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**DIVERSIFIED RETAILING CO INC** **10-K PT 1 & 2**

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# FORM 10-K

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

For the Fiscal Year Ended
January 30, 1971

Commission File Number:
2-27473

## DIVERSIFIED RETAILING COMPANY, INC.

State of Incorporation:
Maryland

IRS Employer Identification
Number: 52-0845155

Address of Principal
Executive Offices: 1300 Mercantile Bank & Trust Building
2 Hopkins Plaza
Baltimore, Maryland 21201

Registrant's Telephone
Number: 301-752-3985

Securities Registered Pursuant to Section 12(b) of the Act:

NONE

Securities Registered Pursuant to Section 12(g) of the Act:

NONE

MAY 4 1971

PART I

Item 1. Business

Diversified Retailing Company, Inc. (the "Company"), a Maryland corporation, is a holding company which renders financial and operating advice to its wholly-owned subsidiary, Associated Retail Stores, Inc. ("Associated"), an Illinois corporation, and to Associated's subsidiaries. The Company also owns certain marketable securities. The Company has no direct employees; its Chairman of the Board of Directors, Warren E. Buffett, serves the Company without compensation, and its chief executive officer, President Robert M. Goldman, receives a share of certain legal fees as a partner in Frank, Bernstein, Conaway & Goldman which renders sundry legal services to the Company. (See "Item 12. Directors of the Registrant" and "Item 13. Remuneration of Officers and Directors.") With respect to material corporate matters, Mr. Goldman acts only with the approval of the Board of Directors of the Company.

Associated operates a chain of popular priced women's and children's apparel stores, located principally in Midwestern and North eastern states. Associated's wholly-owned subsidiary, Reinsurance Corp. of Nebraska ("Reinsurance"), a Nebraska corporation, is engaged solely in the business of accepting portions of reinsurance contracts. Associated wholly-owns two other subsidiaries: Fashion Outlet of Michigan, Inc. ("Fashion Outlet"), a Michigan corporation, which operates a single popular priced women's and children's apparel store located in Saginaw, Michigan, and Anbec, Inc. ("Anbec"), an Illinois corporation, which owns improved premises in Chicago, Illinois, in which Associated operates one of its retail stores.

Associated Retail Stores, Inc.*

Associated operates seventy-one stores which retail popular priced women's, and in a number of stores, children's apparel, consisting principally of coats, dresses, suits, sports wear, lingerie, foundations, hosiery and accessories. Present stores are located in

*The text of "Associated Retail Stores, Inc." under "Item 1. Business" and "Item 3. Properties" describes circumstances existing as at January 30, 1971, unless otherwise provided.

the states of Colorado, Connecticut, Illinois, Indiana, Kentucky, Michigan, New York, New Jersey, Ohio, Pennsylvania and Wisconsin. Principal cities in which stores are located include Pittsburgh, Milwaukee, Philadelphia, Denver, Louisville, Chicago, Buffalo, New York City, Gary, Columbus, Akron, Waterbury, Toledo and Cincinnati. The popular-priced women's and children's apparel lines are administered through the New York headquarters of Associated. Stores are located in downtown, neighborhood and shopping center retail areas in separately leased or owned premises. (See "Associated Retail Stores" under "Item 3. Properties.") Presently, Associated does not operate any leased departments or concessions in any department or discount stores. Leased departments formerly operated by Associated in Neisner and certain other discount stores were finally discontinued as of February 22, 1969. In place of said leased departments or concessions, Associated has opened its own separate store premises. The Associated stores operate under various names, including Blauner's, Cotton Shops, Fashion Outlet, G&A, Gaytime, Goodwin's and York.

Associated seeks through its merchandising policy, its uniformity of purchases for all stores and its cash-sale-only policy (other than bank charge account plans) to afford customers wide selections while maintaining its overhead costs at as low a level as possible. In addition, Associated utilizes interchangible store fixtures to afford relative ease in opening and closing store outlets. All stores operated by Associated are served by a central buying and warehousing organization located in New York City. A staff of twenty-two merchandise managers, buyers, and assistants maintain daily personal contact with the various New York and other apparel markets. Nearly all receiving and purchasing activities are conducted in the central warehouse from which shipments are made daily to the various stores. Associated utilizes detailed inventory control and analysis primarily through the use of a leased I.B.M./360 computer system with peripheral supporting equipment in order to seek to identify popular and fast selling items for rapid replacement, and also to determine those items which require instant reduction in price for quick disposal.

Associated employs approximately one thousand four hundred (1,400) full and part-time employees with maximum seasonal employment reaching one thousand seven hundred (1,700). Approximately three hundred (300) of these are warehouse and office employees - varying seasonally by one hundred (100) more or less. All sales personnel in the stores are paid an hourly rate and no sales commissions are paid. Approximately 80% of Associated's employees are covered by union contracts which expire at various periods. There have been no significant changes in employee relations during the past fiscal year and Associated considers its employee relations to be satisfactory.

In most of the store locations, particularly those in larger cities, the business of Associated is highly competitive with other stores selling similar merchandise, including discount and department stores, specialty shops and some stores operated by national chains.

Fashion Outlet of Michigan, Inc.

Fashion Outlet operates one store in Saginaw, Michigan. It conducts its operations in the same manner as all Associated stores and carries the Fashion Outlet name in order to retain the right of use of this name in the State of Michigan.

Anbec, Inc.

In June, 1970, Associated purchased for $5,000 all of the outstanding capital stock of Anbec from Buffett Partnership, Ltd., Wheeler, Munger & Co. and First Manhattan Co. In connection with said purchase, Associated paid certain promissory notes in the total amount of $20,000, which notes were payable by Anbec and held by Buffett Partnership, Ltd., Wheeler, Munger & Co. and First Manhattan Co.

Anbec's only activity is the ownership of the improved real property located at 11111 South Michigan Avenue, Chicago, Illinois, which Anbec leases to Associated for the operation of one of its retail stores. Anbec has no salaried employees.

Reinsurance Corp. of Nebraska

Reinsurance received a Certificate of Authority to transact the business of insurance, with the exceptions of life and title insurance, from the State of Nebraska, Department of Insurance as at May 4, 1970. At the present time, the business of Reinsurance is limited to the acceptance of portions of reinsurance contracts generated through and offered to Reinsurance by the reinsurance division of National Indemnity Company ("National Indemnity"). In such instance that National Indemnity does not reinsure the full amount of a contract offered to it for reinsurance by other insurers, it may reoffer to Reinsurance a portion of said reinsurance.

In the event that Reinsurance through its President, Warren E. Buffett (See "Item 12. Directors of Registrant."), accepts from National Indemnity the portion of a reinsurance contract so offered to it, then Reinsurance will generally be charged by National Indemnity one-half of the standard commission rate applicable to such business; standard commission rates are generally 1% on pro-rata business and 16% on certain excess business. In consideration of the commission paid to it on reinsurance so ceded, National Indemnity manages the book-keeping and other internal technical details of Reinsurance. Mr. Buffett is soley responsible for investment decisons of Reinsurance and is the uncompensated Chief Executive Officer thereof.

Mr. Buffett and a member of his immediate family together own approximately 36% of the common stock of Berkshire Hathaway, Inc. ("Berkshire"), of which Mr. Buffett is Chairman of the Board of Directors (see "Item 4. Parents and Subsidiaries of Registrant" and "Item 12. Directors of Registrant."), and the Company and its subsidiaries own approximately 4% of the common stock of Berkshire. Both Mr. Buffett and the Company disclaim control of Berkshire. Berkshire owns approximately 99.95% of the common stock of National Indemnity, of which Mr. Buffett is Chairman of the Board of Directors. National Indemnity, however, is not obligated to offer portions of reinsurance contracts to Reinsurance. Hence, Reinsurance cannot be certain that it will continue to be offered business through the reinsurance division of National Indemnity, presently its only source of business. Reinsurance is currently completely dependent upon the continuance of its business arrangements with National Indemnity since Reinsurance has no independent staff for generating or evaluating business, settling losses or handling other administrative details.

Lines of Business and Classes of Products and Services

The Company (on a consolidated basis with Associated) has only one line of business, the retail sale of women's and children's apparel, and deals in only one class of products and services, women's and children's apparel, that contributed, during the last two fiscal years, 15% or more of total sales and revenues or 15% or more of earnings before income taxes and extraordinary items on a consolidated basis.

Although the Company's subsidiary's unconsolidated insurance subsidiary, Reinsurance, represents a second line of business and type of service (see "Reinsurance Corp. of Nebraska" under "Item 1. Business."), said subsidiary's subsidiary does not contribute 15% or more of total sales and revenues or 15% or more of earnings before income taxes and extraordinary items on a consolidated basis. The separate financial statements and schedules of Reinsurance, however, are set forth in "Item 10. Financial Statements, Exhibits Filed and Basic Documents", since Reinsurance constitutes a significant subsidiary of the Company.

Item 2. Summary of Earnings

## SUMMARY OF CONSOLIDATED OPERATIONS

## DIVERSIFIED RETAILING COMPANY, INC.

## AND SUBSIDIARY

(In thousands of dollars)

| | Fiscal year ended | | | | |
|---|---|---|---|---|---|
| | January 30, 1971 | January 31, 1970 | February 1, 1969 | February 3, 1968 | January 28, 1967 |
| Net sales | $39,832 | $39,113 | $37,508 | $29,626 | $ -0- |
| Cost of goods sold | 26,444 | 26,443 | 25,573 | 20,363 | -0- |
| Interest and financing cost | [illegible]47 | 565 | 609 | 430 | 260 |
| Taxes on income | 1,231 | 1,301 | 934 | 815 | -0- |
| Earnings of continuing operations before extraordinary item and equity in earnings of unconsolidated subsidiary | $ 1,313 | $ 1,019 | $ 1,244 | $ 1,236 | $ 99 |
| Earnings related to discontinued operations less applicable taxes | -0- | 403 | 754 | 1,161 | 1,158 |
| Extraordinary loss (1) | -0- | ( 1,319) | -0- | -0- | -0- |
| Equity in earnings of unconsolidated subsidiary | 24 | -0- | -0- | -0- | -0- |
| Net earnings | 1,337 | 103 | 1,998 | 2,397 | 1,257 |
| Earnings per share (2): | | | | | |
| Earnings of continuing operations before extraordinary item and equity in earnings of unconsolidated subsidiary | $ 1.31 | $ 1.02 | $ 1.24 | $ 1.24 | $ .10 |

| | Fiscal year ended | | | | |
|---|---|---|---|---|---|
| | January 30, 1971 | January 31, 1970 | February 1, 1969 | February 3, 1968 | January 28, 1967 |
| Earnings related to discontinued operations less applicable taxes | -0- | .40 | .76 | 1.16 | 1.16 |
| Extraordinary loss | -0- | ( 1.32) | -0- | -0- | -0- |
| Equity in earnings of unconsolidated subsidiary | .03 | -0- | -0- | -0- | -0- |
| Net earnings | 1.34 | .10 | 2.00 | 2.40 | 1.26 |
| Cash dividends per share | -0- | -0- | -0- | -0- | -0- |

(1) The extraordinary loss resulted from the sale of a subsidiary and is shown net of $83,000 of income taxes on taxable gain.

(2) Earnings per share have been restated to reflect a 3,333-1/3 to 1 stock split which occurred in December 1969.

## STATEMENT OF CONSOLIDATED ADDITIONAL PAID-IN CAPITAL AND EARNINGS RETAINED IN THE BUSINESS

DIVERSIFED RETAILING COMPANY, INC.

AND SUBSIDIARY

Five years ended January 30, 1971

(In thousands of dollars)

| | Additional Paid-In Capital | Earnings Retained in the Business |
|---|---|---|
| Original contribution of capital in excess of par value of common stock issued in April 1966 | $6,000 | $ |
| Net earnings for the period ended January 28, 1967 | | 1,257 |
| Balance at January 28, 1967 | 6,000 | 1,257 |
| Net earnings for the year ended February 3, 1968 | | 2,397 |
| Balance at February 3, 1968 | 6,000 | 3,654 |
| Net earnings for the year ended February 1, 1969 | | 1,998 |
| Balance at February 1, 1969 | 6,000 | 5,652 |
| Net earnings for the year ended January 31, 1970 | | 103 |
| Balance at January 31, 1970 | 6,000 | 5,755 |
| Net earnings for the year ended January 30, 1971 | | 1,337 |
| Unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes | | 384 |
| Balance at January 30, 1971 | $6,000 | $7,476 |

The notes to the consolidated financial statements are made a part hereof.

Item 3. Properties

The operating offices of the Company are located in the offices of Frank, Bernstein, Conaway & Goldman, the law firm in which Mr. Goldman, President of the Company, and Mr. Shapiro, Secretary of the Company, are partners. With the exception of certain legal and bookkeeping services rendered therein, only limited operational activities take place in and no rent is paid in connection with said offices.

Associated Retail Stores, Inc.

The stores operated by Associated (see "Associated Retail Stores" under "Item 1. Business.") range in size from approximately two thousand square feet to sixty thousand square feet, with the total area of all stores comprising approximately seven hundred thousand square feet.

Associated owns only five of its store locations (all of which are in Chicago, Milwaukee and Philadelphia). Its subsidiary, Anbec, owns one location (in Chicago) in which Associated operates a store. Associated's remaining stores are leased. Minimum annual rentals for store spaces aggregate approximately $1,435,000. The lease terms for said stores expire at dates varying from the end of 1971 through 1986. Certain leases provide for additional rent based on sales volume and for payment of real estate taxes and other expenses. The furniture and fixtures in the Associated stores are standardized, and in the opinion of the Company represent a minimum investment.

The executive, buying and administrative offices are located in the New York warehouse leased by Associated. The New York warehouse and offices also handle the receipt, pricing and shipment of all merchandise except for a small portion which is shipped directly to four New York and three Philadelphia stores. There are eighty thousand (80,000) square feet in the New York warehouse and an additional twelve thousand (12,000) square feet are leased in a nearby building. Associated's lease of the New York warehouse facility expires on December 31, 1973, and Associated holds no renewal option with respect thereto.

Fashion Outlet of Michigan, Inc.

Fashion Outlet leases the one retail store which it operates in Saginaw, Michigan. Said store is similar in scope and character to the majority of stores operated by Associated.

Reinsurance Corp. of Nebraska

Reinsurance has no independent operating offices or facilities; all services that are performed on behalf of Reinsurance by Mr. Buffett are conducted from his offices in Omaha, Nebraska. (See "Reinsurance Corp. of Nebraska" under "Item 1. Business.")

Item 4. Parents and Subsidiaries of Registrant

As at January 30, 1971, Warren E. Buffett owned 36.83% of the common stock of the Company, and First Manhattan Co. and Wheeler, Munger & Co., of which Messrs. David S. Gottesman and Charles T. Munger were respectively general partners, each owned 10% of the common stock of the Company. (See "Item 11. Principal Security Holders and Security Holdings of Management", and "Item 12. Directors of Registrant.") First Manhattan Co. has advised the Company that it disclaims any status which would cause it to be deemed a parent of the Company.

The Company owns 100% of the issued and outstanding voting securities of its wholly-owned subsidiary, Associated Retail Stores, Inc., an Illinois corporation.

Associated Retail Stores, Inc. owns 100% of the issued and outstanding voting securities of its three wholly-owned subsidiaries, Reinsurance Corp. of Nebraska, a Nebraska corporation, Fashion Outlet of Michigan, Inc. and Anbec, Inc., an Illinois corporation. Fashion Outlet and Anbec are included in the consolidated financial statements of the Company. In accordance with Rule 4.09 of Regulation S-X, promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, Reinsurance is not so consolidated.

As at January 30, 1971, Warren E. Buffett owned beneficially approximately 9% of the common stock of Blue Chip Stamps ("Blue Chip"), a California corporation, whose said securities are traded in the over-the-counter market. The beneficial ownership of Mr. Buffett and his associates, including Associated; Reinsurance; National Indemnity; National Fire & Marine Insurance Company, a wholly-owned subsidiary of Berkshire, of which Mr. Buffett is Chairman of the Board of Directors; Susan T. Buffett, spouse of Warren E. Buffett; and Buffett Partnership, Ltd., an investment partnership now in liquidation, of which Mr. Buffett was general partner, aggregated approximately 35% of the common stock of Blue Chip. In addition, Wheeler, Munger & Co., of which Mr. Charles T. Munger is a general partner, owned beneficially approximately 7% of the common stock of Blue Chip, and David S. Gottesman, a general partner of First Manhattan Co., owned beneficially substantially less than 1% of the common stock of Blue Chip. The Company, Mr. Buffett and each of his respective associates set forth above, Wheeler, Munger & Co., and Mr. Gottesman disclaim control of Blue Chip.

As at January 30, 1971, certain associates of Warren E. Buffett, including Associated; National Indemnity; National Fire & Marine Insurance Company; and Cornhusker Casualty Company, a wholly-owned subsidiary of National Indemnity of which Mr. Buffett is Chairman of the Board of Directors, beneficially owned in the aggregate approximately 21% of the Class A common stock of Thriftimart, Inc. ("Thriftimart"), a California corporation, whose said securities are traded on the Pacific Coast Stock Exchange and on the American Stock Exchange. Wheeler, Munger & Co., of which Mr. Charles T. Munger is a general partner, owned beneficially substantially less than 1% of the Class A common stock of Thriftimart, and owned shares of Thriftimart in its inventory account pursuant to its activities as specialist in said Class A common stock on the Pacific Coast Stock Exchange. The Company, Mr. Buffett and each of his respective associates set forth above, and Wheeler, Munger & Co. disclaim control of Thriftimart.

As at January 30, 1971, Warren E. Buffett and Susan T. Buffett, his spouse, together owned beneficially approximately 36% of the common stock of Berkshire, a Massachusetts corporation, whose said securities are traded in the over-the-counter market. The Company and its subsidiaries owned beneficially approximately [illegible]% of the common stock of Berkshire. Mr. Buffett, Susan T. Buffett and the Company disclaim control of Berkshire.

Item 5. Pending Legal Proceedings

With the one exception described below, other than ordinary routine litigation incidental to the business of the Company and its subsidiaries, neither the Company nor any of its subsidiaries are parties to any material pending legal proceedings and none of their property is the subject thereof. Associated owns the improved real property located at 913-917 Market Street, Philadelphia, Pennsylvania, in which it operates one of its retail stores. Condemnation proceedings were instituted against said property by the Phildelphia Redevelopment Authority on May 21, 1970, in the Court of Common Pleas of Philadelphia County. The store located on said premises accounts for approximately $2,000,000 in gross sales or approximately 5% of the gross sales of all stores operated by Associated. Associated commenced operation of its store at this location in 1951, and the real property and improvements thereon are reflected on the books of Associated at a net book value of $913,694. In said condemnation proceedings, Associated, through its counsel, has challenged the power and right of the Philadelphia Redevelopment Authority to appropriate the property, and Associated intends to continue to contest the propriety thereof. There can be no assurance, however, that Associated will be successful in preventing the condemnation of said property.

Item 6. Increases and Decreases in Outstanding Equity Securities

None

Item 7. Approximate Number of Equity Security Holders

| Title of Class | As at January 30, 1971 Number of Record Holders |
|---|---|
| Common Stock, par value $0.0003 per share | 294 |

Item 8. Executive Officers of the Registrant

| Name | Age | Office(s) Held |
|---|---|---|
| Warren E. Buffett | 40 | Chairman of Board of Directors |
| Robert H. Goldman | 54 | President and Director |
| David S. Gottesman | 44 | Vice-President and Director |
| Charles T. Munger | 47 | Vice-President and Director |
| Charles F. Heider | 44 | Director |
| Larry C. Cummings | 27 | Treasurer and Assistant Secretary |
| Ronald H. Shapiro | 27 | Secretary |

Item 9. Indemnification of Directors and Officers

The Company has no charter provision, by-law, contract or arrangement under or pursuant to which any of its directors or officers are insured or indemnified in any manner against any liability which may be incurred in their capacity as such. However, under Article 23, Section 64 of the Maryland Annotated Code (1957 edition, as amended), the Company may indemnify any person who is serving or has served as a director or officer of the Company or, at the request of the Company, is serving or has served as a director or officer of another corporation in which the Company owns shares of capital stock or of which the Company is a creditor, against expenses actually and reasonably incurred by them in connection with the defense of any action, suit or proceeding, civil, criminal or adminstrative, in which such person is made a party by reason of being or having been a director or officer of the Company, or of such other corporation, except in relation to matters as to which such person is adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of a duty to the Company.

Item 10. Financial Statements, Exhibits Filed and Basic Documents

(a) Financial Statements: The response to this item is submitted as a separate section of this Annual Report.

(b) Exhibits Filed: Exhibit A - Computation of earnings per share.

(c) Basic Documents:

(1) Articles of Incorporation of Diversified Retailing

Company, Inc. dated as at January 24, 1966 - Filed as an Exhibit to the Form S-1 Registration Statement of the Company under the Securities Act of 1933 (the "Registration Statement"). The Registration Statement, respecting $6,600,000, 8% Debentures due November 1, 1985, with Participating Additional Interest, was filed with the Securities and Exchange Commission on October 12, 1967 and became effective on December 18, 1967.

(2) Articles of Amendment of Diversified Retailing Company, Inc. dated as at October 11, 1967 - Filed as an Exhibit to the Registration Statement.

(3) Articles of Amendment of Diversified Retailing Company, Inc., dated as at December 8, 1967 - Filed as an Exhibit to the Registration Statement.

(4) Articles of Amendment of Diversified Retailing Company, Inc., dated as at December 9, 1969 - Filed as an Exhibit to the Form 10-K of the Company for its fiscal year ended as at January 31, 1970 under the Securities Exchange Act of 1934.

(5) By-Laws of Diversified Retailing Company, Inc. - Filed as an Exhibit to the Registration Statement.

The Annual Report of the Company of its 1970 fiscal year will be mailed to the stockholder's thereof in the near future.

PART II

Item 11. Principal Security Holders and Security Holdings of Management

Principal Security Holders

| Name and Address | Title of Class | Type of Ownership | Number of Shares Owned (1) | Percent of Class |
|---|---|---|---|---|
| Warren E. Buffett<br>5505 Farnan Street<br>Omaha, Nebraska | Common | Record and Beneficial | 368,256 (2) | 36.83% |
| First Manhattan Co.<br>30 Wall Street<br>New York, New York | Common | Record and Beneficial | 80,822-1/3 (3) | 8.08% |
| | | Record only | 19,177-2/3 (4) | 1.92% |
| Wheeler, Munger & Co.<br>618 South Spring Street<br>Los Angeles, California | Common | Record and Beneficial | 100,000 (5) | 10.00% |

Notes:

(1) As at January 30, 1971.

(2) Does not include (a) 29,673 shares of common stock held by a member of Mr. Buffett's immediate family; (b) 3,732 shares of common stock held by a trust under the will of Howard H. Buffett, deceased, of which Mr. Buffett is trustee; (c) 552 shares of common stock held in equal amounts by three trusts, each for the benefit of a member of Mr. Buffett's family, of which he is a co-trustee; (d) 2,304 shares of common stock held in three equal amounts by Mrs. Doris B. Lear, a sister of Mr. Buffett, as Custodian under the Nebraska Uniform Guardian for Minor's Act, each for the benefit of a member of Mr. Buffett's family; nor, (e) 429 shares of common stock held in equal amounts by three trusts, of which Mr. Buffett is a co-trustee, and in which beneficial ownership is disclaimed by him.

(3) Mr. David S. Gottesman, a Director and Vice-President of the Company, as a general partner of First Manhattan Co., possessed an interest in said 80,822-1/3 shares.

(4) Mr. David S. Gottesman, a Director and Vice-President of the Company, beneficially owned 5,653 shares of said 19,177-2/3 shares. An additional 1,200 shares of said 19,177-2/3 shares is held in trust for the benefit of members of Mr. Gottesman's immediate family; Mr. Gottesman disclaims beneficial ownership in said trust.

(5) Mr. Charles T. Munger, a Director and Vice-President of the Company, as a general partner of Wheeler, Munger & Co., possessed an interest in said 100,000 shares.

Security Holdings of Management

| | Title of Class | Number of Shares Beneficially Owned (6) | Per Cent of Class |
|---|---|---|---|
| All Officers and Directors as a Group | Common | 374,256 (7) | [illegible] |

Notes:

(6) As at January 30, 1971.

(7) Note (2) to "Item 11, Principal Security Holders and Security Holdings of Management" is incorporated by reference herein. In addition, said 374,256 shares does not include: the interest of Mr. Gottesman, as a general partner of First Manhattan Co., in 80,822-1/3 shares owned of record and beneficially by said Company (see Note (3) to "Item 11. Principal Security Holders and Security Holdings of Management."); 1,200 shares of 19,177-2/3 shares owned of record only by First Manhattan Co., which 1,200 shares are held in trust for the benefit of members of Mr. Gottesman's immediate family, and in which trust Mr. Gottesman disclaims beneficial ownership (see Note (4) to "Item 11. Principal Security Holders and Security Holdings of Management."); and the interest of Mr. Charles T. Munger, as a general partner of Wheeler, Munger & Co., in 100,000 shares owned of record and beneficially by said Company. (See Note (5) to "Item 11. Principal Security Holders and Security Holdings of Management.")

Item 12. Directors of Registrant

Mr. Warren E. Buffett is Chairman of the Board of Directors of the Company, and has held said office since the Company's organization in 1966. Since January 1, 1970, Mr. Buffett's principal occupation has consisted of making personal investments; during the four years prior thereto, his principal occupation was that of general partner of Buffett Partnership, Ltd. Mr. Buffett is and since April 2[illegible], 1970, has been Chairman of the Board of Directors of Associated Retail Stores, Inc. (formerly Associated Cotton Shops, Inc.), a wholly-owned subsidiary of the Company which retails popular priced women's and children's apparel. (See "Associated Retail Stores, Inc." under "Item 1. Business.") He is and has been Chairman of the Board of Directors, President and Treasurer of Reinsurance Corp. of Nebraska, a wholly-owned subsidiary of the Company that is engaged in the business of accepting portions of reinsurance contracts (See "Reinsurance Corp. of Nebraska", under "Item 1. Business"), since its organization in 1970. Mr. Buffett is and since 1970, has been Chairman of the Board of Directors of Berkshire Hathaway Inc., a corporation engaged principally, and through its subsidiaries, in the business of textile manufacturing, fire and casualty insurance and banking.

Mr. David S. Gottesman, a Director and Vice-President of the Company, is and during the past five years has been a general partner of First Manhattan Co., a broker-dealer firm and a member of the New York Stock Exchange.

Mr. Charles T. Munger, a Director and Vice-President of the Company, is and has been a general partner of Wheeler, Munger & Co., a broker-dealer firm and a member of the Pacific Coast Stock Exchange.

Mr. Charles F. Heider, a Director of the Company, is presently President of Chiles, Heider & Co., a broker-dealer firm and a member of the Midwest Stock Exchange. From 1966 to 1970, Mr. Heider was Executive Vice-President of First Mid America Inc., a broker-dealer firm and a member of the New York Stock Exchange.

Mr. Robert M. Goldman, a Director and President of the Company, is and has been a partner of the Maryland law firm of Frank, Bernstein, Conaway & Goldman since July 1, 1966, on which date the Maryland law firm of Nyburg, Goldman and Walter, of which Mr. Goldman had been a partner for more than fifteen years, merged into the firm of which he is presently a partner.

Directors of the Company are elected annually on the first Tuesday in February.

Item 13. Remuneration of Directors and Officers

| Name of Individual or Number of Persons in Group | Capacities in Which Remuneration Was Received | Aggregate Direct Remuneration(1) |
|---|---|---|
| Larry C. Cummings | Treasurer of Company | $500 |
| All Seven (7) Officers and Directors, as a Group | | $500 |

Note: (1) Does not include legal fees of $8,450 which the Company has agreed, in due course, to pay to the law firm in which Messrs. Goldman and Shapiro are partners, for services rendered to the Company for the period ending November 30, 1970.

Item 14. Options Granted to Management to Purchase Securities

None

Item 15. Interest of Management and Others in Certain Transactions

During the Company's last fiscal year, Associated made purchases of securities of publicly-held companies traded on the American Stock Exchange or in the over-the-counter market. A number of said purchases involved transactions aggregating $1,067,278 which were made through First Manhattan Co., of which Mr. David S. Gottesman is a general partner, acting as broker for Associated. Commissions charged by First Manhattan Co., in connection with said purchases, were at not more than the prevailing New York and American Stock Exchange rates and totaled $17,418.

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

DIVERSIFIED RETAILING COMPANY, INC.

By: /s/ Robert M. Goldman
Robert M. Goldman, President

Dated: April 29, 1971

ANNUAL REPORT ON FORM 10-K

FINANCIAL STATEMENTS AND SCHEDULES

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971 and January 31, 1970

The following financial statements and schedules of the registrant and its subsidiary for the fiscal years 1971 and 1970 are submitted herewith:

Consolidated:
- Consolidated Balance Sheet
- Statement of Consolidated Earnings
- Statement of Consolidated Earnings Retained in the Business
- Statement of Consolidated Source and Application of Funds
- Notes to Consolidated Financial Statements

Parent Company only:
- Balance Sheet
- Statement of Earnings
- Statement of Earnings Retained in the Business
- Statement of Source and Application of Funds
- Notes to Financial Statements

Schedule I - Short Term Commercial Paper, Marketable Securities and Other Security Investments
Schedule III - Investments in Securities of Affiliates
Schedule V - Property, Plant and Equipment
Schedule VI - Reserves for Depreciation and Amortization of Property, Plant and Equipment
Schedule XVI - Supplementary Profit and Loss Information

All other schedules (Nos. II, IV, VII, VIII, IX, X, XI, XII, XIII, XIV, XV, and XVII) for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted. With respect to Schedule XIII, the information applicable to the consolidated subsidiaries has been omitted as they are wholly owned and the answers to Columns G and H would be "none".

The following financial statements and schedules of the unconsolidated insurance subsidiary for the year 1970 are submitted herewith:

- Balance Sheet
- Statement of Operations
- Statement of Capital Stock and Surplus
- Statement of Source and Application of Funds
- Notes to Financial Statements

Schedule I - Bonds
Schedule II - Stocks - Other Than Stocks of Affiliates
Schedule V - Summary of Investments in Securities - Other Than Securities of Affiliates
Schedule VII - Premiums, Losses and Underwriting Expenses

All other schedules (Nos. III, IV, VI, IX, X, XI) for which provision is made in the applicable regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted. The information required in Schedule VIII is included in the notes to the financial statements of the insurance subsidiary.

ERNST & ERNST

ONE NORTH CHARLES

BALTIMORE, MARYLAND
21201

Board of Directors
Diversified Retailing Company, Inc.
Baltimore, Maryland

We have examined the balance sheets of Diversified Retailing Company, Inc. and of Diversified Retailing Company, Inc. and subsidiary as of January 31, 1970 and January 30, 1971 and the related statements of earnings, earnings retained in the business and source and application of funds for the two years then ended and the related schedules listed in the accompanying index. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the consolidated subsidiary (Associated Retail Stores, Inc.), representing approximately 95% and 98% of the consolidated assets and 16% and 20% of the consolidated liabilities as of January 30, 1971 and January 31, 1970, respectively, and 91% and 84% of the earnings before extraordinary item for the respective fiscal years then ended, which statements were examined by other independent accountants whose reports thereon have been furnished to us.

In our opinion, based upon our examination and the aforementioned reports of other independent accountants, the accompanying balance sheets and related statements of earnings, earnings retained in the business and source and application of funds of Diversified Retailing Company, Inc. and of Diversified Retailing Company, Inc. and subsidiary present fairly the financial position of Diversified Retailing Company, Inc. and the consolidated financial position of Diversified Retailing Company, Inc. and subsidiary at January 31, 1970 and January 30, 1971, and the respective results of their operations and source and application of funds for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules submitted herewith, in compliance with applicable accounting regulations of the Securities and Exchange Commission, present fairly the information required to be stated therein.

ERNST & ERNST

Baltimore, Maryland
April 6, 1971

EISNER & LUBIN
CERTIFIED PUBLIC ACCOUNTANTS

250 PARK AVENUE
NEW YORK, N.Y. 10017

6380 WILSHIRE BLVD.
LOS ANGELES, CAL. 90048

To the Board of Directors
Associated Retail Stores, Inc.:

We have examined the consolidated balance sheet of ASSOCIATED RETAIL STORES, INC. and Consolidated Subsidiaries as at January 30, 1971 and January 31, 1970 and the related consolidated statements of operations and retained earnings and sources and disposition of working capital for the two fiscal years (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We did not examine the financial statements of the unconsolidated subsidiary (Note B); such statements were examined by other certified public accountants whose report thereon was furnished to us. The investment in this subsidiary aggregated 17.5% of consolidated assets at January 30, 1971.

In our opinion, based upon our examination and upon the aforementioned report of the other certified public accountants, the consolidated statements mentioned above, which do not appear separately in the Form 10-K of Diversified Retailing Company, Inc., present fairly the consolidated financial position of Associated Retail Stores, Inc. and Consolidated Subsidiaries at January 30,1971 and January 31, 1970 and the consolidated operating results and sources and disposition of working capital for the two fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the related Schedules I, III, V, VI and XVI of Associated Retail Stores, Inc. and Consolidated Subsidiaries. In our opinion, such schedules, which do not appear separately in the Form 10-K, present fairly the information required to be set forth therein.

/s/ - EISNER & LUBIN
CERTIFIED PUBLIC ACCOUNTANTS

March 24, 1971
New York, New York

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Reinsurance Corp. of Nebraska:

We have examined the statutory financial statements and related schedules of Reinsurance Corp. of Nebraska as listed in the accompanying index. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the statutory financial position of Reinsurance Corp. of Nebraska at December 31, 1970 and the loss and changes in capital stock and surplus for the period then ended, in conformity with insurance accounting principles prescribed or permitted under statutory authority. These principles vary in some respects from generally accepted accounting principles, as explained in note 1 to the financial statements. And, in our opinion, the statement of source and application of funds and the supplemental schedules present fairly the information set forth therein. Also, in our opinion, the adjusted income and stockholder's equity, as presented in note 1 to the financial statements, present fairly net income for the period ended December 31, 1970 and the stockholder's equity at that date in conformity with generally accepted accounting principles.

PEAT, MARWICK, MITCHELL & CO.

Omaha, Nebraska
March 2, 1971

CONSOLIDATED BALANCE SHEET

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| | January 30, 1971 | January 31, 1970 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | $ 2,934,492 | $ 2,683,606 |
| Short-term commercial paper | -0- | 1,493,059 |
| Note receivable - Note A | -0- | 2,000,000 |
| Marketable securities - at cost (market value: 1971 - $145,000; 1970 - $1,818,000) - Note L | 141,000 | 1,849,204 |
| Accounts receivable | 237,790 | 224,573 |
| Merchandise inventories - Note B | 3,817,530 | 3,957,864 |
| Prepaid expenses | 135,328 | 74,453 |
| TOTAL CURRENT ASSETS | 7,266,140 | 12,282,759 |
| INVESTMENTS AND OTHER ASSETS | | |
| Investment in unconsolidated subsidiary - Notes A and D | 3,877,028 | -0- |
| Note receivable - Notes A and C | -0- | 4,540,000 |
| Investment in affiliated companies - Notes D and L | 5,964,085 | -0- |
| Other security investments - Notes D and L | 3,715,189 | 1,773,000 |
| Other assets | 698,739 | 843,122 |
| | 14,255,041 | 7,156,122 |
| PROPERTY, PLANT AND EQUIPMENT - at cost, less allowance for depreciation and amortization of $1,185,656 and $1,056,237 - Notes E and M | 1,909,246 | 1,831,971 |
| | $23,430,427 | $21,270,852 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Trade and sundry accounts payable | $ 956,574 | $ 806,961 |
| Salaries, wages and bonuses | 159,683 | 166,064 |
| Taxes on income | 410,947 | 767,565 |
| Current portion of long-term debt | 169,987 | 61,122 |
| TOTAL CURRENT LIABILITIES | 1,697,191 | 1,801,712 |
| LONG-TERM DEBT - less current maturities - Note F | 7,437,306 | 6,763,659 |
| DEFERRED CREDIT - Unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A | 819,575 | 950,704 |
| STOCKHOLDERS' EQUITY - Note K | | |
| Common Stock - voting, par value: $.0003 Authorized: 3,333,333-1/3 shares Issued and outstanding: 1,000,000 shares | 300 | 300 |
| Additional paid-in capital | 5,999,700 | 5,999,700 |
| Earnings retained in the business | 7,476,355 | 5,754,777 |
| | 13,476,355 | 11,754,777 |
| COMMITMENTS AND CONTINGENT LIABILITIES - Notes G, H and I | | |
| | $23,430,427 | $21,270,852 |

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| | Fiscal year ended January 30, 1971 (52 weeks) | Fiscal year ended January 31, 1970 (52 weeks) |
|---|---|---|
| Net sales (including leased department sales) | $39,832,326 | $39,113,228 |
| Cost of goods sold | 26,443,983 | 26,442,730 |
| | 13,388,343 | 12,670,498 |
| Selling, general and administrative expenses | 10,825,060 | 10,228,832 |
| | 2,563,283 | 2,441,666 |
| Other income and (deductions): | | |
| Amortization of excess of net assets of subsidiaries over acquisition cost | 131,130 | 131,130* |
| Dividends | 153,041 | -0- |
| Interest and financing cost | ( 646,908) | ( 565,090) |
| Interest income | 229,979 | 148,984 |
| Miscellaneous | 114,022 | 163,125 |
| EARNINGS OF CONTINUING OPERATIONS BEFORE TAXES ON INCOME, EXTRAORDINARY ITEM AND EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY | 2,544,547 | 2,319,815 |
| Taxes on income applicable to continuing operations: | | |
| Federal | 911,309 | 994,700 |
| State and local | 320,000 | 306,500 |
| | 1,231,309 | 1,301,200 |
| EARNINGS OF CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM AND EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY | 1,313,238 | 1,018,615 |
| Earnings related to discontinued operations, less applicable taxes (1970 - $110,000) - Note A | -0- | 403,035* |
| EARNINGS BEFORE EXTRAORDINARY ITEM AND EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY | 1,313,238 | 1,421,650 |
| Extraordinary item - loss on sale of subsidiary including $83,000 of income taxes on taxable gain - Note A | -0- | 1,318,979 |
| EARNINGS BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY | 1,313,238 | 102,671 |
| Equity in adjusted net earnings of unconsolidated subsidiary | 24,204 | -0- |
| NET EARNINGS | $ 1,337,442 | $ 102,671 |
| Earnings per share: | | |
| Earnings of continuing operations before extraordinary item and equity in earnings of unconsolidated subsidiary | $ 1.31 | $ 1.02 |
| Earnings related to discontinued operations, less applicable taxes | -0- | .40 |
| Extraordinary loss | -0- | ( 1.32) |
| Equity in earnings of unconsolidated subsidiary | .03 | -0- |
| Net earnings | 1.34 | .10 |

* Amortization of $299,035 excess of net assets over acquisition cost of subsidiary sold during the year ended January 31, 1970 has been reclassified to earnings related to discontinued operations.

See notes to consolidated financial statements.

## STATEMENT OF CONSOLIDATED EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| | Fiscal year ended | |
|---|---|---|
| | January 30, 1971 | January 31, 1970 |
| Balance at beginning of year | $5,754,777 | $5,652,106 |
| Net earnings for the year | 1,337,442 | 102,671 |
| Equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary, less provision for income taxes - Note A | 384,136 | -0- |
| BALANCE AT END OF YEAR - Note B | $7,476,355 | $5,754,777 |

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See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| | Fiscal year ended January 30, 1971 | Fiscal year ended January 31, 1970 |
|---|---|---|
| Application of funds: | | |
| Investment in affiliated companies | $ 5,964,085 | $ -0- |
| Investment in unconsolidated subsidiary | 3,492,892 | -0- |
| Increase in other security investments and other assets | 1,797,805 | 2,410,354 |
| Additions in property, plant and equipment | 269,407 | 216,145 |
| Reduction in long-term debt | 163,659 | 61,122 |
| Resulting from sale of subsidiary | -0- | 5,807,694 |
| | 11,687,848 | 8,495,315 |
| Source of funds: | | |
| From operations: | | |
| Net earnings for the year | 1,337,442 | 102,671 |
| Provision for depreciation | 169,806 | 165,270 |
| Amortization of excess of carrying amount of net assets of subsidiary over acquisition cost | ( 131,130) | ( 131,130) |
| Loss on sale of subsidiary - net | -0- | 1,318,979 |
| TOTAL FROM OPERATIONS | 1,376,118 | 1,455,790 |
| Decrease in long-term note receivable | 4,540,000 | -0- |
| Proceeds from long-term borrowing | 837,306 | -0- |
| Deductions in property, plant and equipment | 22,326 | 134,275 |
| | 6,775,750 | 1,590,065 |
| DECREASE IN WORKING CAPITAL | $ 4,912,098 | $6,905,250 |
| Decreases in working capital: | | |
| Decrease (increase) in notes receivable | $2,000,000 | ($ 2,000,000) |
| Decrease (increase) in marketable securities | 1,708,204 | ( 1,849,204) |
| Decrease (increase) in short-term commercial paper | 1,493,059 | ( 1,493,059) |
| Increase (decrease) in accounts payable | 149,613 | ( 3,491,390) |
| Decrease in inventory | 140,334 | 6,094,444 |
| Increase (decrease) in current portion of long-term debt | 108,865 | ( 185,200) |
| | 5,600,075 | ( 2,924,409) |
| Increases in working capital: | | |
| Decrease in taxes on income | 356,618 | 599,572 |
| Increase in cash | 250,886 | 428,555 |
| Increase (decrease) in prepaid expenses | 60,875 | ( 572,315) |
| Increase (decrease) in accounts receivable | 13,217 | ( 10,945,216) |
| Decrease in salaries, wages and bonuses | 6,381 | 259,745 |
| Decrease in note payable | -0- | 400,000 |
| | 687,977 | ( 9,829,659) |
| NET CHANGE | $4,912,098 | $ 6,905,250 |

( ) indicate red figure.

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See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971 and January 31, 1970

Note A - Principles of Consolidation

As at December 1, 1969, the Company sold 40,000 shares of the common stock, comprising all of the then issued and outstanding securities of Hochschild, Kohn & Co., Incorporated, one of its two wholly-owned subsidiaries, for $7,085,205. As at December 1, 1969, but prior to said sale, Hochschild, Kohn & Co., Incorporated redeemed from the Company 6,750 shares of its common stock and 20,000 shares of its convertible first preferred stock for the aggregate amount of $4,500,000. The proceeds from said sale and said redemption totaled $11,585,205. From said proceeds, capital contributions, comprising cash of $4,710,732 and non-interest bearing notes of a third party in the respective amounts of $2,000,000, collected February 1, 1970, and $4,540,000, collected on February 1, 1971, were made by the Company to Associated Retail Stores, Inc. The operations of Hochschild, Kohn & Co., Incorporated for the ten months ended December 1, 1969 are included as earnings related to discontinued operations in the statement of earnings. The loss on the sale of Hochschild, Kohn & Co., Incorporated is included as an extraordinary item in the statement of earnings.

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Associated Retail Stores, Inc. At the date of acquisition of Associated by the Company, the carrying amount of the net assets of said subsidiary was in excess of the investment of Diversified in the amount of $1,311,309; this excess is being amortized over a ten-year period and is shown in the balance sheet net of accumulated amortization. Intercompany accounts and transactions have been eliminated in consolidation.

As at March 3, 1970, Associated purchased for $500,000 cash all of the authorized capital stock of a newly-organized company, Reinsurance Corp. of Nebraska, incorporated under the laws of the State of Nebraska to transact the business of insurance, with the exceptions of life and title insurance. In addition, Associated contributed capital to this subsidiary consisting of $2,000,000 in cash and marketable securities with a cost basis of $968,688.

The financial statements reflect the investment of this unconsolidated subsidiary on the equity method, which includes unrealized appreciation of marketable securities held in the amount of $384,136, net of applicable income taxes, which is shown as a direct credit to earnings retained in the business in accordance with general practice in the insurance industry. However, management can give no assurance that all or any of such unrealized appreciation will be realized upon the sale of such securities.

The difference between statutory stockholder's equity of this unconsolidated insurance subsidiary and Associated's equity in the investment (as reflected in the accompanying balance sheet) is reconciled as follows:

| | |
|---|---|
| Statutory basis stockholder's equity as at December 31, 1970 | $3,979,531 |
| Additions: | |
| Equity in unearned premium reserve | 52,089 |
| Excess of statutory reserves over cost basis | 33 |
| | 4,031,653 |
| Less provision for income taxes on unrealized appreciation of marketable securities | 154,625 |
| ADJUSTED STOCKHOLDER'S EQUITY AS AT DECEMBER 31, 1970 | $3,877,028 |

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971 and January 31, 1970

Note B - Merchandise Inventories

Inventories, as determined generally according to the retail inventory method, were priced at the lower of cost (first-in, first-out) or market.

Inventories used in the computation of cost of goods sold were as follows:

| | |
|---|---|
| February 1, 1969 | $3,548,815 |
| January 31, 1970 | 3,957,864 |
| January 30, 1971 | 3,817,530 |

Note C - Note Receivable

In December 1970, the note receivable of $4,540,000 was pledged as collateral for a note payable to a bank in the same amount. The note payable was paid on February 1, 1971 from the proceeds of the note receivable. The receipt of the proceeds of the note receivable and the payment of the note payable are reflected in the accompanying financial statements as of January 30, 1971.

Note D - Investment in Affiliated Companies and Other Security Investments

The Company, its subsidiaries and certain related persons own, in the aggregate, more than 10% of the outstanding common stock of two affiliated companies and of one other company included in other security investments. Said common stock on the books of the Company and its consolidated subsidiary is carried at a total cost basis of $8,850,082 which is included in investment in affiliated companies and other security investments in the accompanying balance sheet in the total amount of $9,679,274. The unconsolidated insurance subsidiary also owns common stock in said two affiliated companies which is carried at an admitted asset value (market value) of $2,411,800. Although disposition of all or any lesser amount of said common stock is subject to certain restrictions, the aggregate quoted market value of an equivalent number of unrestricted shares at January 30, 1971 exceeds cost.

Note E - Property, Plant and Equipment

Depreciation is computed on the straight-line method except for buildings where the 150% declining-balance method is used. Depreciation and amortization of property, plant and equipment charged to earnings of continuing operations for 1971 and 1970 was $169,806 and $165,270, respectively.

Note F - Long-Term Debt

| | January 30, 1971 | January 31, 1970 |
|---|---|---|
| 8% Debentures | $6,600,000 | $6,600,000 |
| 9% Notes payable | 841,042 | -0- |
| 4% Mortgage payable | 166,251 | 224,781 |
| | 7,607,293 | 6,824,781 |
| Less current portion | 169,987 | 61,122 |
| | $7,437,306 | $6,763,659 |

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971 and January 31, 1970

Note F - (Cont'd) The 8% Debentures issued by the Company pursuant to a Trust Indenture dated as of November 1, 1967 (the "Debentures") are due on November 1, 1985. The aggregate principal amount of the Debentures is unlimited. The Debentures bear interest at a fixed annual rate of 8% payable semi-annually until maturity, and bear participating additional interest each year up to a maximum of 1% contingent upon the amount of adjusted consolidated earnings before income taxes for the previous fiscal year of the Company.

The Debentures are subject to redemption at the option of the Company at 106-1/2% of the principal amount of each such Debenture to October 31, 1971 and at reduced percentages of the principal amount of each such Debenture thereafter. The Debentures are also subject to redemption at par plus accrued fixed and participating additional interest through operation of a contingent sinking fund. Sinking fund payments on anniversary dates are contingent upon the amount of adjusted consolidated net worth at preceding fiscal year end. No payment will be required at October 28, 1971. The Debentures are further subject to redemption at the option of each Debenture holder, exercisable within sixty days following notice that, other than by reason of the death of Warren E. Buffett, said Warren E. Buffett or an organization controlled by him, shall cease to own in combined holdings, a larger block of shares with voting rights of the Company than any other stockholder, or combination of stockholders, controlled by a single individual.

The Articles of Incorporation of the Company, as amended, provide that the holders of the Debentures, upon the happening of certain events, shall be entitled to vote upon certain matters to the exclusion of all holders of the common stock of the Company.

The Trust Indenture covering the Debentures contains certain restrictions applicable to the Company relating to net worth, redemption of stock and payment of dividends. At January 30, 1971, earnings retained in the business were not subject to such restrictions.

Under the 4% mortgage, land and building of the subsidiary, Associated, have been collateralized. Payments are due in monthly installments of $5,750 including interest to January 1972.

Notes payable were issued during the year in exchange for common stock of an affiliated company. These notes become due at varying dates from January 4, 1977 to January 4, 1988 and bear interest at a fixed annual rate of 9% payable semi-annually. The notes are also due on the respective payees' demand on or after the expiration of twelve months following the date of death of Warren E. Buffett.

Note G - Leases

Associated has entered into leases covering 72 stores and its New York offices. The leases expire at various dates through 1986 and, with respect to 58 stores and the New York offices, provide for basic annual rentals of approximately $1,435,000. Rentals for the remaining 14 stores are based primarily on a percentage of sales. Certain leases provide for additional rent based on sales volume and for payment of real estate taxes and other expenses.

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971 and January 31, 1970

Note H - Pension Plan

Associated has a non-contributory pension plan covering eligible full-time employees. The total pension expense for the years ended January 30, 1971 and January 31, 1970 was $65,000 and $61,000, respectively, which includes amortization of past-service liability of $234,000 over a thirty-year period. Associated's policy is to fund pension cost accrued. Participants do not have a vested interest in the plan.

Note I - Litigation

Associated is a defendant in a suit claiming punitive damages of $1,000,000 and damages for personal injury in the amount of $10,000. The insurance carrier is defending this action but has notified the Company that it (the insurance carrier) has no liability for punitive damages. In the opinion of the counsel for Associated in connection with said litigation, recovery by the plaintiff of punitive damages is remote.

Note J - Condemnation Proceedings

Associated has been notified that the premises occupied by one of its principal stores are subject to condemnation by the municipality in which it is located. Management is contesting and intends to continue to contest such proceedings. (See "Item 5, Pending Legal Proceedings.")

Note K - Capital Changes

There were no changes in the capital stock and additional paid-in capital accounts during the years ended January 30, 1971 and January 31, 1970.

Note L - Interest of Management and Others in Certain Transactions

As disclosed in Item 15, Interest of Management and Others in Certain Transactions, certain stock included in marketable securities, investments in affiliated companies and other security investments was purchased either from or through related parties.

Note M - Supplemental Note - Depreciation Policy

Provision for depreciation is made by charges to earnings at rates based upon the estimated useful life of each class of property. Improvements to leased properties are amortized over the terms of the leases or the estimated useful lives of the assets, whichever is shorter. Generally, the estimated useful lives range from 14 to 33 years for buildings, 4 to 10 years for fixtures and equipment and the life of the lease for leasehold improvements.

Expenditures for maintenance and repairs are charged directly to earnings, those for betterment and major renewals are capitalized. The cost of assets retired or otherwise disposed of and the related allowances for depreciation have been eliminated from the accounts. Gains or losses on disposals have been credited or charged to earnings.

BALANCE SHEET

DIVERSIFIED RETAILING COMPANY, INC.

| | January 30 1971 | January 31, 1970 |
|---|---|---|
| ASSETS | | |
| Cash | $ 690 | $ 4,073 |
| Due from subsidiary | 20,000 | -0- |
| Recoverable federal income taxes resulting from overpayment of estimated tax | -0- | 58,157 |
| Investment in affiliated company - Notes B and C | 846,596 | -0- |
| Equity in net assets of subsidiary - Note A | 20,603,896 | 18,930,811 |
| Unamortized cost of long-term financing | 416,487 | 444,440 |
| | $21,887,669 | $19,437,481 |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 150,697 | $ 132,000 |
| 8% Debentures - Note B | 6,600,000 | 6,600,000 |
| 9% Notes payable - Note B | 841,042 | -0- |
| Unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A | 819,575 | 950,704 |
| Stockholders' equity - Note E | | |
| Common Stock - voting, par value $.0003 Authorized: 3,333,333-1/3 shares Issued and outstanding: 1,000,000 shares | 300 | 300 |
| Additional paid-in capital | 5,999,700 | 5,999,700 |
| Earnings retained in the business, of which $1,935,506 and $262,420 represents equity in undistributed earnings and unrealized appreciation of marketable securities of subsidiary - Note B | 7,476,355 | 5,754,777 |
| | 13,476,355 | 11,754,777 |
| | $21,887,669 | $19,437,481 |

See notes to financial statements.

STATEMENT OF EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

| | Fiscal year ended January 30, 1971 (52 weeks) | Fiscal year ended January 31, 1970 (52 weeks) |
|---|---|---|
| Income: | | |
| Dividends | $ 172.883 | $ 95,000 |
| Amortization of excess of net assets of subsidiaries over acquisition cost | 131,130 | 131,130 * |
| | 304,013 | 226,130 |
| Expenses: | | |
| General and administrative expenses | 23,297 | 9,766 |
| Interest and financing costs | 565,914 | 552,675 |
| | 589,211 | 562,441 |
| LOSS BEFORE TAXES ON INCOME AND EXTRAORDINARY ITEM | ( 285,198) | ( 336,311) |
| Federal income taxes: | | |
| Income-tax credit - Note D | ( 289,000) | ( 296,981) |
| (Over)/under provision prior years' income taxes | ( 44,691) | 35,181 |
| | ( 333,691) | ( 261,800) |
| EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEM | 48,493 | ( 74,511) |
| Extraordinary item - loss on sale of subsidiary, including $83,000 of income taxes on taxable gain - Note A | -0- | 1,318,979 |
| EARNINGS (LOSS) OF THE COMPANY | 48,493 | ( 1,393,490) |
| Equity of Company in undistributed net earnings of subsidiaries (dividends received from the subsidiaries are included above) | 1,288,949 | 1,496,161 * |
| NET EARNINGS OF THE COMPANY AND SUBSIDIARIES ON A CONSOLIDATED BASIS | $1,337,442 | $ 102,671 |
| Earnings per share: | | |
| Earnings (loss) before extraordinary item | $ .05 | ($ .07) |
| Extraordinary loss | .00 | ( 1.32) |
| Equity of Company in undistributed net earnings of subsidiaries | 1.29 | 1.49 |
| Net earnings of the Company and subsidiaries on a consolidated basis | 1.34 | .10 |

* Amortization of $299,035 excess of net assets over acquisition cost of subsidiary sold during the year ended January 31, 1970 has been reclassified to equity of Company in undistributed net earnings of subsidiaries.

( ) indicate red figure.

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See notes to financial statements.

STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

| | Fiscal year ended January 30, 1971 | Fiscal year ended January 31, 1970 |
|---|---|---|
| Balance at beginning of year | $5,754,777 | $5,652,106 |
| Net earnings of the Company and subsidiary on a consolidated basis for the year | 1,337,442 | 102,671 |
| Equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes | 384,136 | -0- |
| BALANCE AT END OF YEAR - Note B | $7,476,355 | $5,754,777 |

See notes to financial statements.

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

DIVERSIFIED RETAILING COMPANY, INC.

| | Fiscal year ended January 30, 1971 | Fiscal year ended January 31, 1970 |
|---|---|---|
| Application of funds: | | |
| Increase in equity in net assets of subsidiary and other assets | $1,289,680 | $1,165,912 |
| Investment in affiliated company | 846,596 | -0- |
| Resulting from sale of subsidiary | -0- | 113,777 |
| | 2,136,276 | 1,279,689 |
| Source of funds: | | |
| From operations: | | |
| Net earnings for the year | 1,337,442 | 102,671 |
| Amortization of excess of carrying amount of net assets of subsidiary over acquisition cost | ( 131,130) | ( 131,130) |
| Amortization of long-term financing costs | 28,685 | 28,685 |
| Loss on sale of subsidiary - net | -0- | 1,318,979 |
| TOTAL FROM OPERATIONS | 1,234,997 | 1,319,205 |
| Proceeds from long-term borrowing | 841,042 | -0- |
| | 2,076,039 | 1,319,205 |
| DECREASE (INCREASE) IN WORKING CAPITAL | $ 60,237 | ($ 39,516) |

Changes in the components of working capital are summarized as follows:

| | Fiscal year ended January 30, 1971 | Fiscal year ended January 31, 1970 |
|---|---|---|
| Decreases in working capital: | | |
| Decrease in recoverable federal income taxes resulting from overpayment of estimated tax | $58,157 | $ 65,297 |
| Increase (decrease) in accounts payable and accrued expenses | 18,697 | ( 214,000) |
| Decrease in cash | 3,383 | 91,274 |
| | 80,237 | ( 57,429) |
| Increases in working capital: | | |
| Increase (decrease) in due from subsidiary | 20,000 | ( 198,000) |
| Decrease in due to subsidiary | -0- | 180,087 |
| | 20,000 | ( 17,913) |
| NET CHANGE | $60,237 | ($ 39,516) |

( ) indicate red figure.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

January 30, 1971 and January 31, 1970

Note A - As at December 1, 1969, the Company sold 40,000 shares of the common stock, comprising all of the then issued and outstanding securities of Hochschild, Kohn & Co., Incorporated, one of its two wholly-owned subsidiaries, for $7,085,205. As at December 1, 1969, but prior to said sale, Hochschild, Kohn & Co., Incorporated redeemed from the Company 6,750 shares of its common stock and 20,000 shares of its convertible first preferred stock for the aggregate amount of $4,500,000. The proceeds from said sale and said redemption totaled $11,585,205. From said proceeds, capital contributions, comprising cash of $4,710,732 and non-interest bearing notes of a third party in the respective amounts of $2,000,000, collected February 1, 1970, and $4,540,000, collected on February 1, 1971, were made by the Company to Associated Retail Stores, Inc. The loss on the sale of Hochschild, Kohn & Co., Incorporated is included as an extraordinary item in the statement of earnings.

The investment in the Company's wholly-owned subsidiary, Associated Retail Stores, Inc., is being carried on the basis of the equity in its net assets. At the date of acquisition of said subsidiary, the carrying amount of the net assets of the subsidiary was in excess of the investment of Diversified in the amount of $1,311,309; this excess is being amortized over a ten-year period and is shown in the balance sheet net of accumulated amortization.

Note B - The 8% Debentures issued by the Company pursuant to a Trust Indenture dated as of November 1, 1967 (the "Debentures") are due on November 1, 1985. The aggregate principal amount of the Debentures is unlimited. The Debentures bear interest at a fixed annual rate of 8% payable semi-annually until maturity, and bear participating additional interest each year up to a maximum of 1% contingent upon the amount of adjusted consolidated earnings before income taxes for the previous fiscal year of the Company.

The Debentures are subject to redemption at the option of the Company at 106-1/2% of the principal amount of each such Debenture to October 31, 1971 and at reduced percentages of the principal amount of each such Debenture thereafter. The Debentures are also subject to redemption at par plus accrued fixed and participating additional interest through operation of a contingent sinking fund. Sinking fund payments on anniversary dates are contingent upon the amount of adjusted consolidated net worth at preceding fiscal year end. No payment will be required at October 28, 1971. The Debentures are further subject to redemption at the option of each Debenture holder, exercisable within sixty days following notice that, other than by reason of the death of Warren E. Buffett, said Warren E. Buffett or an organization controlled by him, shall cease to own in combined holdings, a larger block of shares with voting rights of the Company than any other stockholder, or combination of stockholders, controlled by a single individual.

The Articles of Incorporation of the Company, as amended, provide that the holders of the Debentures, upon the happening of certain events, shall be entitled to vote upon certain matters to the exclusion of all holders of the common stock of the Company.

The Trust Indenture covering the Debentures contains certain restrictions relating to net worth, redemption of stock and payment of dividends. At January 30, 1971, earnings retained in the business were not subject to such restrictions.

Notes payable were issued during the year in exchange for common stock of an affiliated company. These notes become due at varying dates from January 4, 1977 to January 4, 1988 and bear interest at a fixed annual rate of 9% payable semi-annually. The notes are also due on the respective payees' demand on or after the expiration of twelve months following the date of death of Warren E. Buffett.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

January 30, 1971 and January 31, 1970

Note C - The Company, its subsidiaries and certain related persons own, in the aggregate, more than 10% of the outstanding common stock of an affiliated company. Although disposition of all or any lesser amount of said common stock is subject to certain restrictions, the market value of an equivalent number of unrestricted shares at January 30, 1971 exceeds cost.

Note D - The policy of filing a consolidated tax return has resulted in a tax credit to the parent company.

Note E - There were no changes in the capital stock and additional paid-in capital accounts during the years ended January 30, 1971 and January 31, 1970

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SCHEDULE I - SHORT TERM COMMERCIAL PAPER, MARKETABLE SECURITIES

AND OTHER SECURITY INVESTMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 30, 1971

| COL. A | COL. B | COL. C | COL. D |
|---|---|---|---|
| NAME OF ISSUER AND TITLE OF ISSUE | Number of Shares or Units—Principal Amount of Bonds and Notes | Amount at Which Carried in Balance Sheet (at cost) | Value Based on Current Market Quotations at Balance Sheet Date |
| Marketable securities: | | | |
| Federal National Mortgage Association 8.45% due October 12, 1971 | $140,000 | $ 140,000 | $ 143,612 |
| Federal Land Bank 5.70% due February 15, 1972 | $1,000 | 1,000 | 1,007 |
| | | $ 141,000 | $ 144,619 |
| Other security investments: | | | |
| Thriftimart, Inc. Class A Common Stock | 217,784 shares | $2,885,997 | $2,831,192 |
| New Yorker Magazine, Inc. Common Stock | 13,836 shares | 829,192 | 657,210 |
| | | $3,715,189 | $3,488,402 |

The notes to the consolidated financial statements are made a part hereof.

## SCHEDULE III—INVESTMENTS IN SECURITIES OF AFFILIATES

DIVERSIFIED RETAILING COMPANY, INC.

| COL. A | COL. B | | COL. C | | COL. D | | COL. E | |
|---|---|---|---|---|---|---|---|---|
| | BALANCE AT BEGINNING OF PERIOD | | ADDITIONS | | DEDUCTIONS | | BALANCE AT CLOSE OF PERIOD | |
| NAME OF ISSUER AND TITLE OF ISSUE | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars |
| Consolidated: | | | | | | | | |
| Year ended January 30, 1971: | | | | | | | | |
| Unconsolidated subsidiary: | | | | | | | | |
| REINSURANCE CORP. OF NEBRASKA Common Stock | | | 5,000 | $ 3,852,824(3) | | | 5,000 | $ 3,877,028 |
| | | | | 24,204(1) | | | | |
| | | | | $ 3,877,028 | | | | |
| Affiliates (4)(5): | | | | | | | | |
| BLUE CHIP STAMPS Common Stock | 114,000 | $ 1,773,000(7) | 282,900 | $ 3,206,039 | | | 396,900 | $ 4,979,039(8) |
| BERKSHIRE HATHAWAY, INC. Common Stock | | | 24,515 | 985,046 | | | 24,515 | 985,046 |
| | | $ 1,773,000 | | $ 4,191,085 | | | | $ 5,964,085 |
| Year ended January 31, 1970: NONE | | | | | | | | |
| Parent company only: | | | | | | | | |
| Year ended January 30, 1971: | | | | | | | | |
| ASSOCIATED RETAIL STORES, INC. Common Stock | 453,000 | $18,930,811 | | $ 1,288,949(1) | | | 453,000 | $20,603,896 |
| | | | | 384,136(2) | | | | |
| Affiliate (4)(5): | | | | | | | | |
| BERKSHIRE HATHAWAY, INC. Common Stock | | | 21,075 | $ 846,596 | | | 21,075 | $ 846,596 |

SCHEDULE III - INVESTMENTS IN SECURITIES OF AFFILIATES - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

| COL. A | COL. B | | COL. C | | COL. D | | COL. E | |
|---|---|---|---|---|---|---|---|---|
| | BALANCE AT BEGINNING OF PERIOD | | ADDITIONS | | DEDUCTIONS | | BALANCE AT CLOSE OF PERIOD | |
| NAME OF ISSUER AND TITLE OF ISSUE | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars | (1) Number of Shares or Units. Principal Amount of Bonds and Notes | (2) Amount in Dollars |
| Year ended January 31, 1970: | | | | | | | | |
| HOCHSCHILD, KOHN & CO., INCORPORATED: | | | | | | | | |
| Convertible First Preferred Stock | 20,000) | | | | | | | |
| Common Stock | 46,750) | $14,955,045 | | $ 44,000(1) | | $14,999,045 | | $ -0- |
| ASSOCIATED RETAIL STORES, INC. | | | | | | | | |
| Common Stock | 453,000) | 6,526,953 | | 11,250,732(6)<br>1,153,126(1) | | | 453,000 | 18,930,811 |
| | | $21,481,998 | | $12,447,858 | | $14,999,045 | | $18,930,811 |

(1) Equity of the Company in undistributed net earnings of subsidiary.

(2) Unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes.

(3) Includes capital contributions of $3,468,688 and equity of $384,136 in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes.

(4) Although management of Registrant disclaims control over these companies, they may be deemed to be affiliates of Registrant.

(5) Additional shares of stock in these companies are owned by the unconsolidated insurance subsidiary - see Schedule VI for the insurance company.

(6) Additional paid-in capital contribution made to subsidiary by the Company from the sale of Hochschild, Kohn & Co., Incorporated.

(7) Included in other security investments at January 31, 1970.

(8) Cash dividends of $57,858 were received during the year ended January 30, 1971.

The notes to the consolidated financial statements are made a part hereof.

SCHEDULE V—PROPERTY, PLANT, AND EQUIPMENT

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| COL. A | | COL. B | COL. C | COL. D | COL. E | COL. F |
|---|---|---|---|---|---|---|
| CLASSIFICATION | | Balance at Beginning of Period | Additions at Cost (1) | Retirements or Sales (1) | Other Changes— Debit and/or Credit* Describe (2) | Balance at Close of Period |
| Year ended January 30, 1971: | | | | | | |
| Land | | $ 850,157 | $ 44,565 | $ -0- | $ -0- | $ 894,722 |
| Buildings | | 1,017,471 | 116,212 | -0- | -0- | 1,133,683 |
| Fixtures and equipment | | 675,523 | 65,339 | 135 | 21,772* | 718,955 |
| Leasehold improvements | | 345,057 | 43,291 | 22,955 | 17,851* | 347,542 |
| | TOTAL | $ 2,888,208 | $269,407 | $ 23,090 | $ 39,623* | $3,094,902 |
| Year ended January 31, 1970: | | | | | | |
| Land | | $ 1,964,122 | $ -0- | $ -0- | $ 1,113,965* | $ 850,157 |
| Buildings | | 4,803,670 | 49,868 | -0- | 3,836,067* | 1,017,471 |
| Fixtures and equipment | | 4,683,953 | 113,429 | 70,635 | 4,051,224* | 675,523 |
| Leasehold improvements | | 1,261,524 | 52,848 | 730 | 968,585* | 345,057 |
| | | 12,713,269 | 216,145 | 71,365 | 9,969,841* | 2,888,208 |
| Rental property - | | | | | | |
| Land | | 1,613,345 | -0- | -0- | 1,613,345* | -0- |
| Buildings | | 390,688 | -0- | -0- | 390,688* | -0- |
| Fixtures and improvements | | 403,650 | -0- | 327,976 | 75,674* | -0- |
| | | 2,407,683 | -0- | 327,976 | 2,079,707* | -0- |
| | TOTAL | $15,120,952 | $216,145 | $399,341 | $12,049,548* | $2,888,208 |

(1) No additions, retirements, renewals and replacements are shown related to the reserves for depreciation of property, plant and equipment of the subsidiary sold during the year ended January 31, 1970.

(2) These amounts represent the reserve for depreciation of property, plant and equipment balances at the beginning of the period of the subsidiary that was sold during the year ended January 31, 1970.

The notes to the consolidated financial statements are made a part hereof.

SCHEDULE VI - RESERVES FOR DEPRECIATION AND AMORTIZATION
OF PROPERTY, PLANT AND EQUIPMENT

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| COL. A | COL. B | COL. C | | COL. D | | COL. E |
|---|---|---|---|---|---|---|
| | | ADDITIONS | | DEDUCTIONS FROM RESERVES | | |
| DESCRIPTION | Balance at Beginning of Period | (1) Charged to Profit and Loss or Income | (2) Charged to Other Accounts--Describe | (1) Retirements, Renewals, and Replacements | (2) Other-Describe | Balance at Close of Period |
| Year ended January 30, 1971: | | | | | | |
| Buildings | $ 616,744 | $ 41,863 | $ -0- | $ -0- | $ -0- | $ 658,607 |
| Furniture and equipment | 301,023 | 82,053 | -0- | 21,840 | -0- | 361,236 |
| Leasehold improvements | 138,470 | 45,890 | -0- | 18,547 | -0- | 165,813 |
| TOTAL | $1,056,237 | $169,806 | $ -0- | $ 40,387 | $ -0- | $1,185,656 |
| Year ended January 31, 1970: | | | | | | |
| Buildings | $3,268,689 | $ 37,607 | $ -0- | $ -0- | $2,689,552 | $ 616,744 |
| Furniture and equipment | 1,891,420 | 74,773 | -0- | 50,356 | 1,614,814 | 301,023 |
| Leasehold improvements | 613,898 | 41,667 | -0- | 730 | 516,365 | 138,470 |
| TOTAL | 5,774,007 | 154,047 | -0- | 51,086 | 4,820,731 | 1,056,237 |
| Rental property: | | | | | | |
| Buildings | 297,239 | -0- | -0- | -0- | 297,239 | -0- |
| Fixtures and improvements | 210,324 | 11,223 | -0- | 213,980 | 7,567 | -0- |
| | 507,563 | 11,223 | -0- | 213,980 | 304,806 | -0- |
| | $6,281,570 | $165,270 | $ -0- | $265,066 | $5,125,537 | $1,056,237 |

(1) No additions or retirements are shown related to the property, plant and equipment of the subsidiary sold during the year ended January 31, 1970.

(2) These amounts represent the property, plant and equipment balances at the beginning of the period ended January 31, 1970 of the subsidiary that was sold during that year.

The notes to the consolidated financial statements are made a part hereof.

SCHEDULE XVI—SUPPLEMENTARY PROFIT AND LOSS INFORMATION

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

| COL. A | COL. B | | COL. C | | COL. D |
|---|---|---|---|---|---|
| | CHARGED DIRECTLY TO PROFIT AND LOSS | | CHARGED TO OTHER ACCOUNTS | | |
| ITEM | (1) To Cost of Goods Sold or Operating Expenses | (2) Other | (1) Account | (2) Amount | Total |
| Year ended January 30, 1971: | | | | | |
| Maintenance and repairs | $ 329,401 | $ -0- | | $ -0- | $ 329,401 |
| Depreciation and amortization | 169,806 | -0- | | -0- | 169,806 |
| Taxes other than taxes on income: | | | | | |
| Real estate | 50,219 | -0- | | -0- | 50,219 |
| State and local | 143,902 | -0- | | -0- | 143,902 |
| Payroll | 342,433 | -0- | | -0- | 342,433 |
| TOTAL TAXES | 536,554 | -0- | | -0- | 536,554 |
| Management and service contract fees | None | | | | |
| Rentals | 1,885,558 | | | | 1,885,558 |
| Royalties | None | | | | |
| Year ended January 31, 1970: | | | | | |
| Maintenance and repairs | $ 286,628 | $14,044 | | $ -0- | $ 300,672 |
| Depreciation and amortization | 154,047 | 11,223 | | -0- | 165,270 |
| Taxes other than taxes on income: | | | | | |
| Real estate | 39,069 | -0- | | -0- | 39,069 |
| State and local | 103,931 | 163 | | -0- | 104,094 |
| Payroll | 327,902 | -0- | | -0- | 327,902 |
| TOTAL TAXES | 470,902 | 163 | | -0- | 471,065 |
| Management and service contract fees | None | | | | |
| Rentals | 1,848,230 | 45,601 | | -0- | 1,893,831 |
| Royalties | None | | | | |

The notes to the consolidated financial statements are made a part thereof.

REINSURANCE CORP. OF NEBRASKA

Balance Sheet

December 31, 1970

## Assets

| | |
|---|---|
| Bonds (note 2) (Schedule I) | $ 574,726 |
| Stocks, common (note 2) (Schedule II) | 3,657,055 |
| Cash and bank deposits | 16,051 |
| Uncollected premiums (net of commission balances payable of $61,539) | 117,216 |
| Due from brokers | 15,080 |
| Interest due and accrued | 10,301 |
| Other assets | 630 |
| | $ 4,391,059 |

## Liabilities, Capital Stock and Surplus

| | | |
|---|---|---|
| Losses and claims (note 4) | | $ 70,772 |
| Loss adjustment expenses | | 9,179 |
| Unearned premiums (note 4) (Schedule VII) | | 239,161 |
| Due to brokers | | 91,940 |
| Other liabilities | | 476 |
| | | 411,528 |
| Capital stock, $100 par value per share. Authorized, issued and outstanding 5,000 shares (note 3) | | 500,000 |
| Surplus: | | |
| Paid-in | | 2,968,688 |
| Unassigned | | 510,843 |
| Total surplus | | 3,479,531 |
| | | 3,979,531 |
| | | $ 4,391,059 |

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statement of Operations

Period from inception of operations
(March 3, 1970) to December 31, 1970

| | |
|---|---|
| Underwriting loss: | |
| Net premiums written (Schedule VII) | $ 348,327 |
| Increase in unearned premiums | 239,161 |
| Premiums earned (Schedule VII) | 109,16[illegible] |
| Losses incurred (Schedule VII) | 74,042 |
| Loss adjustment expense incurred (Schedule VII) | 10,589 |
| | 84,631 |
| Balance | 24,535 |
| Underwriting expenses incurred: | |
| Commissions (Schedule VII) | 116,837 |
| Other underwriting expenses (Schedule VII) | 1,888 |
| | 118,725 |
| Net underwriting loss | 94,190 |
| Investment income: | |
| Interest on bonds | 47,779 |
| Dividends | 18,892 |
| Total investment income | 66,671 |
| Investment expense | 607 |
| Net investment income | 66,064 |
| Net loss | 28,126 |
| Realized gains on investments (note 2) | 241 |
| Net loss and realized gain on investments | $ 27,885 |

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statement of Capital Stock and Surplus

Period from inception of operations
(March 3, 1970) to December 31, 1970

| | Capital Stock | | Surplus | |
|---|---|---|---|---|
| | Number of shares | Par value | Paid-in | Unassigned |
| Increases (decreases): | | | | |
| Sale of capital stock to incorporators | 5,000 | $ 500,000 | 2,968,688 | - |
| Net loss and realized gain on investments | - | - | - | (27,885) |
| Unrealized gain from excess of market value over book value of stocks | - | - | - | 538,761 |
| Increase in statutory compensation reserves over case basis reserves | - | - | - | (33) |
| Balance at end of period | 5,000 | $ 500,000 | 2,968,688 | 510,843 |

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statement of Source and Application of Funds

Period from inception of operations (March 3, 1970)
to December 31, 1970

| | |
|---|---|
| **Funds provided:** | |
| Increase in loss and expense reserves | $ 79,951 |
| Increase in unearned premium reserve | 239,161 |
| Increase in amount due to brokers | 91,940 |
| Proceeds from sale of 5,000 shares of common stock | 3,468,688 |
| Other - net | 443 |
| Total funds provided | $ 3,880,183 |
| **Funds used:** | |
| Net loss including realized gains of $241 | 27,885 |
| Increase in bonds | 574,726 |
| Increase in stocks less $538,761 increase in unrealized gain | 3,118,294 |
| Increase in uncollected premiums net of commission balances payable of $61,539 | 117,216 |
| Increase in interest due and accrued | 10,301 |
| Increase in amount due from brokers | 15,080 |
| Increase in cash and bank deposits | 16,051 |
| Other - net | 630 |
| Total funds used | $ 3,880,183 |

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Notes to Financial Statements

December 31, 1970

(1) Basis of Presentation:

Statutory insurance accounting principles differ in certain material respects from accounting principles followed by business enterprises in general. Such differences include, among others, the valuing of securities at market values, which may be in excess of cost, without providing for possible income tax that could be payable on liquidation; and the immediate expensing of the cost of acquiring premium income, which income is deferred over the periods covered by the policies. The effect of these variations on the surplus and the net income of the company is as follows:

| | |
|---|---|
| Capital stock and surplus as shown in the accompanying statement of assets and liabilities - statutory basis | $ 3,979,531 |
| Adjustments to surplus: | |
| Equity in unearned premium reserve | 52,089 |
| Excess compensation statutory reserves over case basis | 33 |
| | 52,122 |
| Adjusted equity before income taxes applicable to unrealized appreciation on investments | 4,031,653 |
| Less Federal income taxes applicable to unrealized appreciation on investments | 154,624 |
| Adjusted stockholder's equity | $ 3,877,029 |
| Consisting of: | |
| Capital stock | 500,000 |
| Paid-in surplus | 2,968,688 |
| Retained earnings | 408,341 |
| | $ 3,877,029 |
| Net loss and realized gains on investments as shown in the accompanying statement of operations - statutory basis | 27,885 |
| Adjustments to net income: | |
| Net realized gain on investments (to segregate from adjusted net earnings) | (241) |
| Increase in estimated equity in unearned premiums | 52,089 |
| Net adjustments | 51,848 |
| Net earnings, as adjusted (excluding investment gain) | $ 23,963 |
| Investment gains: | |
| Net realized gains | 241 |
| Increase in net unrealized gains | 538,761 |
| Less allowance for future income taxes | 154,624 |
| | 384,137 |
| Net investment gain | $ 384,378 |

REINSURANCE CORP. OF NEBRASKA

Notes to Financial Statements, Continued

(2) Bonds and Stocks:

Bonds and stocks are valued on the basis prescribed by the committee on Valuation of Securities of the National Association of Insurance Commissioners. Bonds are at amortized value and stocks at market value. Bonds carried at $97,324 are on deposit with the State of Nebraska as required by law. The stocks are common and were acquired at a cost of $3,118,293.

United States Treasury Notes, with a cost of $100,287 were sold in October 1970 for $100,528 which resulted in a gain of $241.

(3) Organization of the Company:

The company was incorporated under the laws of the State of Nebraska on January 30, 1970 to operate as an insurer and reinsurer of any risk other than life or title insurance. Operations began on March 3, 1970. The capitalization was accomplished through the transfer of stocks with a market value of $2,436,813 and $1,031,875 in cash for all of the outstanding capital stock of the company.

(4) Loss and Unearned Premium Reserves:

The liability for losses and claims is based upon the accumulation of case estimates for losses by the companies from whom the company has assumed business. Unearned premiums are computed on the monthly pro rata basis.

REINSURANCE CORP. OF NEBRASKA

Bonds

December 31, 1970

| Name of issuer and title of issue | Principal amount of bonds and notes | Actual cost | Book value (amortized cost) | Market value (amortized cost) | Amortized value | Admitted asset value |
|---|---|---|---|---|---|---|
| Governments - | | | | | | |
| U. S. Treasury Bills due March 25, 1971 | $ 100,000 | 98,882 | 98,882 | 98,882 | 98,882 | 98,882 |
| Special revenue and special assessment: | | | | | | |
| Louisiana, Beauregard Parish industrial revenue | 20,000 | 16,100 | 16,180 | 16,180 | 16,180 | 16,180 |
| Illinois state toll road commission | 125,000 | 91,875 | 91,875 | 91,875 | 91,875 | 91,875 |
| Indiana toll road commission | 150,000 | 90,000 | 91,423 | 91,423 | 91,423 | 91,423 |
| Kansas, Lenexa industrial revenue | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Missouri, New Madrid industrial revenue | 100,000 | 80,750 | 81,144 | 81,144 | 81,144 | 81,144 |
| Missouri, Rolla industrial revenue | 100,000 | 95,005 | 95,222 | 95,222 | 95,222 | 95,222 |
| | 595,000 | 473,730 | 475,844 | 475,844 | 475,844 | 475,844 |
| Total bonds | $ 695,000 | 572,612 | 574,726 | 574,726 | 574,726 | 574,726 |

Schedule I

REINSURANCE CORP. OF NEBRASKA

Stocks - Other Than Stocks of Affiliates

December 31, 1970

| Name of issuer and title of issue | Number of shares | Actual cost | Book value (cost) | Market value | Admitted asset value |
|---|---|---|---|---|---|
| Public utilities - | | | | | |
| California Water Service Co. | 11,062 | $ 275,448 | 275,448 | 275,167 | 275,167 |
| Banks, trusts and insurance companies: | | | | | |
| Girard Company | 500 | 25,125 | 25,125 | 27,750 | 27,750 |
| Omaha National Corporation | 8,800 | 118,641 | 118,641 | 162,800 | 162,800 |
| Third National Bank of Nashville, Tennessee | 100 | 4,575 | 4,575 | 5,375 | 5,375 |
| | 9,400 | 148,341 | 148,341 | 195,925 | 195,925 |
| Industrial and miscellaneous: | | | | | |
| Berkshire Hathaway, Inc. | 14,350 | 578,605 | 578.605 | 581,175 | 581,175 |
| Blue chip stamps | 145,000 | 1,468,125 | 1,468,125 | 1,830,625 | 1,830,625 |
| Munsingwear, Inc. | 25,100 | 493,240 | 493,240 | 498.863 | 498,863 |
| Ridder Publications, Inc. | 10,000 | 101,255 | 101,255 | 185,000 | 185,000 |
| U. S. Truck Lines, Inc. of Delaware | 2,150 | 53,280 | 53,280 | 90,300 | 90,300 |
| | 196,600 | 2,694,505 | 2,694,505 | 3,185,963 | 3,185,963 |
| Total common stocks | 217,062 | $ 3,118,294 | 3,118,294 | 3,657,055 | 3,657,055 |

Schedule II

0371500 2-27473 10 SIC 531 D 67 40 00 000

**DIVERSIFIED RETAILING CO INC** **10-K PT 1 & 2**

OTHER MARYLAND 1971

CARD 2 MICROFICHE BY LEASCO INFORMATION PRODUCTS

REINSURANCE CORP. OF NEBRASKA

Summary of Investments in Securities - Other Than Securities of Affiliates

December 31, 1970

| Type of security | Actual cost | Book value | Market value | Amortized value | Admitted asset value |
|---|---|---|---|---|---|
| Bonds and notes: | | | | | |
| Government | $ 98,882 | 98,882 | 98,882 | 98,882 | 98,882 |
| Special revenue and special assessment | 473,730 | 475,844 | 475,844 | 475,844 | 475,844 |
| Total bonds and notes | 572,612 | 574,726 | 574,726 | 574,726 | 574,726 |
| Stocks: | | | | | |
| Common stocks: | | | | | |
| Public utilities | 275,448 | 275,448 | 275,167 | - | 275,167 |
| Banks, trust and insurance companies | 148,341 | 148,341 | 195,925 | - | 195,925 |
| Industrial and miscellaneous | 2,694,505 | 2,694,505 | 3,185,963 | - | 3,185,963 |
| Total stocks | 3,118,294 | 3,118,294 | 3,657,055 | - | 3,657,055 |
| Total investments in securities other than securities of affiliates | $ 3,690,906 | 3,693,020 | 4,231,781 | 574,726 | 4,231,781 |

Schedule V

REINSURANCE CORP. OF NEBRASKA

Premiums, Losses And Underwriting Expenses

December 31, 1970

| Line of insurance | Part 1 - Premiums: Unearned premiums beginning of period | Net premiums written | Unearned premiums end of period | Premiums earned during period | Part 2 - Losses and underwriting expenses: Losses incurred during period | Loss expense incurred during period | Commissions and brokerage incurred during period | Other under-writing expense incurred during period |
|---|---|---|---|---|---|---|---|---|
| Fire | $ - | 25,017 | 14,503 | 10,514 | 13,494 | 1,440 | 10,554 | 136 |
| Extended coverage | - | 3,627 | 1,400 | 2,227 | 1,985 | 206 | 1,053 | 20 |
| Other allied lines | - | 1,878 | 1,655 | 223 | 319 | 62 | 592 | 43 |
| Commercial multiple peril | - | 9,271 | 6,807 | 2,464 | 2,706 | 310 | - | 50 |
| Earthquake | - | 267 | 136 | 131 | - | - | - | 2 |
| Inland marine | - | 7,968 | 4,060 | 3,908 | 2,398 | 302 | 2,207 | 10 |
| Workmen's compensation | - | 1,819 | 1,031 | 788 | 441 | 38 | 479 | 10 |
| Liability other than auto (bodily injury) | - | 24,513 | 12,790 | 11,723 | 5,305 | 3,524 | 5,888 | 133 |
| Liability other than auto (property damage) | - | 9,783 | 6,719 | 3,064 | 2,445 | 929 | 2,133 | 53 |
| Auto liability (bodily injury) | - | 3,742 | 1,938 | 1,804 | 827 | 229 | 760 | 20 |
| Auto liability (property damage) | - | 1,880 | 998 | 882 | 418 | 123 | 384 | 10 |
| Auto physical damage | - | 254,144 | 184,300 | 69,844 | 40,677 | 2,699 | 91,581 | 1,377 |
| Aircraft physical damage | - | 574 | 347 | 227 | 188 | 27 | - | 3 |
| Surety | - | 3,844 | 2,477 | 1,367 | 2,839 | 700 | 1,206 | 21 |
| | $ - | 348,327 | 239,161 | 109,166 | 74,042 | 10,589 | 116,837 | 1,888 |

Schedule VII

EXHIBIT A

COMPUTATION OF EARNINGS PER SHARE

| | Fiscal year ended | | | | |
|---|---|---|---|---|---|
| | January 30, 1971 | January 31, 1970 | February 1, 1969 | February 3, 1968 | January 29, 1967 |
| Average shares outstanding (1) | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| NET EARNINGS | $1,337,442 | $102,671(2) | $1,997,700 | $2,397,499 | $1,256,837 |
| PER SHARE AMOUNT | $ 1.34 | $ .10 | $ 2.00 | $ 2.40 | $ 1.26 |

(1) Average shares outstanding have been recast to reflect a 3,333-1/3 to 1 stock split which occurred in December 1969.

(2) Includes extraordinary loss of $1,318,979.

END