	2,354	2,263
Steel service center	633	614	610
Retailing of apparel	400	248	203
Retailing of home furnishings	228	—	—
Textiles	689	610	556
Other	632	528	483
	$ 7,953	$ 7,092	$ 6,563

Amortization of Intangible Assets

	1983	*1982*	*1981*
Candy	$ 714	$ 444	$ 444
Newspaper	314	29	29
Retailing of home furnishings	128	—	—
Mutual	(624)	(624)	(624)
	$ 532	$ (151)	$ (151)

Identifiable Assets at Year-End

	1983	*1982*	*1981*
Identified with segments:			
Insurance	$1,322,160	$1,059,670	$ 825,635
Candy — tangible assets	27,927	28,757	27,365
— goodwill	35,472	12,802	13,246
Newspaper — tangible assets	37,620	37,703	32,895
— goodwill	23,506	930	957
Steel service center	17,672	15,337	18,285
Retailing of apparel	13,435	16,002	12,830
Retailing of home furnishings			
— tangible assets	35,970	—	—
— goodwill	20,274	—	—
Textiles	14,789	12,878	15,521
Other	28,155	90,261	29,287
	1,576,980	1,274,340	976,021
Not identified with segments:			
Investment in unconsolidated subsidiaries	27,216	24,065	19,068
Corporate cash and marketable securities of parent and non-insurance subsidiaries	252,196	234,879	204,748
	$1,856,392	$1,533,284	$1,199,837

BERKSHIRE HATHAWAY INC.
And Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*
December 31, 1983
(dollars in thousands)

(20) Business Segment Data *(Continued)*

Revenues of the Insurance Segment

	1983	*1982*	*1981*
Premiums written	$149,849	$149,091	$148,000
Premiums earned:			
Specialized auto and general liability	68,148	69,026	73,177
Worker's Compensation*	18,849	15,951	18,193
Reinsurance	26,889	27,408	29,446
Home State multiple lines	35,328	37,552	38,197
Structured settlements and portfolio reinsurance	3,266	3,008	—
Total premiums earned	152,480	152,945	159,013
Investment income	65,249	41,791	39,019
	$217,729	$194,736	$198,032

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

Insurance Segment Operating Profit Before Taxes

	1983	*1982*	*1981*
Underwriting gain (loss):			
Specialized auto and general liability	$(14,880)	$(12,647)	$ 3,020
Worker's Compensation	(1,091)	2,658	2,822
Reinsurance	(8,387)	(7,524)	(3,720)
Home State multiple lines	(8,834)	(3,949)	(644)
Structured settlements and portfolio reinsurance	(680)	(96)	—
Total underwriting gain (loss)	(33,872)	(21,558)	1,478
Net investment income	64,810	41,620	38,823
	$ 30,938	$ 20,062	$40,301

Portfolio reinsurance obligations were first assumed near the end of 1983 and no gain or loss from the transactions was recorded in any of the past three years.

BERKSHIRE HATHAWAY INC.
PARENT COMPANY ONLY — SUMMARIZED FINANCIAL STATEMENTS
(dollars in thousands)

These summarized financial statements should be read in conjunction with the Consolidated Financial Statements of Berkshire Hathaway Inc. and consolidated subsidiaries and the notes thereto, presented elsewhere herein.

Balance Sheets

Assets	Dec. 31, 1983	Jan. 1, 1983
Cash and invested cash	$ 4,492	$ 280
Investment in marketable equity securities at cost (market: Dec. 31, 1983 — $188,056; Jan. 1, 1983 — $68,893)	139,976	59,570
Investment in subsidiaries (including unrealized appreciation of marketable equity securities owned by insurance sudsidiaries, net of taxes, amounting to $481,953 at Dec. 31, 1983 and $358,121 at Jan. 1, 1983)	1,062,695	793,612
Accounts receivable and inventories of parent company's textile business	10,039	8,346
Other assets	3,821	6,466
	$1,221,023	$868,274
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$ 10,291	$ 6,582
Term debt and other borrowings	89,445	129,857
Current and deferred income taxes	2,094	4,352
	101,830	140,791
Stockholders' equity (See Consolidated Balance Sheets)	1,119,193	727,483
	$1,221,023	$868,274

Statements of Earnings

	1983	1982	1981
Income items:			
From subsidiaries:			
Interest	$ 347	$ 440	$ 474
Dividends	105,414	12,139	33,864
Undistributed earnings	4,000	44,926	41,290
	109,761	57,505	75,628
Interest and dividends — other investments	7,736	2,120	2,677
Gross profit from textile products sales	1,992	882	(253)
Other income	5,205	1,176	565
Income tax credit	6,352	—	—
	131,046	61,683	78,617
Cost and expense items:			
Administrative and selling expenses of textile business	2,147	2,486	2,689
Corporate administration*	4,338	2,005	2,579
Interest expense	11,068	10,818	10,745
	17,553	15,309	16,013
Net earnings	$113,493	$46,374	$62,604

**Corporate administration costs include contributions pursuant to shareholder designated contributions program.*

BERKSHIRE HATHAWAY INC.
BUSINESS ACTIVITIES OF THE COMPANY AND ITS SUBSIDIARIES
December 31, 1983

(a) Underwriting of Property and Casualty Insurance. The insurance business is conducted through several wholly-owned subsidiaries referred to throughout this report as the "Insurance Group". 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, are principal insurance subsidiaries of the Company. A reinsurance operation is 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 and Nebraska. Underwriting operations of a similar company in Texas were discontinued in 1983, following discontinuance in 1982 of underwriting activities of a Minnesota home state subsidiary. Three subsidiaries of Berkshire specialize in underwriting of worker's compensation insurance: Cypress Insurance Company, Pasadena, California, Redwood Fire and Casualty Insurance Company, Los Angeles, California and Southern Casualty Insurance Company, Alexandria, Louisiana. Home and Automobile Insurance Company, another subsidiary member of the Insurance Group, for several years underwrote non-standard automobile and general liability insurance principally in the Chicago area. Because of highly unfavorable results from such business, its underwriting activities were substantially curtailed in 1983.

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.

(b) The Candy Business. See's Candy Shops, Incorporated became wholly-owned by Berkshire in 1983 through the merger of Blue Chip Stamps. See's produces boxed chocolates and other confectionary products of high quality in two large kitchen facilities in California. See's is believed to be one of the largest candy manufacturers distributing at retail through its own chain of stores. It now has 207 retail shops in thirteen western and midwestern states including Hawaii; additionally, it operates four quantity order centers.

A significant degree of seasonality exists in this business. About 50% of each year's candy sales is generated during the Thanksgiving-Christmas season, when high shop volume is augmented by quantity sales at reduced prices to businesses and other organizations.

(c) The Newspaper Business. This business is operated by the Buffalo Evening News, Inc. The assets of the entity were purchased by Blue Chip Stamps in April 1977. It then published in Buffalo, New York, an evening and Saturday edition of its newspaper. In October, 1977 it introduced a Sunday edition, whereupon it became a defendant in quite costly and prolonged litigation brought by its principal competitor. The competitor ceased publication in September, 1982, whereupon the News began publishing a morning edition. Later in September, 1982, the litigation was dismissed with prejudice pursuant to a stipulation of the parties. The newspaper is now the only daily newspaper serving the entire Buffalo metropolitan area. In February, 1984, it ranked 22nd among the nations daily newspapers in daily circulation.

The News was 59.6% beneficially owned by the Company through July 28, 1983. As a result of the Company's merger with Blue Chip Stamps, it is now 100% owned by the Company.

* * * * *

Berkshire's executive offices are in Omaha, Nebraska. Berkshire owns and operates directly a textile weaving mill together with yarn preparation equipment in New Bedford, Massachusetts. Operation of the textile business by the Company or its predecessors dates back to 1889. Berkshire is also directly engaged, to a limited extent, in the manufacture and sale of branded ("K&W") chemical products used in the automotive after-market. This business operates from Los Angeles, California and Bloomington, Indiana.

Berkshire owns a number of other subsidiaries engaged in various business activities as described below.

(i) **Associated Retail Stores, Inc.**, 100% owned, operates a chain of retail stores through which it sells popularly priced women's and, in a number of stores, children's apparel. Associated's executive, purchasing and administrative offices, together with its central distribution unit are located in Long Island City, New York. It operated 90 retailing outlets at March 1, 1984, in eleven midwest and northeastern states.

(ii) **Nebraska Furniture Mart, Inc.**, 90% ownership of which was acquired by Berkshire on September 30, 1983, sells at retail furniture, carpeting, appliances, televisions and bedding. Its store in Omaha, Nebraska is believed by Berkshire management to be the largest single furniture retail store in the United States. It has sizeable warehousing facilities near its retail outlet permitting it to serve a trade area within a radius of about 300 miles from Omaha. Local consumer preference studies indicate Nebraska Furniture Mart to be the leading retailer of its products in its marketing area.

(iii) **Blue Chip Stamps**, Los Angeles, California, 100% owned at December 31, 1983, was formed in 1983 to continue the promotional services business which had for many years been operated by the 59.6% owned company of the same name that was merged into Berkshire in 1983.

(iv) **Wesco Financial Corporation**, 80.1% beneficially owned at December 31, 1983, owns a business block in downtown Pasadena, California which is improved with a nine-story office building having approximately 124,000 square feet of net rentable area, four commercial store buildings and a multi-story garage. Approximately 22,000 square feet of space in the office building are used by Wesco as its headquarters or leased to Mutual Savings and Loan Association, wholly-owned by Wesco. The rest of the property is leased to outside parties. Wesco owns, in addition to Mutual, 100% of Precision Steel Warehouse, Inc.

The merged Blue Chip Stamps owned a controlling interest in Wesco from 1973. Its 80.1% ownership interest extended from January, 1977. Thus, for several years prior to the merger, Berkshire's beneficial ownership of Wesco amounted to about 47.7%, since Berkshire in those years owned 59.6% of the merged Blue Chip. The Company's merger of Blue Chip resulted in the increase to 80.1% of its beneficial ownership of Wesco.

(v) **Precision Steel Warehouse, Inc.**, as indicated above, is directly owned by Wesco Financial Corporation. It engages in metal service center business, operating a service center in Franklin Park, Illinois and another in Charlotte, North Carolina. It purchases cold rolled products which are processed to industrial customers' specifications. Through a subsidiary, it also processes and distributes tool room specialty items to industrial markets.

(vi) **Mutual Savings and Loan Association**, wholly-owned by Wesco and thus 80.1% beneficially owned by the Company at December 31, 1983, is a California chartered savings and loan company. Berkshire accounts for its ownership of Mutual on an equity basis in the accompanying financial statements. Mutual operates from its Pasadena headquarters office and a satellite office in a shopping mall across the street.

* * * * *

The company and its subsidiaries employed approximately 4,500 persons on a full time basis at December 31, 1983.

BERKSHIRE HATHAWAY INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Berkshire's operations are diverse. For purposes of this discussion, results are disaggregated to permit separate discussion of the more significant sources.

Consolidated after-tax earnings for the past three years are summarized by principal source as follows:

Source	*Net After-Tax Earnings (Loss) 000s Omitted*		
	1983	*1982*	*1981*
Insurance underwriting	$ (18,400)	$(11,345)	$ 798
Candy business	11,498	6,470	5,466
Newspaper business	8,518	(255)	(359)
Interest and dividend income	72,892	43,789	40,345
Interest and financing costs	(7,346)	(6,951)	(6,671)
Other operating items, net	1,033	(211)	143
Earnings before realized investment gains	$ 68,195	$ 31,497	$39,723
Realized investment gain, net	45,298	14,877	22,881
Net earnings	$113,493	$ 46,374	$62,604

Insurance underwriting

A summary of the combined underwriting results of the several property/casualty insurance company members of the Insurance Group is presented below, on the basis of generally accepted accounting principles ("GAAP"), for the past three years, with dollars in thousands:

	1983		*1982*		*1981*	
	Amount	*%*	*Amount*	*%*	*Amount*	*%*
Premiums written	$149,849	XX	$149,091	XX	$148,000	XX
Premiums earned	152,480	100.0	152,945	100.0	159,013	100.0
Losses and loss expenses	134,109	87.9	121,996	79.8	103,417	65.1
Underwriting expenses	52,243	34.3	52,507	34.3	54,118	34.0
	186,352	122.2	174,503	114.1	157,535	99.1
Underwriting gain (loss) — pre-tax	(33,872)		(21,558)		1,478	
Applicable income taxes	15,472		10,213		(680)	
After-tax earnings (loss)	$ (18,400)		$ (11,345)		$ 798	

The percentage figure shown in the above table representing the ratio of total losses and expenses to premiums earned (hereafter, the "loss and expense ratio") is an indicator of underwriting profitability. The figure is comparable but not identical to the "combined ratio" that is computed for companies in the industry based on data assembled for statutory reporting purposes. Of course, underwriting results are profitable to the extent that the ratio is less than 100% and unprofitable to the extent that the ratio exceeds 100%.

In 1983, Berkshire discontinued the underwriting activities of a Texas home-state insurance subsidiary and significantly curtailed such activities of Home and Automobile Insurance Company. In 1982, the underwriting activities of a Minnesota home state operation were discontinued although some of its policies remained in force in a run off condition in 1983. These three subsidiaries generated aggregate pre-tax underwriting losses approximating $13.1 million in 1983, $8.5 million in 1982 and $1.7 million in 1981. The loss and expense ratios in the aggregate for the three operations were 162.5% for 1983, 131.4% for 1982 and 107.3% for   . Of course, these figures had significant impact on the total figures for the Group presented above.

Berkshire reinsurance operations were hurt in both 1983 and 1982 by weather related losses. The loss and expense ratios were 131.2% for 1983, 127.5% for 1982 and 112.6% for 1981, on earned premiums of $27-29 million per year.

Earned premiums by Berkshire's continuing insurance operations, other than reinsurance operations, were approximately $101 million in 1983, substantially unchanged from the preceding two years. The corresponding loss and expense ratio from this business was 111.5% for 1983, up from 105.8% for 1982 and 93.6% for 1981.

For several years, price competition has been intense in the property/casualty insurance industry. Its negative effect on industry profits is more pervasive and thus increases as its duration extends. Berkshire's insurance subsidiaries generally do not command market position or possess marketing techniques that allow them to obtain prices higher than those obtained by competitors. Price cutting in the industry does not appear to be abating to any significant degree, so there is little reason to anticipate improved underwriting results during the near term for Berkshire's continuing insurance operations.

Loss Reserve Development

The liability of the Insurance Group for unpaid losses and loss adjustment expenses reflects estimates of the value of unpaid claims for loss occurrences preceding the valuation date. Such unpaid claims include those for losses which have been reported to the insurer as well as those for losses which the insurer has not yet heard about (incurred but not reported or "IBNR"). Estimation error is inherent in the process of establishing the liability amount. A technique for measuring the degree of estimation error in the stated liability is termed "development" of the reserves. The following table sets forth a one-year development — which comparison is made of (1) the liability for losses and loss adjustment expenses as established for Berkshire's Insurance Group at the end of the years indicated to (2) such liability as developed one year later, with dollars in thousands:

	Liability for losses and loss adjustment expenses		*One year development (cost) or savings*	
	As established at December 31	*As developed one year later*	*$*	*%*
1982	$193,477	197,485	(4,008)	(2.1%)
1981	190,970	193,566	(2,596)	(1.4%)
1980	199,128	190,979	8,149	4.1%

Figures in the column headed "As developed one year later" represent the liabilities that would have been established at the end of the indicated years if management had known then all of the information with respect to such liabilities that came to light in the succeeding year. In the financial statements, the development of reserves affects the statements of earnings in that development savings are deducted from losses incurred, or developments costs are added to losses incurred, in the period in which the developments are recognized. Thus, losses and loss expenses incurred of $134,109,000 for 1983 as reflected in the table of earnings of the Insurance Group heretofore presented include $4,008,000 adverse development of pre-1983 losses. For 1982, stated losses and loss expenses incurred amounting to $121,996,000 included $2,596,000 adverse development of pre-1982 losses, and 1981 losses and loss expenses incurred as stated in the table amounting to $103,417,000 is net of $8,149,000 favorable development of pre-1981 losses.

While a one year development does reveal the charge or credit to earnings of the development year that relates to loss occurrences preceding such year, it does not complete the measurement of estimation error in the originally established liability. Three, five or even ten year developments are made to obtain a more accurate measurement of the degree of error that existed in the original estimates of liability. Significant variances that were not revealed by a one year development are frequently revealed by such longer period developments.

Because estimation error is inherent in the process of establishing the liability amount, it is a certainty that some development cost or development savings will be recognized in subsequent periods with respect to Berkshire's December 31, 1983 balance sheet liability for losses and loss adjustment expenses. Such cost or savings could well be substantial.

Candy Business

A summary of results to Berkshire from the candy business for the past three years is as follows:

	000s omitted			
	Profit before taxes	*Applicable income taxes*	*Applicable minority interest*	*Net earnings*
1983	$26,697	$13,712	$1,487	$11,498
1982	23,440	12,178	4,792	6,470
1981	20,517	10,748	4,303	5,466

This business became wholly-owned by Berkshire in 1983 as a result of the merger between Berkshire and its previously 59.6% owned subsidiary that owned See's prior to the merger. See's earnings have increased in each of the past two years on substantially similar physical quantity of candy sold, as a result of price increases that were greater than cost increases in both years. The elimination, effective for the last half of 1983, of the minority interest in See's business had a pronounced effect on Berkshire's earnings for 1983 versus earlier years, as indicated above.

Newspaper Business

Berkshire's results from operation of the Buffalo News for the past three years is as follows:

	000s omitted			
	Profit (loss) before taxes	*Applicable income taxes*	*Applicable minority interest*	*Net earnings (loss)*
1983	$19,039	$9,000	$1,521	$8,518
1982	(1,244)	(765)	(224)	(255)
1981	(1,246)	(664)	(223)	(359)

A dramatic turnaround to profitability of the Buffalo News resulted in 1983 after the 1982 cessation of publication of the competing Buffalo Courier-Express. Both advertising and circulation revenues of the News increased significantly in 1983, as unit volume and prices both increased. Costs rose somewhat less than anticipated because of a decline in newsprint prices.

The News was 59.6% beneficially owned by Berkshire in earlier years and during the first half of 1983. It is now 100% owned by Berkshire, as a result of the Berkshire-Blue Chip merger in 1983.

Interest and Dividend Income

This income is earned principally by the Insurance Group. Berkshire, Wesco and certain other consolidated subsidiaries also retain investments in income producing securities issued by non-affiliates.

A summary of this category of income for the past three years follows:

	000s omitted			
	Profit before taxes	*Applicable income taxes*	*Applicable minority interest*	*Net earnings*
1983	$85,903	$9,467	$3,544	$72,892
1982	58,003	8,906	5,308	43,789
1981	54,035	8,966	4,723	40,346

A portion of this income is received with respect to tax-exempt obligations, and a significant portion represents dividend income of which only 15% is taxable at the full Federal corporate rate. Total interest and dividend income has increased as the amount of investments has increased. More significantly in 1983, however, Berkshire's Insurance Group received and recorded as dividend income $21 million ($19.55 million after tax-effect) from GEICO Corporation in a single unusual and non-recurring transaction. That transaction accounted for about 27% of Berkshires after-tax interest and dividend income for 1983 and is more fully described in Note 5 to the accompanying Consolidated Financial Statements.

The Insurance Group's investment in GEICO represents about 33½% of GEICO's outstanding stock, and total dividend income, on an after-tax basis, recorded by the Group with respect to this investment amounted to $24,319,000 in 1983, $3,754,000 in 1982 and $3,218,000 in 1981.

Realized Investment Gain

A significant component of Berkshire's net earnings in each of the past three years has been recorded from realized gains recorded when appreciated securities are sold. Management's decision to sell any of Berkshire's investments is based on a number of factors, but the impact of the decision on reported earnings is not a consideration. Thus the amount of earnings Berkshire may derive from realized investment gains, if any, for any given period tends to fluctuate significantly.

Liquidity and Capital Resources

Berkshire's consolidated balance sheet at December 31, 1983 reflects continuing significant liquidity. In management's opinion, the fiduciary nature of obligations to policyholders of Berkshire's insurance subsidiaries, to savers of Blue Chip's trading stamps and its other obligations requires maintenance of high liquidity; management expects to continue to meet this requirement with a significant margin of safety. Maintenance of liquidity considerably above industry norms is intended to permit Berkshire's insurance subsidiaries to perform their underwriting function without a view towards cash flow. It also permits quick response to business acquisition opportunities, such as occurred in 1983 when control of the Nebraska Furniture Mart became available.

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; it retains funds and obtains credit with a view towards acquiring more such operations or expanding existing operations into areas where above-average capital strength creates competitive advantage to them.

Berkshire's total equity capital has almost tripled over the past three years, from approximately $395 million at the end of 1980 to over $1.1 billion at the end of 1983, the net increase amounting to $724 million. About $155 million of the increase resulted from Berkshire's issuance of shares of its common stock to acquire the outstanding minority interest of Blue Chip Stamps. Realized and unrealized securities gains during the three years represent approximately $430 million of the increase and reinvested operating earnings in the three years were about $139 million. Debt is used by Berkshire in relatively modest amounts, and management does not expect Berkshire 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. Berkshire has outstanding $60 million 12¾% debentures issued in a public offering in 1980, repayable in the years 1991 through 2005. Berkshire put into place on February 22, 1984, $175 million Revolving Credit and Term Loan Agreements with banks. It is thus in position to acquire significant businesses should an opportunity arise to do so.

Inflation

Berkshire's 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 business, 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.

BERKSHIRE HATHAWAY INC.
SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES

(dollars in thousands except per share amounts)

This information is unaudited. Historical figures shown herein have been determined on the basis of current consolidation practices. The Financial Accounting Standards Board ("FASB") requires disclosure by certain companies of supplementary data intended to reflect the effects of inflation on portions of the financial statements. The method of measuring the impact from inflation is in the development stage and conceivably subject to future changes. Therefore, evaluation of the data presented should be made with caution and only with reference to other financial data.

Selected Financial Data As Reported And As Adjusted For General Information

This table presents certain prescribed data as reported* and then as adjusted to average 1983 constant dollars. The latter is determined by the Consumer Price Index.

	Fiscal Year Ended Saturday nearest December 31,				
	1983	*1982*	*1981*	*1980*	*1979*
Total revenues:					
As reported*	$ 623,726	$521,472	$529,234	$536,414	$509,659
As adjusted	623,726	538,247	579,961	648,565	699,550
Earnings from continuing operations before realized investment gain:					
Total as reported*	$ 68,195	$ 31,497	$ 39,723	$ 38,484	$ 30,961
Total as adjusted	68,195	32,510	43,530	46,530	42,497
Per share as reported*	$ 63.93	$ 31.93	$ 40.27	$ 37.47	$ 30.14
Per share as adjusted	63.93	32.96	44.13	45.30	41.37
Stockholders' equity:					
As reported*	$1,119,193	$727,483	$519,463	$395,214	$344,962
As adjusted	1,119,193	750,885	569,254	477,844	473,490
Market price per share at year end:					
Historical amount	$ 1,310.00	$ 775.00	$ 560.00	$ 425.00	$ 320.00
As adjusted	1,310.00	799.93	613.68	513.86	439.23
Average consumer price index (1967 = 100)	298.4	289.1	272.3	246.8	217.4

*Or as would have been reported following current consolidation practices.

Gain In Purchasing Power From Holding Net Monetary Items

In general, assets or liabilities which are fixed in terms of the amount of cash held, receivable or payable are "monetary items". At the end of each of the last six years, Berkshire held, on a consolidated basis, net monetary liabilities, i.e., consolidated monetary items which were liabilities exceeded consolidated monetary items which were assets. In an inflationary period, a gain in purchasing power results from holding net monetary liabilities, since this calculation presumes that the net liabilities can be redeemed with dollars of declining value. The calculated purchasing power gain resulting from this calculation, as to Berkshire and its consolidated subsidiaries for each of the past five years — stated in average 1983 dollars — is as follows:

1983	$ 8,470	1980	$17,805
1982	6,475	1979	12,611
1981	13,835		

Additional FASB Requirements

Another FASB requirement is for restating at "current cost" inventories, assets used in production and depreciation thereon, and reporting the net effect on reported net income of these restatements. Since these items are not relatively material to Berkshire's operating income or financial position, this information has been omitted.

The 1983 Annual Report of Wesco Financial Corporation incuded the following letter to Wesco stockholders from the Chairman of the Company.

To Our Shareholders:

Consolidated ordinary operating income (i.e., before all net gains from sales of securities, mortgages and important fixed assets) for the calendar year 1983 increased to $8,507,000 ($1.20 per share) from $7,221,000 ($1.02 per share) in the previous year.

Consolidated net income (i.e., after net gains from sales of securities, mortgages and important fixed assets) decreased to $10,553,000 ($1.48 per share) from $11,502,000 ($1.62 per share) in the previous year.

Wesco has two major subsidiaries, Mutual Savings, in Pasadena, and Precision Steel, headquartered in Chicago and engaged in the steel warehousing and specialty metal products businesses. Consolidated net income for the two years just ended breaks down as follows (in 000s except for per-share amounts):

Year Ended	Ordinary Net Operating Income of: Mutual Savings	Ordinary Net Operating Income of: Precision Steel Businesses	All Other Ordinary Net Operating Income[1]	Net Gains on Sales of Securities, Mortgages and Important Fixed Assets[2]	Wesco Consolidated Net Income
December 31, 1983 . . .	$3,046	$1,622	$3,839	$2,046	$10,553
Per Wesco share	.43	.23	.54	.28	1.48
December 31, 1982 . . .	3,482	327	3,412	4,281	11,502
Per Wesco share	.49	.05	.48	.60	1.62

(1) After deduction of interest and other corporate expenses. Income was from ownership of the Mutual Savings headquarters office building, primarily leased to outside tenants, and interest and dividend income from cash equivalents and marketable securities owned outside the savings and loan subsidiary.
(2) The 1982 figures include $6,706,000 or $.94 per Wesco share of net securities gains realized throughout the consolidated enterprise, offset by a loss incurred on sale of mortgage-backed securities of $2,425,000 or $.34 per Wesco share. The 1983 figures relate entirely to such net securities gains. All figures are net of taxes.

The foregoing breakdown (of the same aggregate earnings) differs somewhat from that used in our audited financial statements and press releases, which follow standard accounting convention. The supplementary breakdown of earnings is furnished because it is considered useful to shareholders.

Mutual Savings

Mutual Savings' ordinary net operating income of $3,046,000 in 1983, represented a decrease of 12.5% from the $3,482,000 figure the previous year. In both years such ordinary net operating income, while economically real and probably of at least average quality as reported savings and loan industry incomes go, was below the top quality possible because such earnings came from income tax savings obtained through inclusion of Mutual Savings in the consolidated income tax return of a parent corporation. Earnings so derived from income tax savings are not of the top quality possible because they have less cushion in reserve against future adversity than earnings from ordinary operating income on which income taxes have been paid in full in cash at the highest corporate rate and are recoverable from the I.R.S. in the event of future operating losses.

Separate balance sheets of Mutual Savings at yearend 1982 and 1983 are set forth at the end of this annual report. They show (1) total savings accounts rising to $203 million from $168 million the year before, (2) a very high ratio of shareholders' equity to savings account liabilities (probably the highest for any mature U.S. savings and loan association), (3) a substantial portion of savings account liabilities offset by cash equivalents and marketable securities, and (4) a mortgage loan portfolio of about $106 million at the end of 1983, down 12% from the $121 million at the end of 1982. The mortgage loan portfolio at the end of 1983 bore a fixed average interest rate of only 7.48%, probably the lowest for any U.S. savings and loan association and far below the average interest rate which now must be paid to hold savings accounts.

The capital-rich, mortgage-loan-interest-rate-poor position of Mutual Savings came from (1) success many years ago as a construction lender at above-average interest rates, plus (2) sale in 1980 by Mutual Savings of all branch offices (except for one satellite office in a major shopping center across the street from the Pasadena headquarters) under terms where only the lowest-yielding mortgage loans from its large portfolio were retained, plus (3) drastic curtailment by Mutual Savings of mortgage lending following the sale of its branch offices.

Mutual Savings has remained profitable because the adverse effects from its low-yielding, fixed-rate mortgage loan portfolio are more than offset by favorable effects from its large shareholders' equity and a tax-equivalent yield on its marketable securities (utility preferred stocks, tax-exempt bonds and common stocks) considerably higher than that prevailing on the mortgage loan portfolio of a typical savings and loan association. The low-yielding, fixed-rate mortgage loan portfolio has shrunk from pay-backs at 8.5% per year over the last three years, and the shrinkage is expected to continue at about the same rate.

Mutual Savings has adapted in its own way to the dramatic changes which have occurred in recent years in interest rates and the regulatory structure of the banking and savings and loan industries. At Mutual Savings, as well as the rest of the savings and loan industry, the standard practice used to be to borrow short from savers while lending long on fixed-rate mortgages, to have high financial leverage for shareholders' equity and to grant mortgagors easy prepayment terms. The practice was profitable for decades but always involved something like a "hurricane risk," and the equivalent of a hurricane came in 1981-82 as interest rates rose to unprecedented levels and caused widespread losses. Results were good for shareholders before 1981-82 only because interest rates were stable or rose slowly as mortgage-loan portfolios steadily and rapidly expanded under a regulatory structure which both fostered growth and protected operating margins by requiring that on all insured savings accounts fixed rates be paid that were slightly higher than the low rates specified for banks. Thus a small deposit-attracting rate advantage over banks was given to savings and loan associations, while competitive pressure was dampened for both types of institution.

Although interest rates have subsided from the 1981-82 peak, the low and slowly changing interest rates of former years are plainly gone with the wind, as are the former government-decreed limits on interest rate competition for savings accounts and the favoritism for savings and loan associations over banks. But an agency of the U.S. government (F.S.L.I.C.) continues to insure savings accounts in the savings and loan industry, just as it did before. The result may well be bolder and bolder conduct by many savings and loan associations. A sort of Gresham's law ("bad loan practice drives out good") may take effect

for fully competitive but deposit-insured institutions, through increased copying by cautious institutions of whatever apparent-high-yield loan and investment strategies seem to allow competitors to bid away their savings accounts and yet report substantial earnings. If so, if "bold conduct drives out conservative conduct," there eventually could be widespread insolvencies caused by bold credit extensions come . . grief.

And if serious credit-quality troubles come to the savings and loan industry, they will merely add to troubles from the borrowed-short, lent-long-at-fixed-rates problem, which is far from completely removed, and which destroys shareholder wealth at startling speed whenever interest rates are rising rapidly, even when the credit quality of mortgagors or other borrowers is excellent.

Developing a short-term operating plan for Mutual Savings which would sharply increase its reported earnings next year would be a near-absolute cinch. For instance, savings accounts could be expanded greatly by paying a high rate of interest on "jumbo" deposits in $100,000 multiples, and proceeds plus cash equivalents on hand could be placed in long-term mortgages at a substantial current interest spread while, in addition, some origination fees could be "front-ended" into income. However, taking long-term risks into account, it is much harder to find a sound operating plan. Money is the ultimate fungible commodity. In the new order of things, an association is not only in a tough, competitive, commodity-type business on the lending side but also finds that, with decontrol of government-insured rates paid savers, every competitive association has virtually unlimited credit to fund increased lending, by paying premiums over interest rates generally prevailing on savings accounts. Under such conditions, when all risks are considered, including those created by that portion of competitors motivated primarily by short-term effects, it is quite naturally difficult to earn over a long period an attractive return on shareholders' equity. How could it be otherwise?

A few years ago, about the time Mutual Savings reacted to new conditions by curtailing lending, most other associations decided instead to keep lending aggressively but under new adjustable-rate mortgages under which some portion (but far from all) of the interest-rate-fluctuation risk is shifted to the homeowner. Despite widespread use of these new adjustable-rate mortgages, savings and loan industry earnings remain dependent to a material extent, as they always were, on an interest rate spread attributable to: (1) borrowing short while lending long, and/or (2) making loans which can be priced high enough to provide a profit only because they involve a very material credit risk, compared to the risk of owning government-backed securities of comparable maturity.

Under present conditions of strong competition from bold competitors accompanied by high interest-rate-fluctuation risk, the result tends to be that each year of reported attractive earnings occurs only in the absence of two now much more likely events: (1) sharply rising interest rates, and (2) widespread credit losses. Thus, each good year reported is a lot like the year when a Texas hurricane insurer reports satisfactory earnings because there have been no hurricanes. Mutual Savings has a considerable share of this uncomfortable position and will continue to have it. It has not yet developed a long-term operating strategy with which it is satisfied, and it continues to seek one. Just as Mutual Savings has been idiosyncratic in the past as it sold branch offices in 1980 (a practice now being adopted to some extent by other savings and loan associations and major banks), it will probably be idiosyncratic in the future. It will seek some non-standard way of rendering socially constructive service while operating with acceptable profits accompanied by an acceptable level of risk for shareholders' capital, likely gains considered.

Eventually, by maintaining unusual capital strength and liquidity, and by having a parent corporation which does likewise, Mutual Savings hopes to stand in particular favor with federal and state regulatory authorities and be in a position soundly to expand again, perhaps dramatically, and perhaps involving additional shareholder investment in Mutual Savings by the parent corporation.

As part of a program for the anticipated eventual sound expansion of the savings and loan business, Mutual Savings in 1983, without heavy promotion or advertising, consistently paid about ½% per annum more than most competitors on so-called "money market rate accounts" of moderate size. This type of savings account is repayable on demand without penalty and allows up to three withdrawals by check each month. Most of Mutual Savings' "money market rate accounts" are in the range of $10,000 to $100,000. Mutual Savings' practice of bidding up slightly for this one type of account penalized 1983 earnings to a small extent and caused the bulk of the reported $36 million growth in savings.

Precision Steel

Wesco's Precision Steel subsidiary, located in the outskirts of Chicago at Franklin Park, Illinois, was acquired for approximately $15 million on February 28, 1979. The price was roughly book value for a company which carried its inventories on a conservative LIFO accounting basis and which contained significant cash balances. More important, it had reached its position from a modest beginning through maintenance of sound, customer-oriented business values inculcated over a long time by a gifted founder and his successors. Precision Steel owns a well-established steel service center business and a subsidiary engaged in the manufacture and distribution of tool room supplies and other specialty metal products.

Precision Steel's businesses contributed $1,622,000 to ordinary net operating income in 1983, up 396% compared with $327,000 in 1982. Most of the increase was caused by (1) generally improved conditions in the cold-rolled strip steel market, and (2) absence in 1983 of an unusual loss which occurred in 1982 from correction of a business mistake (in which the present chairman of Wesco personally participated), namely a venture in the measuring tool distribution business which with better judgment would not have been authorized.

Under the leadership of David Hillstrom, Precision Steel's businesses are now satisfactory, taking into account the financial leverage put into Wesco's consolidated picture incident to their acquisition. The improvement from disappointing performance in 1982 is welcome. No dramatic change is expected in 1984 in either direction.

Shortly after Wesco's purchase of Precision Steel, a substantial physical expansion of steel warehousing facilities was authorized, involving a new building in Charlotte, North Carolina. The new building and the whole North Carolina operation are now successful, contributing $7,605,000 to sales in 1983 at a profit percentage higher than has prevailed in the long-established Chicago headquarters' facility.

Precision Steel's businesses, despite their mundane nomenclature, are steps advanced on the quality scale from mere commodity-type businesses. Many customers of Precision Steel, needing dependable supply on short notice of specialized grades of high-quality, cold-rolled strip steel, reasonable prices, technical excellence in cutting to order, and remembrance when supplies are short, rightly believe that they have no fully comparable alternative in Precision Steel's market area. Indeed, many customers at locations remote from Chicago and Charlotte (for instance, Los Angeles) seek out Precision Steel's service.

Wesco remains interested in logical expansion of Precision Steel's businesses, using liquid assets available.

All Other Ordinary Net Operating Income

All other ordinary net operating income, net of interest paid and general corporate expenses, rose to $3,839,000 in 1983 from $3,412,000 in 1982. Sources were rents ($2,609,000 gross, including rent from Mutual Savings) from Wesco's Pasadena office building block (predominantly leased to outsiders although Mutual Savings is the ground floor tenant) and interest and dividends from cash equivalents and marketable securities held by Precision Steel and its subsidiaries and at the parent company level.

Net Gains on Sales of Securities, Mortgages and Important Fixed Assets

Wesco's aggregate special net gains, combined, after income taxes, declined to $2,046,000 in 1983 from $4,281,000 in 1982. The 1982 net gain consisted of $6,706,000 from sales of securities, offset by a loss of $2,425,000 from Mutual Savings' sales of mortgage-backed securities. There were no losses from sales of mortgages or mortgage-backed securities in 1983.

Consolidated Balance Sheet and Related Discussion

Wesco's consolidated balance sheet retains a strength befitting a company whose consolidated net worth supports large outstanding promises to others. As indicated in Note 2 to the accompanying financial statements, the aggregate market value of Wesco's marketable equity securities was higher than their aggregate cost at December 31, 1983 by about $29 million. In addition, Wesco's Pasadena office building block (containing about 165,000 net rentable square feet including Mutual Savings' space) has a market value substantially in excess of carrying value. The mortgage debt ($5,166,000 at 9.25% fixed) against this real property now exceeds its depreciated carrying value ($3,077,000) in Wesco's balance sheet at December 31, 1983. Wesco remains in a prudent position when total debt is compared to total shareholders' equity and total liquid assets. Wesco's practice has been to do a certain amount of long-term borrowing in advance of specific need, in order to have maximum financial flexibility to face both hazards and opportunities.

It is expected that the balance sheet strength of the consolidated enterprise will in due course be used in one or more business extensions. The extension activity, however, requires some patience, as suitable opportunities are not always present.

As indicated in Schedule I accompanying Wesco's financial statements, common stock investments, both those in the savings and loan subsidiary and those held temporarily elsewhere pending sale to fund business extension, tend to be concentrated in a very few companies. Through this concentration practice better understanding is sought with respect to the few decisions made.

The ratio of Wesco's annual consolidated net income to consolidated shareholders' equity, about 9% in 1982-83, is not yet attractive from the Wesco shareholders' point of view. Wesco, started as a savings and loan holding company in what became a very tough business, has been proceeding slowly under shortened sail instead of trying to make fast time by getting all canvas aloft. However, progress ultimately helpful to shareholders is not restricted to what shows up in the income account. Recent increases in balance sheet strength are expected to be useful in the future.

On January 26, 1984, Wesco increased its regular quarterly dividend from 13½ cents per share to 14½ cents per share, payable March 7, 1984 to shareholders of record as of the close of business on February 14, 1984.

This annual report contains Form 10-K, a report filed with the Securities and Exchange Commission, and includes detailed information about Wesco and its subsidiaries as well as audited financial statements bearing extensive footnotes. We invite your careful attention to these items.

Retirement of Louis Vincenti

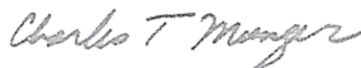
Late in 1983 Louis Vincenti retired from Wesco on account of health. He had served 28 years, the last 10 years as Chief Executive Officer. Before joining Wesco, as a partner in Hahn and Hahn, he was one of Southern California's great attorneys. Before practicing law he had starred spectacularly as both student and athlete at Stanford.

Wesco had a net worth of about $5 million when he joined it in 1955. As he retires the net worth of Wesco is about $124 million, and, in addition, cash dividends of about $26 million have been paid out to shareholders over the years. The consolidated enterprise first made extraordinary profits as a construction lender, then went through the 1981-82 crisis period in the savings and loan industry reporting steady profits, paying dividends which increased each year, and piling up more capital outside the troubled savings and loan business as a start was made at diversifying sources of operating income.

The entire record was accompanied by much philanthropic and public service and service to the savings and loan industry by Mr. Vincenti. All who know him admire him, in whom generosity, acuity, diligence and a totally forthright manner are so happily joined. In a career of extraordinary length as well as distinction, he came to work before 7:30 each morning until very shortly before he retired at age 77.

There are not many men in the world like Louis Vincenti. Wesco has been a very fortunate corporation to be guided so long by such a man.

Mr. Vincenti's colleagues who replaced him are Charles T. Munger as Chairman and Chief Executive Officer of Wesco and Mutual Savings and Harold R. Dettmann as President of Mutual Savings. Mr. Munger also is Vice Chairman of Berkshire Hathaway Inc., 80%-owner of Wesco. Mr. Dettmann for many years served as operating manager next in line to Mr. Vincenti.



Charles T. Munger
Chairman of the Board

February 3, 1984

SHAREHOLDER-DESIGNATED CONTRIBUTIONS

On October 14, 1981 a letter was sent to shareholders giving the reasons for initiation of a program of shareholder-designated contributions. Portions of that letter follow:

"On September 30, 1981 Berkshire received a tax ruling from the U.S. Treasury Department that, in most years, should produce a significant benefit for charities of your choice.

"Each Berkshire shareholder — on a basis proportional to the number of shares of Berkshire that he owns — will be able to designate recipients of charitable contributions by our company. You'll name the charity; Berkshire will write the check. The ruling states that there will be no personal tax consequences to our shareholders from making such designations.

"Thus, our approximately 1500 owners now can exercise a perquisite that, although routinely exercised by the owners in closely-held businesses, is almost exclusively exercised by the managers in more widely-held businesses.

"In a widely-held corporation the executives ordinarily arrange all charitable donations, with no input at all from shareholders, in two main categories:

(1) Donations considered to benefit the corporation directly in an amount roughly commensurate with the cost of the donation; and
(2) Donations considered to benefit the corporation indirectly through hard-to-measure, long-delayed feedback effects of various kinds.

"I and other Berkshire executives have arranged in the past, as we will arrange in the future, all charitable donations in the first category. However, the aggregate level of giving in such category has been quite low, and very likely will remain quite low, because not many gifts can be shown to produce roughly commensurate direct benefits to Berkshire.

"In the second category, Berkshire's charitable gifts have been virtually nil, because I am not comfortable with ordinary corporate practice and had no better practice to substitute. What bothers me about ordinary corporate practice is the way gifts tend to be made based more on who does the asking and how corporate peers are responding than on an objective evaluation of the donee's activities. Conventionality often overpowers rationality.

"A common result is the use of the stockholder's money to implement the charitable inclinations of the corporate manager, who usually is heavily influenced by specific social pressures on him. Frequently there is an added incongruity: many corporate managers deplore governmental allocation of the taxpayer's dollar but embrace enthusiastically their own allocation of the shareholder's dollar.

"For Berkshire, a different model seems appropriate. Just as I wouldn't want you to implement your personal judgments by writing checks on my bank account for charities of your choice, I feel it inappropriate to write checks on your corporate "bank account" for charities of my choice. Your charitable preferences are as good as mine and, for both you and me, funds available to foster charitable interests in a tax-deductible manner reside largely at the corporate level rather than in our own hands.

"Under such circumstances, I believe Berkshire should imitate more closely-held companies, not larger public companies. If you and I each owned 50% of a corporation, our charitable decision making would be simple. Charities very directly related to the operations of the business would have first claim on our available charitable funds. Any balance available after the "operations-related" contributions would be divided among various charitable interests of the two of us, on a basis roughly proportional to our ownership interest. If the manager of our company had some suggestions, we would listen carefully — but the final decision would be ours. Despite our corporate form, in this aspect of the business we probably would behave as if we were a partnership.

"Wherever feasible, I believe in maintaining such a partnership frame of mind, even though we operate through a large, fairly widely-held corporation. Our Treasury ruling will allow such partnership-like behavior in this area . . .

"I am pleased that Berkshire donations can become owner-directed. It is ironic, but understandable, that a large and growing number of major corporations have charitable policies pursuant to which they will match gifts made by their employees (and — brace yourself for this one — many even match gifts made by directors) but none, to my knowledge, has a plan matching charitable gifts by owners. I say "understandable" because much of the stock of many large corporations is owned on a "revolving door" basis by institutions that have short-term investment horizons, and that lack a long-term owner's perspective . . .

"Our own shareholders are a different breed. As I mentioned in the 1979 annual report, at the end of each year more than 98% of our shares are owned by people who were shareholders at the beginning of the year. This long-term commitment to the business reflects an owner mentality which, as your manager, I intend to acknowledge in all feasible ways. The designated contributions policy is an example of that intent."

Contributions were $2 per share in 1981, $1 per share in 1982, and $3 per share in 1983. In the latter year, 96.4% of eligible shares participated and contributed a total of $3,066,501 to 1353 charities. In addition, Berkshire and subsidiaries continue to make certain contributions pursuant to local level decisions made by our operating managers.

There may be an occasional year when contributions by Berkshire will produce substandard tax deductions — or none at all. In those years we will not effect our shareholder-designated charitable program. In all other years we expect to inform you about October 10th of the amount per share that you may designate. A reply form will accompany the notice, and you will be given about three weeks to respond with your designation. *To qualify, your shares must be registered in your own name or the name of an owning trust, corporation, partnership or estate, if applicable, on our stockholder list of September 30th, or the Friday preceding if such date falls on a Saturday or Sunday.*

BERKSHIRE HATHAWAY INC.
Selected Financial Data
(dollars in thousands except per share amounts)

	Fiscal Year		
	1964	1969	1974
Revenues of consolidated companies:			
Insurance premiums earned	$ —	$ 25,258	$ 60,574
Sales and service revenues	49,983	40,427	32,592
Interest and dividend income	—	2,052	8,030
Earnings (loss):			
Earnings (loss) from continuing operations before realized investment gain or loss*	$ (2,824)	$ 2,698	$ 4,290
Realized investment gain (loss), net	—	4,090	(1,340)
Earnings from discontinued operations**	—	1,165	4,093
Net earnings (loss)	$ (2,824)	$ 7,953	$ 7,043
Average shares of common stock outstanding — in thousands	1,171	985	980
Earnings (loss) per share:			
Earnings (loss) from continuing operations before realized investment gain or loss	$ (2.41)	$ 2.74	$ 4.38
Net earnings (loss)	(2.41)	8.07	7.19
Balance Sheet items (at end of Fiscal Year):			
Total assets	$ 27,887	$ 95,746	$216,214
Term debt and other borrowings	2,500	7,419	21,830
Minority shareholders' interest	—	—	—
Shareholders' equity — total	22,139	43,918	88,199
Shares of common stock outstanding — in thousands	1,138	980	980
Shareholders' equity — per outstanding share	19.46	44.83	90.04

The 1964 fiscal year ended October 3, 1964. All other years presented ended on the Saturday nearest December 31. Data have been restated if required to conform to current consolidation practices. Data have not been restated, with respect to years prior to the merger of Diversified Retailing Company, Inc., to give retroactive effect to the merger. An increase of 56,470 Berkshire shares resulted from that transaction in 1978.

**The loss for 1964 includes a write-down of $3,000 recognized in that year with respect to textile properties subsequently sold or abandoned.*

***The Company divested of its interest in The Illinois National Bank & Trust Co. of Rockford as of December 31, 1980. The Company's equity in earnings of that former subsidiary for years prior to 1981 is reflected above as earnings from discontinued operations.*

	Fiscal Year				
	1979	*1980*	*1981*	*1982*	*1983*
Revenues of consolidated companies:					
Insurance premiums earned	$ 181,949	$ 185,187	$ 159,013	$ 152,945	$ 152,480
Sales and service revenues	286,493	300,837	312,105	306,564	381,674
Interest and dividend income	32,890	42,414	54,035	58,003	85,903
Earnings:					
Earnings from continuing operations before realized investment gain	$ 30,961	$ 38,484	$ 39,723	$ 31,497	$ 68,195
Realized investment gain, net	6,896	9,907	22,881	14,877	45,298
Earnings from discontinued operations**	4,960	4,731	—	—	—
Net earnings	$ 42,817	$ 53,122	$ 62,604	$ 46,374	$ 113,493
Average shares of common stock outstanding — in thousands	1,027	1,027	986	987	1,067
Earnings per share:					
Earnings from continuing operations before realized investment gain	$ 30.14	$ 37.47	$ 40.27	$ 31.93	$ 63.93
Net earnings	41.68	51.72	63.47	47.01	106.40
Balance Sheet items (at end of Fiscal Year):					
Total assets	$ 933,288	$1,054,111	$1,199,837	$1,533,284	$1,856,392
Term debt and other borrowings	85,790	136,869	130,192	169,947	128,984
Minority shareholders' interest	59,891	70,111	81,762	101,177	17,990
Shareholders' equity — total	344,962	395,214	519,463	727,483	1,119,193
Shares of common stock outstanding — in thousands	1,027	986	987	987	1,147
Shareholders' equity — per outstanding share	335.85	400.80	526.57	737.43	975.83

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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

MICHAEL A. GOLDBERG, *Vice President*

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
Chairman of the Board of Wesco Financial Corporation

COMMON STOCK DATA

Shareholders

The Company had approximately 2,900 record holders of its common stock at February 29, 1984.

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 1983 and 1982 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.

1983	*High*	*Low*
First Quarter	995	775
Second Quarter	985	890
Third Quarter	1,245	905
Fourth Quarter	1,385	1,240

1982	*High*	*Low*
First Quarter	560	465
Second Quarter	520	470
Third Quarter	555	420
Fourth Quarter	775	540

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.

Stock Transfer Agent

The First National Bank of Boston, P.O. Box 644, Boston, MA 02102 serves as Transfer Agent for the Company's common stock. Certificates to be transferred should be mailed directly to the Transfer Agent, preferably by registered mail. Certificates to be transferred should not be mailed to the Company.

BERKSHIRE HATHAWAY INC.

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Executive Offices — 1440 Kiewit Plaza, Omaha, Nebraska 68131