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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 29, 1972

Commission File Number:
2-27473

DIVERSIFIED RETAILING COMPANY, INC.

State of Incorporation:
Maryland

IRS Employer Identification
Number: 52-0846159

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

THE REGISTRANT HAS FILED ALL ANNUAL, QUARTERLY AND OTHER REPORTS REQUIRED TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WITHIN THE PAST 90 DAYS AND IN ADDITION HAS FILED THE MOST RECENT ANNUAL REPORT REQUIRED TO BE FILED.

MAY 17 1972

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 President, Robert M. Goldman, is compensated solely through his sharing as a partner in the law firm of Frank, Bernstein, Conaway & Goldman in legal fees paid by the Company to said firm for sundry legal services. (See "Item 12. Directors of Registrant" and "Item 13. Remuneration of Directors and Officers.") 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 Northeastern 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-three 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,

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* Unless otherwise provided, the text of "Associated Retail Stores, Inc." under "Item 1. Business" and "Item 3. Properties" describes circumstances existing as at January 29, 1972.

foundations, hosiery and accessories. Present stores are located in the states of Colorado, Connecticut, Illinois, Indiana, Iowa, Kentucky, New York, New Jersey, Ohio, Pennsylvania and Wisconsin. Principal cities in which stores are located include Pittsburgh, Milwaukee, Philadephia, Denver, Louisville, Chicago, Buffalo, New York City, Gary, Columbus, Akron, Waterbury, and Toledo. 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, Inc." under "Item 3. Properties.") The Associated stores operate under various names, including Amy, Blauner's, Cotton Shops, 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 of merchandise 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 five hundred (1,500) full and part-time employees with maximum seasonal employment reaching one thousand seven hundred (1,700). Approximately two hundred fifty (250) 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 times. 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 in which Associated engages involves intense competition 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.

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 operates under 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. At the present time, the business of Reinsurance is limited substantially to the acceptance of portions of reinsurance contracts generated through and offered to Reinsurance by the reinsurance division of National Indemnity Company ("National Indemnity"). When 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 10% 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 solely responsible for investment decisions 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, as at February 1, 1972, owned approximately 8% 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.

<u>Lines of Business and Classes of Products and Services</u>

The Company's primary line of business is the retail sale of women's and children's apparel. 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.") which, during the fiscal year ended January 29, 1972, contributed more than 15% of earnings before income taxes and extraordinary items, but less than 15% of total sales and premiums earned.

The following information is presented with respect to the Company's two lines of business:

Line of Business	Fiscal Year Ended January 29, 1972 % of Total Sales and Premiums Earned	Fiscal Year Ended January 29, 1972 % of Consolidated Income before Income Taxes and Extra-Ordinary Item*	Fiscal Year Ended January 30, 1971 % of Total Sales and Premiums Earned	Fiscal Year Ended January 30, 1971 % of Consolidated Income before Income Taxes and Extra-ordinary Item*
Retail sale of women's and children's apparel	97.6%	79.1%	99.7%	99.2%
Reinsurance	2.4%	20.9%	.3%	.8%

* The parent company has no operations and its loss before income taxes and extraordinary item has been excluded in making the calculations in the above tabulation.

Price-Wage Freeze

On August 15, 1971, pursuant to Executive Order 1615 and Presidential Proclamation 4074, President Nixon announced, among other things, a wage and price freeze for a period of 90 days at those levels prevailing during the 30 day base period ending August 14, 1971. Upon the expiration of said 90 day period, President Nixon by Executive Order under the Economic Stabilization Act of 1970, as amended and extended, modified and extended wage and price controls indefinitely. Due to the relatively short period of time that said economic controls have been in existence and the present uncertainty as to their future scope and applicablity, the Company cannot determine with assurance what impact, if any, said economic controls have had and will have upon its consolidated operations.

Item 2. Summary of Operations

SUMMARY OF CONSOLIDATED OPERATIONS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

(In thousands of dollars)

	Fiscal year ended				
	January 29, 1972	January 30, 1971	January 31, 1970	February 1, 1969	February 3, 1968
Net Sales	$38,598	$39,832	$39,113	$37,508	$29,626
Cost of goods sold	25,688	26,444	26,443	25,573	20,363
Interest and financing cost	673	647	565	609	430
Taxes on income	623	1,231	1,301	934	815
Earnings of continuing operations before extraordinary item and equity in earnings of unconsolidated subsidiary	$ 660	$ 1,313	$ 1,019	$ 1,244	$ 1,236
Earnings related to discontinued operations less applicable taxes	- 0 -	-0-	403	754	1,161
Extraordinary loss (1) (3)	(111)	-0-	(1,319)	-0-	-0-
Equity in earnings of unconsolidated subsidiary	362	24	-0-	-0-	-0-
Net earnings	911	1,337	103	1,998	2,397
Earnings per share (2):					
Earnings of continuing operations before extraordinary item and equity in earnings of unconsolidated subsidiary	$ .66	$ 1.31	$ 1.02	$ 1.24	1.24
Earnings related to discontinued operations less applicable taxes	-0-	-0-	.40	.76	1.16
Extraordinary loss	(.11)	-0-	(1.32)	-0-	-0-

	Fiscal year ended				
	January 29, 1972	January 30, 1971	January 31, 1970	February 1, 1969	February 3, 1968
Equity in earnings of unconsolidated subsidiary	.36	.03	-0-	-0-	-0-
Net earnings	.91	1.34	.10	2.00	2.40
Cash dividends per share	-0-	-0-	-0-	-0-	-0-

(1) The extraordinary loss for fiscal 1970 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.

(3) The extraordinary loss for fiscal 1972 resulted from additional income taxes related to the sale of a subsidiary referred to in (1) above.

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

DIVERSIFED RETAILING COMPANY, INC.

AND SUBSIDIARY

Five years ended January 29, 1972

(In thousands of dollars)

	Additional Paid-In Capital	Earnings Retained in the Business
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
Net earnings for the year ended January 29, 1972		911
Reversal of unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes		(384)
Balance at January 29, 1972	$6,000	$8,003

( ) indicates deduction

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, is a partner. Mr. Shapiro, Secretary of the Company through his resignation effective as at March 1, 1972, was a partner in said law firm until his resignation therefrom on March 31, 1972; Max E. Blumenthal, successor to Mr. Shapiro as Secretary of the Company, is also a partner in said law firm. 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, Inc." under "Item 1. Business."), range in size from approximately two thousand square feet to fifty thousand square feet, with the total area of all stores comprising approximately seven hundred fifty 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 $1,450,000. The lease terms for said stores expire at dates varying from 1973 through 1986, and the lease for one store is on a month-to-month basis (see "Item 5. Pending Legal Proceedings"). 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 29, 1972, Warren E. Buffett owned 38.37% 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., a Michigan Corporation, 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 29, 1972, Associated and Reinsurance owned beneficially approximately 11% of the common stock of Blue Chip Stamps ("Blue Chip"), a California corporation, whose said securities are traded in the over-the-counter market. Warren E. Buffett also owned beneficially approximately 11% of the common stock of Blue Chips as at January 29, 1972. As at January 29, 1972 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; Cornhusker Casualty Company, a wholly-owned subsidiary of National Indemnity of which Mr. Buffett is Chairman of the Board of Directors; and, Susan T. Buffett, spouse of Warren E. Buffett, aggregated approximately 30% of the common stock of Blue Chip. Said aggregate ownership has been reduced from approximately 35% to 30% as a result of the liquidation of Buffett Partnership, Ltd., of which Mr. Buffett was General Partner, pursuant to which liquidation 5% of the common stock of Blue Chip was distributed to persons other than the associates of Mr. Buffett. 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 benefically 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 29, 1972, certain associates of Warren E. Buffett, including Associated; National Indemnity; National Fire & Marine Insurance Company; and Cornhusker Casualty Company, beneficially owned in the aggregate approximately 25% 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 March 14, 1972, Associated exchanged all of its 270,584 shares of the Class A common stock of Thriftimart for 300,000 shares, or approximately 6%, of the common stock of Blue Chip.

As at January 29, 1972, 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 subsidiary owned beneficially approximately 7% of the common stock of Berkshire as at January 29, 1972, and approximately 8% as at February 1, 1972. Mr. Buffett, Susan T. Buffett and the Company disclaim control of Berkshire.

Item 5. Pending Legal Proceedings

With the two exceptions 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.

The premises occupied by two of Associated's principal stores have been condemned, though both of said stores remain occupied by Associated. 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 Philadelphia Redevelopment Authority on May 21, 1970, in the Court of Common Pleas of Philadelphia County. The store located on said premises accounts for approximately $2,024,000 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 $885,249. The Philadelphia Redevelopment Authority has paid into Court the sum of $1,348,095, said sum representing the Authority's estimate of fair compensation for the said improved real property. Associated operates another of its retail stores at 835 Market Street, Philadelphia, Pennsylvania, which it occupies under a month-to-month lease with the Philadelphia Redevelopment Authority, said premises also being the subject of condemnation proceedings. The store located at 835 Market Street, Philadelphia, Pennsylvania, accounts for approximately $724,000 in gross sales. 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.

Associated is a defendant in a suit claiming damages for personal injury in the amount of $10,000 and punitive damages of $1,000,000. Associated's insurance carrier is defending this action, but has notified Associated that the insurance carrier has no liability for punitive damages. Associated's counsel in said litigation is of the opinion that the likelihood of recovery of punitive damages by the plaintiff is remote.

Item 6. Increases and Decreases in Outstanding Securities

None.

Item 7. Approximate Number of Equity Security Holders

Title of Class	As at January 29, 1972 Number of Record Holders
Common Stock, par value $0.0003 per share	293

Item 8. Executive Officers of the Registrant

Name	Age	Office(s) Held
Warren E. Buffett	41	Chairman of Board of Directors
Robert M. Goldman	55	President and Director
David S. Gottesman	45	Vice-President and Director
Charles T. Munger	48	Vice-President and Director
Charles F. Heider	45	Director
Larry C. Cummings	28	Treasurer and Assistant Secretary
Max E. Blumenthal	31	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 administrative, 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

(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.

The Annual Report of the Company of its 1971 fiscal year will be mailed to the stockholders 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 5505 Farnan Street Omaha, Nebraska	Common	Record and Beneficial	383,732 (2)	38.37%
First Manhattan Co. 30 Wall Street New York, New York	Common	Record and Beneficial	80,822-1/3 (3)	8.08%
	Common	Record only	19,177-2/3 (4)	1.92%
Wheeler, Munger & Co. 618 South Spring Street Los Angeles, California	Common	Record and Beneficial	100,000 (5)	10.00%

Notes:

(1) As at January 29, 1972

(2) Does not include (a) 30,847 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 Gifts to Minors 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 Mr. Buffett.

(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 5,053 shares of said 19,177-2/3 shares. An additional 1,500 shares of said 19,177-2/3 shares is held in trust for the benefit of members of Mr. Gottesman's immediate family and 1,522 shares of said 19,177-2/3 shares is owned beneficially by a member of Mr. Gottesman's immediate family; Mr. Gottesman disclaims beneficial ownership in said trust and in the shares owned by the member of his immediate family.

(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	388,785 (7)	38.88%

Notes:

(6) As at January 29, 1972.

(7) Note (2) to "Item 11, Principal Security Holders and Security Holdings of Management" is incorporated by reference herein. In addition, said 388,785 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."); 1,500 shares of 19,177-2/3 shares owned of record only by First Manhattan Co., which 1,500 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 1,522 of 19,177-2/3 shares owned of record only by First Manhattan Co., which 1,522 shares are owned beneficially by a member of Mr. Gottesman's immediate family and in which Mr. Gottesman disclaims benefical ownership (see Note (4) to "Item 11. Principal Security Holders and Security Holdings of Management."); 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."); and 577 shares owned beneficially by a member of Mr. Heider's immediate family, individually, and 370 shares owned by such member of Mr. Heider's immediate family as custodian for other members of Mr. Heider's immediate family and in all of which shares Mr. Heider disclaims benefical ownership.

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 26, 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. Buffett is also the Chairman of the Board of Directors of Cornhusker Casualty Company and National Fire and Marine Insurance Company.

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 New York 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 and Number of Persons In Group	Capacities in Which Remuneration Was Received	Aggregate Direct Remuneration (1)
Larry C. Cummings	Treasurer of Company	$500.00
All Seven (7) Officers and Directors, as a Group		$500.00

Note:

(1) Does not include legal fees of $8,450.00 which the Company paid during its fiscal year ended as at January 29, 1972, to the law firm in which Messrs. Goldman and Blumenthal are partners, for services rendered to the Company.

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 traded on the American Stock Exchange at a purchase price aggregating approximately $70,925.93 (including commissions). Said purchases 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 American Stock Exchange rates and totaled approximately $791.25.

During the Company's last fiscal year, Reinsurance accepted reinsurance contracts from National Indemnity, of which Mr. Warren E. Buffett is Chairman of the Board of Directors, representing premiums written in the approximate amount of $1,433,000. National Indemnity is paid ceding commissions equal to approximately one-half of the standard commissions. (See "Item 1. Business.") Commissions paid by Reinsurance to National Indemnity aggregated approximately $7,727.40 during calendar 1971 (the records of both companies being on the calendar year accrual basis).

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: Robert M. Goldman
Robert M. Goldman, President

Dated: May 10, 1972

ANNUAL REPORT ON FORM 10-K

ITEM 10(a)

FINANCIAL STATEMENTS AND SCHEDULES

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

The following financial statements and schedules of the registrant and its subsidiary for the fiscal years 1972 and 1971 are submitted herewith:

Consolidated:
- Consolidated Balance Sheet
- Statement of Consolidated Earnings
- Statement of Consolidated Earnings Retained in the Business
- Statement of Consolidated Changes in Financial Position
- Notes to Consolidated Financial Statements

Parent Company only:
- Balance Sheet
- Statement of Earnings
- Statement of Earnings Retained in the Business
- Statement of Changes in Financial Position
- 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 1971 are submitted herewith:

- Balance Sheet
- Statement of Operations
- Statement of Capital Stock and Surplus
- Statement of Changes in Financial Position
- 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 30, 1971 and January 29, 1972, and the related statements of earnings, earnings retained in the business and changes in financial position 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. (Associated), representing approximately 95% and 93% of the consolidated assets and 16% and 13% of the consolidated liabilities as of January 30, 1971 and January 29, 1972, respectively, and 91% and 84% of the earnings before extraordinary item for the respective fiscal years then ended. These statements were examined by other independent accountants whose reports thereon have been furnished to us.

Associated and its unconsolidated subsidiary have a material investment (totaling $10,009,626 including the acquisition of March 14, 1972) in an affiliate, Blue Chip Stamps, as discussed in Note C to the financial statements. We have reviewed the audited financial statements issued by this affiliate for the year ended March 4, 1972 and noted the pending legal proceedings (as discussed in the footnotes to such financial statements) resulting in a qualified opinion on the financial statements of the affiliate for the fiscal years ended February 27, 1971 and March 4, 1972 by its independent accountants.

In our opinion, based upon our examination and the aforementioned reports of other independent accountants and subject to the effect, if any, upon the investment in affiliate resulting from the ultimate outcome of the legal proceedings referred to in the preceding paragraph, the accompanying financial statements enumerated above 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 30, 1971 and January 29, 1972, and the respective results of their operations and changes in financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change during the current year in accounting by the unconsolidated subsidiary for its investments in securities as described in Note A to the financial statements, which change was approved by the independent accountants for the unconsolidated subsidiary. Further, it is our opinion that Schedules I, III (subject to the effect of the aforementioned legal proceedings), V, VI and XVI, in compliance with the applicable accounting regulations of the Securities and Exchange Commission, present fairly the information required to be stated therein.

ERNST & ERNST

Baltimore, Maryland
April 17, 1972

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

We have examined the consolidated balance sheet of ASSOCIATED RETAIL STORES, INC. and Consolidated Subsidiaries (the Company) as at January 29, 1972 and the related consolidated statements of operations and retained earnings and changes in financial position for the fiscal year (fifty-two weeks) then ended. 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. We did not examine the financial statements of Reinsurance Corp. of Nebraska (RCN), an unconsolidated subsidiary (Note B); such statements were examined by other certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the investment in and equity in earnings of RCN is based solely upon the report of such other accountants. The investment in RCN aggregated 27.9% of consolidated assets at January 29, 1972.

As described in Note C, the Company and RCN have invested an aggregate of $10,009,626 in Blue Chip Stamps after giving effect to a March 1972 transaction; this amount represents 47.6% of consolidated stockholder's equity at January 29, 1972. We did not examine the consolidated financial statements of Blue Chip Stamps as at March 4, 1972 and for the fiscal year then ended; such statements were examined by other accountants whose report thereon has been furnished to us. Such report is subject to the effect, if any, of certain legal proceedings as to which counsel is not able to predict the ultimate outcome (Note C). Our opinion expressed herein, insofar as it relates to the investments in Blue Chip Stamps included in "Other security investments" and "Investment in Reinsurance Corp. of Nebraska" is based solely upon the report of such other accountants.

In our opinion, based upon our examination and upon the aforementioned reports of the other accountants for RCN and Blue Chip Stamps, subject to the effect, if any, of the legal proceedings referred to in the preceding paragraph on the valuation of the investments in Blue Chip Stamps by the Company and RCN, the aforementioned consolidated financial statements, 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 29, 1972 and the consolidated operating results and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting by RCN for its investments in marketable securities as described in Note B, which change was approved by the accountants for RCN.

We have also examined the related Schedules I, IV and XVII, V, VI and XVI of Associated Retail Stores, Inc. and Consolidated Subsidiaries, which do not appear separately in the Form 10-K. In our opinion, Schedules I, V, VI and XVI present fairly the information required to be set forth therein. Schedules IV and XVII, subject to the effect, if any, of the legal proceedings referred to above, also present fairly the information required to be set forth therein.

Ernst & Ernst

CERTIFIED PUBLIC ACCOUNTANTS

March 17, 1972
New York, New York

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 the related consolidated statements of operations and retained earnings and changes in financial position for the fiscal year (fifty-two weeks) then ended. 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. We did not examine the financial statements of Reinsurance Corp. of Nebraska (RCN), an unconsolidated subsidiary (Note B); such statements were examined by other certified public accountants whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the investment in and equity in earnings of RCN is based solely upon the report of such other accountants. The investment in RCN 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 accountants, the aforementioned consolidated financial statements, 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 the consolidated operating results and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have also examined the related Schedules IV and XVII, V, VI and XVI of Associated Retail Stores, Inc. and Consolidated Subsidiaries for the year ended January 30, 1971. 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.

Ernst & Ernst

CERTIFIED PUBLIC ACCOUNTANTS

March 24, 1971
New York, New York

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

The Board of Directors
Reinsurance Corp. of Nebraska:

We have examined the balance sheets of Reinsurance Corp. of Nebraska as of December 31, 1971 and 1970 and the related statements of operations, capital stock and surplus and changes in financial position for the year ended December 31, 1971 and for the period from inception of operations (March 3, 1970) to December 31, 1970. 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 financial position of Reinsurance Corp. of Nebraska at December 31, 1971 and 1970 and the results of operations, changes in capital stock and surplus and changes in financial position for the year ended December 31, 1971 and for the period from inception of operations (March 3, 1970) to December 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, which we approve, in recording of investments in stock as explained in note 2 to the financial statements.

PEAT, MARWICK, MITCHELL & CO.

Omaha, Nebraska
March 10, 1972

PRICE WATERHOUSE & CO.

606 SOUTH OLIVE STREET

LOS ANGELES 90014

April 7, 1972

To the Board of Directors and
Stockholders of Blue Chip Stamps

We have examined the consolidated balance sheet of Blue Chip Stamps and its majority-owned subsidiary at March 4, 1972 and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal year then ended (not presented separately herein). Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 11 to the above mentioned consolidated financial statements, the Company is subject to certain legal proceedings as to which counsel is not able to predict the ultimate outcome.

In our opinion, subject to the effect, if any, of the legal proceedings referred to in the preceding paragraph, the above mentioned consolidated financial statements examined by us present fairly the financial position of Blue Chip Stamps and its majority-owned subsidiary at March 4, 1972 and the results of its operations and changes in financial position for the fiscal year then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

CONSOLIDATED BALANCE SHEET

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	January 29, 1972	January 30, 1971
ASSETS		
CURRENT ASSETS		
Cash	$ 874,205	$ 2,934,492
Short-term commercial paper and other marketable securities - at cost, which approximates market	999,278	141,000
Accounts receivable	218,624	237,790
Merchandise inventories - Note B	4,484,384	3,817,530
Prepaid expenses	181,279	135,328
TOTAL CURRENT ASSETS	6,757,770	7,266,140
INVESTMENTS AND OTHER ASSETS		
Investment in unconsolidated subsidiary - Notes A and C	6,242,199	3,877,028
Investment in affiliated companies - Notes C, E and K	4,613,373	5,964,085
Other security investments - Notes C and K	3,769,225	3,715,189
Other assets	682,832	698,739
	15,307,629	14,255,041
PROPERTY, PLANT AND EQUIPMENT - at cost, less allowance for depreciation and amortization of $1,331,812 and $1,185,656 - Notes D and L	1,885,693	1,909,246
	$23,951,092	$23,430,427
LIABILITIES		
CURRENT LIABILITIES		
Trade and sundry accounts payable	$ 1,051,584	$ 956,574
Salaries, wages and bonuses	160,001	159,683
Taxes on income - Note I	256,052	410,947
Current portion of long-term debt	-0-	169,987
TOTAL CURRENT LIABILITIES	1,467,637	1,697,191
LONG-TERM DEBT - less current maturities - Note E	7,791,544	7,437,306
DEFERRED CREDIT - unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A	688,445	819,575
STOCKHOLDERS' EQUITY - Note J		
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 - Note E	8,003,466	7,476,355
	14,003,466	13,476,355
COMMITMENTS AND CONTINGENT LIABILITIES - Notes F, G and H		
	$23,951,092	$23,430,427

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended January 29, 1972 (52 weeks)	Fiscal year ended January 30, 1971 (52 weeks)
Net sales (including leased department sales)	$38,597,747	$39,832,326
Cost of goods sold	25,687,843	26,443,983
	12,909,904	13,388,343
Selling, general and administrative expenses	11,438,302	10,825,060
	1,471,602	2,563,283
Other income and (deductions):		
Amortization of excess of net assets of subsidiaries over acquisition cost	131,130	131,130
Dividends	135,463	153,041
Interest and financing cost	(673,049)	(646,908)
Interest income	28,869	229,979
Miscellaneous	188,626	114,022
EARNINGS BEFORE TAXES ON INCOME, EXTRAORDINARY ITEM AND EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY	1,282,641	2,544,547
Taxes on income:		
Federal	378,000	911,309
State and local	245,000	320,000
	623,000	1,231,309
EARNINGS BEFORE EXTRAORDINARY ITEM AND EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY	659,641	1,313,238
Extraordinary item - additional income taxes related to sale of subsidiary - Note I	111,000	-0-
EARNINGS BEFORE EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY	548,641	1,313,238
Equity in earnings of unconsolidated subsidiary - Note A	362,606	24,204
NET EARNINGS	$ 911,247	$ 1,337,442
Earnings per share:		
Earnings before extraordinary item and equity in earnings of unconsolidated subsidiary	$ .66	$ 1.31
Extraordinary item	(.11)	.00
Equity in earnings of unconsolidated subsidiary	.36	.03
Net earnings	.91	1.34

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended January 29, 1972	Fiscal year ended January 30, 1971
Balance at beginning of year	$7,476,355	$5,754,777
Net earnings for the year	911,247	1,337,442
Equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary, less provision for income taxes - Note A	(384,136)	384,136
BALANCE AT END OF YEAR - Note E	$8,003,466	$7,476,355

( ) indicate red figure.

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended January 29, 1972	Fiscal year ended January 30, 1971
APPLICATION OF FUNDS		
Investment in affiliated companies		$ 5,964,085
Investment in unconsolidated subsidiary	$2,749,307	3,492,892
Additions to property, plant and equipment	177,766	269,407
Increase in other security investments	54,036	1,942,188
Increase in other assets	12,373	-0-
Reduction of long-term debt	-0-	163,659
	2,993,482	11,832,231
SOURCE OF FUNDS		
From operations:		
Net earnings for the year, excluding extraordinary item	1,022,247	1,337,442
Charges (credits) to income not requiring outlay of working capital:		
Provision for depreciation	189,236	169,806
Amortization of excess of carrying amount of net assets of subsidiary over acquisition costs	(131,130)	(131,130)
Amortization of finance costs	28,280	28,685
TOTAL FROM OPERATIONS, EXCLUDING EXTRAORDINARY ITEM	1,108,633	1,404,803
Extraordinary item - additional income taxes related to sale of subsidiary	(111,000)	-0-
	997,633	1,404,803
Investment in affiliated companies	1,350,712	-0-
Proceeds from long-term borrowing	354,238	837,306
Decrease in other assets	-0-	115,698
Deductions in property, plant and equipment	12,083	22,326
Decrease in long-term note receivable	-0-	4,540,000
	2,714,666	6,920,133
DECREASE IN WORKING CAPITAL	$ 278,816	$ 4,912,098

	1972	1971
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash	($2,060,287)	$ 250,886
Short-term commercial paper and other marketable securities	858,278	(3,201,263)
Notes receivable	-0-	(2,000,000)
Accounts receivable	(19,166)	13,217
Merchandise inventories	660,854	(140,334)
Prepaid expenses	45,951	60,875
	(508,370)	(5,016,619)
Current liabilities:		
Trade and sundry accounts payable	95,010	149,613
Salaries, wages and bonuses	318	(6,381)
Taxes on income	(154,895)	(356,618)
Current portion of long-term debt	(169,987)	108,865
	(229,554)	(104,521)
NET CHANGE	$ 278,816	$4,912,098

( ) indicate red figure.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

Note A - Principles of Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiary, Associated Retail Stores, Inc. (Associated). 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 in cash all of the authorized capital stock of a newly-organized company, Reinsurance Corp. of Nebraska (R.C.N.), 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. During the year ended January 29, 1972 Associated contributed additional capital to this subsidiary consisting of marketable securities with a cost basis of $2,386,701.

Reinsurance is included as an unconsolidated insurance subsidiary and accounted for on the equity method in the accompanying consolidated financial statements; it maintains its records on a calendar-year basis in accordance with state insurance regulations. The investment in this unconsolidated subsidiary and earnings retained in the business have been reduced by $384,136 at December 31, 1971 which represents a reversal of unrealized appreciation of marketable securities, net of applicable income taxes, which was recognized at December 31, 1970 in accordance with general practice in the insurance industry. This reversal was made to conform the accounting practices of Reinsurance, as they relate to the basis for carrying security investments, to the cost basis used in the consolidated financial statements.

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:

January 31, 1970	$3,957,864
January 30, 1971	3,817,530
January 29, 1972	4,484,384

Note C - Investment in Affiliated Companies and Other Security Investments

The Company, Associated and R.C.N. own in the aggregate 11% and 7% of the outstanding common stock of Blue Chip Stamps and Berkshire Hathaway Inc., respectively, as of January 29, 1972. In addition certain related persons own 26% and 36%, respectively, of the outstanding common stock of these companies. Said common stocks of the two affiliated companies on the books of the Company and Associated are carried at a total cost basis of $4,613,373 and $5,964,085 as of January 29, 1972 and January 30, 1971, respectively. On March 14, 1972 Associated acquired 300,000 additional shares of Blue Chip Stamps in exchange for its holdings in Thriftimart, Inc. which are included in other security investments, with a cost basis of $3,562,462, as of January 29, 1972. In February and March 1972 the Company and Associated purchased an additional 11,038 shares of Berkshire Hathaway Inc. at a cost of $810,774. R.C.N. owns common stock in said two affiliated companies with a total cost basis of $4,858,861 and $2,046,730 as of December 31, 1971 and December 31, 1970, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

Note C - (Cont'd) Although disposition of all or any lesser amount of said common stock in affiliated companies is subject to certain restrictions, the aggregate quoted market value of an equivalent number of unrestricted shares at January 29, 1972 exceeds cost.

The financial statements of Blue Chip Stamps as at March 4, 1972 and February 27, 1971 and for the two fiscal years then ended reflect the following:

ASSETS

	March 4, 1972	February 27, 1971
Cash	$ 3,988,000	$ 531,000
Marketable securities - at cost (market value - $131,739,000 in 1972 and $108,065,000 in 1971)	134,731,000	113,168,000
Inventories	14,187,000	17,197,000
Other current assets	9,004,000	11,242,000
Property, fixtures and equipment, etc.	12,639,000	6,284,000
Excess of cost over equity in subsidiary	16,191,000	
TOTAL	$190,740,000	$148,422,000

LIABILITIES

	March 4, 1972	February 27, 1971
Liability for unredeemed trading stamps	$ 8[illegible],000	$ 87,429,000
Current portion of long-term debt	[illegible],45[illegible],000	
Other current liabilities	10,378,000	6,857,000
Note payable - bank (less current portion above)	27,259,000	
Subordinated debentures due 1978	10,840,000	10,840,000
Minority interest in subsidiary	1,185,000	
Stockholders' equity	46,381,000	43,296,000
TOTAL	$190,740,000	$148,422,000

OPERATIONS

	Fiscal Year Ended March 4, 1972	Fiscal Year Ended February 27, 1971
Stamp service revenue	$102,540,000	$120,015,000
Interest and dividends	6,359,000	6,203,000
Sales by subsidiary and other revenues	5,203,000	1,566,000
TOTAL	$114,102,000	$127,784,000
Earnings before securities losses	$ 5,907,000	$ 8,739,000
Net earnings	$ 4,214,000	$ 8,584,000
Earnings per share before securities losses	$ 1.15	$ 1.72
Net earnings per share	$ .82	$ 1.69

Note C - (Cont'd) In addition such financial statements include the following note (the "Company" refers to Blue Chip Stamps):

"Legal proceedings: Pursuant to a consent final judgment entered in 1967 by the United States District Court, the Company within thirty months after April 6, 1970 is required to submit to the court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. The Company believes that such a sale, if consummated, would have a materially adverse effect on revenues and earnings, and under existing market conditions might have a materially adverse effect on its ability to continue its trading stamp business.

"The Company is a defendant in eleven private anti-trust actions seeking treble damages, together with attorneys' fees and costs. Damages aggregating to $6,050,000 have been claimed in two of these actions; plaintiffs in the other actions assert injuries in amounts not yet ascertained. Based on information currently available to them, in the opinion of counsel for the Company substantial defenses are available in all of these actions but no prediction can be made as to their ultimate outcome.

"The Company is a defendant in a purported class action to recover for stamp savers monies collected as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that the redemption transaction is not taxable and all such collections should be returned, or alternatively that such collections exceeded the tax payable and such excess should be returned. The Company has paid sales taxes to the State equal to its reimbursement collections, which in recent years have averaged about $7,000,000 annually. In the opinion of counsel for the Company, substantial defenses are available and claims have been asserted against the State for reimbursement for all or part of any recovery by plaintiffs, but counsel cannot predict the ultimate outcome of the action.

"Judgment was recently entered in favor of the State in a purported taxpayers' suit to compel the State to collect sales taxes from the Company in respect of its stamp service revenues. The State has consistently taken the position that the furnishing of a trading stamp service to merchants does not constitute the sale of tangible personal property so that the sales tax does not apply. Time for appeal has not yet expired.

"A purported class action was filed on November 10, 1970 against the Company and certain of its present and former stockholders and directors. The complaint was filed on behalf of retailer users of Blue Chip Stamps who failed to purchase stock of Blue Chip Stamps in a 1968 offering to retailer users. The complaint alleges damages to plaintiffs of $21,400,000, together with exemplary damages of $25,000,000, interest, attorneys' fees and costs, and prays that plaintiffs have the right to purchase stock, or units of stock and debentures, of Blue Chip Stamps on the terms of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

Note C - (Cont'd) the 1968 offering. The action was dismissed with prejudice by the United States District Court and an appeal by the plaintiff is pending. On June 21, 1971 plaintiffs filed a substantially identical action against the same defendants in the Los Angeles County Superior Court. The Company has not yet been served with process in the more recent action. In the opinion of counsel for the Company, upon the facts known, the complaints are without merit and all defendants should prevail.

"The Company, together with a number of oil companies and supermarket chains, was named as a defendant in an anti-trust action filed on July 12, 1971 by a California corporation engaged in the trading stamp business. The complaint asserts injuries in excess of $160,000,000 and seeks treble damages plus attorneys' fees and costs. The Company has not been served with process. In the opinion of counsel for the Company, upon the facts known, the action is without substantial merit."

After giving effect to the shares of Blue Chip Stamps acquired on March 14, 1972, Associated and R.C.N. had an approximate 16.7% interest in Blue Chip Stamps; the cost of this investment exceeds the underlying equity in net assets by approximately $2,270,000.

The financial statements of Berkshire Hathaway Inc. reflect a stockholders' equity of $56,170,000 at January 1, 1972 and net earnings of $7,685,000 for the year then ended. After giving effect to the purchase of additional shares in February and March 1972, the Company, Associated and R.C.N. had an approximate 7.7% interest in Berkshire Hathaway Inc.; the underlying equity in net assets exceeds the cost of this investment by approximately $480,000.

Had the Company reported its investment in Blue Chip Stamps and Berkshire Hathaway Inc. on the equity method of accounting during the years ended January 29, 1972 and January 30, 1971, as will be required by the Accounting Principles Board Opinion No. 18 for the year ended February 3, 1973, the Company's net earnings for the years ended January 29, 1972 and January 30, 1971 would have been increased by approximately $670,000 and $350,000, respectively, representing the aggregate pro rata share of net earnings applicable to the Company, Associated and R.C.N. less dividends received (net of income taxes thereon) by Associated and R.C.N. from these corporations of $115,000 and $54,000, respectively. In the opinion of the management of Associated, Associated did not have the ability to exercise significant influence over Thriftimart, Inc., or The New Yorker Magazine, Inc. (in which investments are also held by Associated and R.C.N.).

Note D - 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 for 1972 and 1971 was $189,236 and $169,806, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

Note E - Long-Term Debt:

	January 29, 1972	January 30, 1971
8% Debentures	$6,600,000	$6,600,000
9% Notes payable	1,191,544	841,042
4% Mortgage payable	-0-	166,251
	7,791,544	7,607,293
Less current portion	-0-	169,987
	$7,791,544	$7,437,306

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% of the principal amount of each such Debenture to October 31, 1972 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, 1972. 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 29, 1972 earnings retained in the business were not subject to such restrictions.

Notes payable were issued 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 CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972 and January 30, 1971

Note F - Leases

Associated has entered into leases covering 68 stores and its New York offices. The leases expire at various dates through 1986 and, with respect to 55 stores and the New York offices, provide for basic annual rentals of approximately $1,450,000. Rentals for the remaining 13 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.

Note G - Pension Plan

Associated has a non-contributory pension plan covering eligible full-time employees. The total pension expense for the years ended January 29, 1972 and January 30, 1971 was $64,000 and $65,000, respectively, which includes amortization of past-service liability of $168,000 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 H - 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.

Associated has been notified that the premises occupied by two of its principal stores have been condemned by the municipality in which they are located. One of the premises is owned by Associated and is reflected in the consolidated balance sheet at a depreciated cost of $885,249. Management is contesting such proceedings.

(See "Item 5, Pending Legal Proceedings.")

Note I - Taxes on Income

On December 1, 1969 the Company received a non-interest bearing note due February 1, 1971 for $4,540,000 in partial payment in connection with its sale of the capital stock of Hochschild, Kohn & Co., Incorporated, one of its then two wholly-owned subsidiaries. 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.

Interest income imputed at a rate of 5% has been recognized this year on the above note receivable for income tax purposes only; related income taxes amounting to $111,000, which has the effect of increasing the loss previously recognized on the sale of this subsidiary, have been reflected as an extraordinary item in the accompanying statement of consolidated earnings for the year ended January 29, 1972.

The Company and its subsidiary (including R.C.N.) file consolidated federal income tax returns. Such returns have been examined through February 1, 1969. In management's opinion, there will be no material assessments for unexamined years.

Note I - (Cont'd) Earnings subject to federal income tax for the fiscal years ended January 29, 1972 and January 30, 1971 were reduced by approximately $115,000 and $130,000, respectively, as a result of the dividends received deduction.

Associated has adopted the policy of offsetting investment credits against income tax expense in the year utilized. Investment credits for the two years ended January 29, 1972 were not material.

Note J - Capital Changes

There were no changes in the capital stock and additional paid-in capital accounts during the years ended January 29, 1972 and January 30, 1971.

Note K - 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 investment in affiliated companies and other security investments was purchased either from or through related parties.

Note L - 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 20 to 33 years for buildings, 4 to 14 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 29, 1972	January 30, 1971
ASSETS		
Cash	$ 84,840	$ 690
Due from subsidiary	21,000	20,000
Investment in affiliated company - Notes B and C	1,128,634	846,596
Equity in net assets of subsidiary - Note A	21,028,344	20,603,896
Unamortized cost of long-term financing	387,476	416,487
	$22,650,294	$21,887,669
LIABILITIES		
Accounts payable and accrued expenses	$ 166,839	$ 150,697
8% Debentures - Note B	6,600,000	6,600,000
9% Notes payable - Note B	1,191,544	841,042
Unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A	688,445	819,575
Stockholders' equity - Note D:		
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 $2,470,954 and $1,935,506 represent equity in undistributed earnings and unrealized appreciation of marketable securities of subsidiary - Note B	8,003,466	7,476,355
	14,003,466	13,476,355
	$22,650,294	$21,887,669

See notes to financial statements.

STATEMENT OF EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended January 29, 1972 (52 weeks)	Fiscal year ended January 30, 1971 (52 weeks)
Income:		
Dividends	$315,000	$ 172,883
Amortization of excess of net assets of subsidiaries over acquisition cost	131,130	131,130
	446,130	304,013
Expenses:		
General and administrative expenses	20,253	23,297
Interest and financing costs	640,214	565,914
	660,467	589,211
LOSS BEFORE TAXES ON INCOME AND EXTRAORDINARY ITEM	(214,337)	(285,198)
Federal income taxes:		
Income-tax credit - Note E	(317,000)	(289,000)
Overprovision of prior years' income taxes	-0-	(44,691)
	(317,000)	(333,691)
EARNINGS BEFORE EXTRAORDINARY ITEM	102,663	48,493
Extraordinary item - additional income taxes related to sale of subsidiary - Note F	111,000	-0-
(LOSS) EARNINGS OF THE COMPANY	(8,337)	48,493
Equity of Company in undistributed net earnings of subsidiary (dividends received from the subsidiary are included above)	919,584	1,288,949
NET EARNINGS OF THE COMPANY AND SUBSIDIARY ON A CONSOLIDATED BASIS	$911,247	$1,337,442
Earnings per share:		
Earnings before extraordinary item	$.10	$ .05
Extraordinary item	(.11)	.00
Equity of Company in undistributed net earnings of subsidiary	.92	1.29
Net earnings of the Company and subsidiary on a consolidated basis	.91	1.34

( ) indicate red figure.

See notes to financial statements.

STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended January 29, 1972	Fiscal year ended January 30, 1971
Balance at beginning of year	$7,476,355	$5,754,777
Net earnings of the Company and subsidiary on a consolidated basis for the year	911,247	1,337,442
Equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes	(384,136)	384,136
BALANCE AT END OF YEAR - Note B	$8,003,466	$7,476,355

( ) indicate red figure.

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended January 29, 1972	Fiscal year ended January 30, 1971
SOURCE OF FUNDS		
From operations:		
Net earnings for the year	$1,022,247	$1,337,442
Amortization of excess of carrying amount of net assets of subsidiary over acquisition costs	(131,130)	(131,130)
Amortization of long-term financing costs	28,280	28,685
TOTAL FROM OPERATIONS, EXCLUDING EXTRAORDINARY ITEM	919,397	1,234,997
Extraordinary item - additional income taxes related to sale of subsidiary	111,000	-0-
	1,030,397	1,234,997
Reduction of investment in subsidiary resulting from extraordinary charge	(111,000)	-0-
Proceeds from long-term borrowing	350,502	841,042
	1,269,899	2,076,039
APPLICATION OF FUNDS		
Equity in net assets of subsidiary and other assets	918,853	1,289,680
Investment in affiliated company	282,038	846,596
	1,200,891	2,136,276
DECREASE IN WORKING CAPITAL	$ 69,008	$ 60,237

	1972	1971
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash	$84,150	($ 3,383)
Due from subsidiary	1,000	20,000
Recoverable federal income taxes	-0-	(58,157)
	85,150	(41,540)
Current liabilities:		
Accounts payable and accrued expenses	16,142	18,697
NET CHANGE	$69,008	$60,237

( ) indicate red figure.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

January 29, 1972 and January 30, 1971

Note A - The investment in the Company's wholly-owned subsidiary, Associated Retail Stores, Inc. (Associated) 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% of the principal amount of each such Debenture to October 31, 1972 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, 1972. 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 29, 1972 earnings retained in the business were not subject to such restrictions.

The notes payable were issued 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 C - The Company, Associated and the unconsolidated insurance subsidiary of Associated (R.C.N.) own in the aggregate 11% and 7% of the outstanding common stock of Blue Chip Stamps and Berkshire Hathaway Inc., respectively, as of January 29, 1972. In addition certain related persons own 26% and 36%, respectively, of the outstanding common stock of these companies. On March 14, 1972 Associated acquired 300,000 additional shares of Blue Chip Stamps in exchange for its holdings in Thriftimart, Inc. which are included in other security investments, with a cost basis of $3,562,462 as of January 29, 1972. In February and March 1972 the Company and Associated purchased an additional 11,038 shares of Berkshire Hathaway Inc. at a cost of $810,774. Although disposition of all or any lesser amount of said common stock in affiliated companies is subject to certain restrictions, the aggregate quoted market value of an equivalent number of unrestricted shares at January 29, 1972 exceeds cost.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

January 29, 1972 and January 30, 1971

Note C - (Cont'd) The financial statements of Blue Chip Stamps as at March 4, 1972 and February 27, 1971 and for the two fiscal years then ended reflect the following:

ASSETS

	March 4, 1972	February 27, 1971
Cash	$ 3,988,000	$ 531,000
Marketable securities - at cost (market value - $131,739,000 in 1972 and $108,065,000 in 1971)	134,731,000	113,168,000
Inventories	14,187,000	17,197,000
Other current assets	9,004,000	11,242,000
Property, fixtures and equipment, etc.	12,639,000	6,284,000
Excess of cost over equity in subsidiary	16,191,000	
TOTAL	$190,740,000	$148,422,000

LIABILITIES

	March 4, 1972	February 27, 1971
Liability for unredeemed trading stamps	$ 89,245,000	$ 87,429,000
Current portion of long-term debt	5,452,000	
Other current liabilities	10,378,000	6,857,000
Note payable - bank (less current portion above)	27,259,000	
Subordinated debentures due 1978	10,840,000	10,840,000
Minority interest in subsidiary	1,185,000	
Stockholders' equity	46,381,000	43,296,000
TOTAL	$190,740,000	$148,422,000

OPERATIONS

	Fiscal Year Ended	
	March 4, 1972	February 27, 1971
Stamp service revenue	$102,540,000	$120,015,000
Interest and dividends	6,359,000	6,203,000
Sales by subsidiary and other revenues	5,203,000	1,566,000
TOTAL	$114,102,000	$127,784,000
Earnings before securities losses	$ 5,907,000	$ 8,7[illegible]9,000
Net earnings	$ 4,214,000	$ 8,584,000
Earnings per share before securities losses	$1.15	$1.72
Net earnings per share	$ .82	$1.69

Note C - (Cont'd) In addition such financial statements include the following note (the "Company" refers to Blue Chip Stamps):

"Legal proceedings: Pursuant to a consent final judgment entered in 1967 by the United States District Court, the Company within thirty months after April 6, 1970 is required to submit to the court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. The Company believes that such a sale, if consummated, would have a materially adverse effect on revenues and earnings, and under existing market conditions might have a materially adverse effect on its ability to continue its trading stamp business.

"The Company is a defendant in eleven private antitrust actions seeking treble damages, together with attorneys' fees and costs. Damages aggregating $6,050,000 have been claimed in two of these actions; plaintiffs in the other actions assert injuries in amounts not yet ascertained. Based on information currently available to them, in the opinion of counsel for the Company substantial defenses are available in all of these actions but no prediction can be made as to their ultimate outcome.

"The Company is a defendant in a purported class action to recover for stamp savers monies collected as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that the redemption transaction is not taxable and all such collections should be returned, or alternatively that such collections exceeded the tax payable and such excess should be returned. The Company has paid sales taxes to the State equal to its reimbursement collections, which in recent years have averaged about $7,000,000 annually. In the opinion of counsel for the Company, substantial defenses are available and claims have been asserted against the State for reimbursement for all or part of any recovery by plaintiffs, but counsel cannot predict the ultimate outcome of the action.

"Judgment was recently entered in favor of the State in a purported taxpayers' suit to compel the State to collect sales taxes from the Company in respect of its stamp service revenues. The State has consistently taken the position that the furnishing of a trading stamp service to merchants does not constitute the sale of tangible personal property so that the sales tax does not apply. Time for appeal has not yet expired.

"A purported class action was filed on November 10, 1970 against the Company and certain of its present and former stockholders and directors. The complaint was filed on behalf of retailer users of Blue Chip Stamps who failed to purchase stock of Blue Chip Stamps in a 1968 offering to retailer users. The complaint alleges damages to plaintiffs of $21,400,000, together with exemplary damages of $25,000,000, Note C - (Cont'd)

interest, attorneys' fees and costs, and prays that plaintiffs have the right to purchase stock, or units of stock and debentures, of Blue Chip Stamps on the terms of the 1968 offering. The action was dismissed with prejudice by the United States District Court and an appeal by the plaintiff is pending. On June 21, 1971 plaintiffs filed a substantially identical action against the same defendants in the Los Angeles County Superior Court. The Company has not yet been served with process in the more recent action. In the opinion of counsel for the Company, upon the facts known, the complaints are without merit and all defendants should prevail.

"The Company, together with a number of oil companies and supermarket chains, was named as a defendant in an antitrust action filed on July 12, 1971 by a California corporation engaged in the trading stamp business. The complaint asserts injuries in excess of $160,000,000 and seeks treble damages plus attorneys' fees and costs. The Company has not been served with process. In the opinion of counsel for the Company, upon the facts known, the action is without substantial merit."

After giving effect to the shares of Blue Chip Stamps acquired on March 14, 1972, Associated and R.C.N. had an approximate 16.7% interest in Blue Chip Stamps; the cost of this investment exceeds the underlying equity in net assets by approximately $2,270,000.

The financial statements of Berkshire Hathaway Inc. reflect a stockholders' equity of $56,170,000 at January 1, 1972 and net earnings of $7,685,000 for the year then ended. After giving effect to the purchase of additional shares in February and March 1972, the Company, Associated and R.C.N. had an approximate 7.7% interest in Berkshire Hathaway Inc.; and the underlying equity in net assets exceeds the cost of this investment by approximately $480,000.

Had the Company reported its investment in these affiliated companies on the equity method of accounting during the years ended January 29, 1972 and January 30, 1971, as will be required by the Accounting Principles Board Opinion No. 18 for the year ended February 3, 1973, the Company's net earnings for the years ended January 29, 1972 and January 30, 1971 would have been increased by approximately $670,000 and $350,000, respectively, representing the aggregate pro rata share of net earnings applicable to the Company, Associated and R.C.N. less dividends received (net of income taxes thereon) by Associated and R.C.N. from these corporations of $115,000 and $54,000, respectively.

Note D - There were no changes in the capital stock and additional paid-in capital accounts during the years ended January 29, 1972 and January 30, 1971.

Note E - The policy of filing a consolidated tax return has resulted in tax credits to the parent company for fiscal years 1971 and 1972.

Note F - On December 1, 1969 the Company received a non-interest bearing note due February 1, 1971 for $4,540,000 in partial payment in connection with its sale of the capital stock of Hochschild, Kohn & Co., Incorporated, one of its then two wholly-owned subsidiaries. Interest income imputed at a rate of 5% has been recognized this year on the above note receivable for income tax purposes only; related income taxes amounting to $111,000, which has the effect of increasing the loss previously recognized on the sale of this subsidiary, have been reflected as an extraordinary item in the accompanying statement of earnings for the year ended January 29, 1972.

SCHEDULE I - SHORT-TERM COMMERCIAL PAPER, MARKETABLE SECURITIES

AND OTHER SECURITY INVESTMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

January 29, 1972

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:			
Dow Chemical Company commercial paper - 3.87% due February 14, 1972	$1,000,000	$ 998,278	$ 998,278
Federal Land Bank 5.70% due February 15, 1972	1,000	1,000	1,000
		$ 999,278	$ 999,278
Other security investments:			
Thriftimart, Inc. Class A Common Stock (1)	270,584 shares	$3,562,462	$2,807,309
New Yorker Magazine, Inc. Common Stock (2)	5,731 shares	206,763	194,854
		$3,769,225	$3,002,163

(1) See Note C to consolidated financial statements.

(2) Additional shares of this company are owned by Reinsurance Corp. of Nebraska (unconsolidated subsidiary). See schedule II for Reinsurance.

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 29, 1972:								
Unconsolidated subsidiary:								
Reinsurance Corp. of Nebraska Common Stock	5,000	$3,877,028		$ 362,606 (1) 2,386,701 (2) $2,749,307		$ 384,136 (3)	5,000	$6,242,199
Affiliates (4), (5):								
Blue Chip Stamps Common Stock	396,900	$4,979,039			105,000	$1,632,750 (6)	291,900	$3,346,289 (8)
Berkshire Hathaway, Inc. Common Stock	24,515	985,046	4,549	$ 282,038			29,064	1,267,084
		$5,964,085						$4,613,373

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 30, 1971:								
Unconsolidated subsidiary:								
Reinsurance Corp. of Nebraska							5,000	$3,877,028
Common Stock			5,000	$ 24,204 (1)				
				3,468,688 (2)				
				384,136 (3)				
				$3,877,028				
Affiliates (4) (5):								
Blue Chip Stamps								
Common Stock	114,000	$1,773,000	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

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
Parent company only:								
Year ended January 29, 1972:								
Associated Retail Stores, Inc. Common Stock	453,000	$20,603,896		$ 919,584 (1)		$384,136 (3) 111,000 (7) $495,136	453,000	$21,028,344
Affiliate:								
Berkshire Hathaway, Inc. Common Stock	21,075	$ 846,596	4,549	$ 282,038			25,624	$ 1,128,634

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 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)				
				$1,673,085				
Affiliate (4) (5):								
Berkshire Hathaway, Inc. Common Stock			21,075	$ 846,596			21,075	$ 846,596

(1) Equity of the Company in undistributed net earnings of subsidiary.
(2) Capital contribution (see note (6) below).
(3) 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 II for the insurance company.
(6) Contributed to Reinsurance Corp. of Nebraska (unconsolidated subsidiary) as additional paid-in capital. See note (2) above.
(7) Additional income taxes related to sale of subsidiary - proceeds of sale originally credited to additional paid-in capital of Associated.
(8) Cash dividends of $88,956 and $57,858 were received during the years ended January 29, 1972 and January 30, 1971, respectively.

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	Retirements or Sales	Other Changes—Debit and/or Credit*—Describe	Balance at Close of Period
Year ended January 29, 1972:					
Land	$ 894,722				$ 894,722
Buildings	1,133,683				1,133,683
Fixtures and equipment	718,955	$105,611	$33,107		791,459
Leasehold improvements	347,542	72,155	22,056		397,641
	$3,094,902	$177,766	$55,163		$3,217,505
Year ended January 30, 1971:					
Land	$ 850,157	$ 44,565	$ -0-		$ 894,722
Buildings	1,017,471	116,212	-0-		1,133,683
Fixtures and equipment	675,523	65,339	21,907		718,955
Leasehold improvements	345,057	43,291	40,806		347,542
	$2,888,208	$269,407	$62,713		$3,094,902

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

SCHEDULE VI—RESERVES FOR DEPRECIATION, DEPLETION, 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 29, 1972:						
Buildings	$ 658,607	$ 45,004				$ 703,611
Furniture and equipment	361,236	89,903		$27,446		423,693
Leasehold improvements	165,813	54,329		15,634		204,508
	$1,185,656	$189,236		$43,080		$1,331,812
Year ended January 30, 1971:						
Buildings	$ 616,744	$ 41,863		$ -0-		$ 658,607
Furniture and equipment	301,023	82,053		21,840		361,236
Leasehold improvements	138,470	45,890		18,547		165,813
	$1,056,237	$169,806		$40,387		$1,185,656

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

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DIVERSIFIED RETAILING CO INC 10-K PT 1 & 2

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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 29, 1972:					
Maintenance and repairs	$ 372,315				$ 372,315
Depreciation and amortization	189,236				189,236
Taxes other than taxes on income:					
Real estate	149,652				149,652
State and local	123,430				123,430
Payroll	376,901				376,901
TOTAL TAXES	649,983				649,983
Management and service contract fees	None				None
Rentals	1,706,250				1,706,250
Royalties	None				None
Year ended January 30, 1971:					
Maintenance and repairs	$ 329,401				$ 329,401
Depreciation and amortization	169,806				169,806
Taxes other than taxes on income:					
Real estate	134,496				134,496
State and local	143,902				143,902
Payroll	342,433				342,433
TOTAL TAXES	620,831				620,831
Management and service contract fees	None				None
Rentals	1,699,240				1,699,240
Royalties	None				None

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

REINSURANCE CORP. OF NEBRASKA

Balance Sheets

December 31, 1971 and 1970

Assets	1971	1970
Bonds at amortized value (note 1) (Schedule I)	$ 1,041,612	574,726
Stock (notes 2 and 5) (Schedule II)	6,062,681	3,657,055
Cash and bank deposits	14,028	16,051
Uncollected premiums (net of commissions payable of $103,139, 1971; $61,539, 1970)	329,430	117,216
Interest due and accrued	23,429	25,381
Prepaid acquisition costs	164,320	52,089
Other assets	505	631
	$ 7,636,005	4,443,149

Liabilities, Capital Stock and Surplus	1971	1970
Losses and claims (note 3)	$ 409,513	44,012
Loss adjustment expenses	86,525	9,179
Unearned premiums (note 5) (Schedule VII)	720,389	239,161
Assumed losses payable	60,366	26,760
Federal income taxes:		
Current	86,000	-
Deferred	30,000	154,624
	116,000	154,624
Due to brokers	-	91,940
Other liabilities	1,013	444
	1,393,806	566,120
Capital stock and surplus:		
Capital stock par value $100 authorized, issued, and outstanding 5,000 shares (note 4)	500,000	500,000
Surplus:		
Paid-in	5,355,389	2,968,688
Unassigned	386,810	408,341
Total surplus	5,742,199	3,377,029
	6,242,199	3,877,029
	$ 7,636,005	4,443,149

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statements of Operations

Year ended December 31, 1971 and
period from inception of operations
(March 3, 1970) to December 31, 1970

	1971	1970
Underwriting income (loss):		
Net premiums written (Schedule VII)	$ 1,433,640	348,327
Increase in unearned premiums	481,228	239,161
Premiums earned (Schedule VII)	952,412	109,166
Losses incurred (Schedule VII)	588,492	74,042
Loss adjustment expense incurred (Schedule VII)	94,663	10,589
	683,155	84,631
	269,257	24,535
Underwriting expenses incurred:		
Commissions and brokerage	326,155	116,837
Taxes, licenses and fees	179	104
Other underwriting expenses	1,846	1,784
Increase in prepaid acquisition costs	(112,231)	(52,089)
	215,949	66,636
Gain (loss) from underwriting	53,308	(42,101)
Investment income:		
Interest on bonds	72,385	47,779
Dividends	68,337	18,892
Total investment income	140,722	66,671
Investment expenses	1,564	607
Net investment income	139,158	66,064
Income before provision for income taxes	192,466	23,963
Deferred Federal income taxes	30,000	-
Earnings from operations	162,466	23,963
Realized gains on investments	286,140	241
Less Federal income taxes on gain	86,000	-
Net realized gains on investments	200,140	241
Net income	$ 362,606	24,204

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statements of Capital Stock and Surplus

Year ended December 31, 1971 and
period from inception of operations
(March 3, 1970) to December 31, 1970

Capital Stock

	1971		1970	
	Number of shares	Par value	Number of shares	Par value
Balance at beginning of period	5,000	$ 500,000	-	$ -
Sale of capital stock to incorporators (note 4)	-	-	5,000	500,000
Balance at end of period	5,000	$ 500,000	5,000	$ 500,000

Surplus

	1971		1970	
	Paid-in	Unassigned	Paid-in	Unassigned
Balance at beginning of period	$ 2,968,688	408,341	-	-
Excess of proceeds over par value of capital stock issued (note 4)	-	-	2,968,688	-
Net income	-	362,606	-	24,204
Unrealized gain from excess of market value over book value of stocks, net of Federal income taxes (note 2)	-	(384,137)	-	384,137
Contribution by parent (note 4)	2,386,701	-	-	-
Balance at end of period	$ 5,355,389	386,810	2,968,688	408,341

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Statements of Changes in Financial Position

Year ended December 31, 1971 and
period from inception of operations
(March 3, 1970) to December 31, 1970

	1971	Inception (Mar.3,1970) to Dec.31,1970
Funds provided:		
From operations:		
Net income	$ 362,606	24,204
Charges (credits) to income not requiring (providing) funds:		
Increase in loss and loss expense reserves	442,846	53,191
Increase in unearned premium reserves	481,227	239,161
Increase in assumed losses payable	33,607	26,760
Increase in deferred taxes	30,000	-
Increase in accrued taxes and expenses	86,570	444
Increase in uncollected premiums	(212,214)	(117,216)
Decrease (increase) in interest receivable	1,952	(25,381)
Increase in prepaid acquisition costs	(112,231)	(52,089)
Decrease (increase) in organization expense	126	(631)
Funds provided from operations	1,114,489	148,443
From investments sold or matured:		
Bonds	1,957,443	1,944,765
Common stocks	647,775	-
	2,605,218	1,944,765
Proceeds from sale of capital stock	-	3,468,688
Contribution by parent (note 4)	2,386,701	-
Decrease in cash	2,023	-
Total funds provided	$ 6,108,431	5,561,896
Funds used:		
Cost of investments purchased:		
Bonds	2,516,269	2,427,551
Common stocks	3,592,162	3,118,294
	6,108,431	5,545,845
Increase in cash	-	16,051
	$ 6,108,431	5,561,896

See accompanying notes to financial statements.

REINSURANCE CORP. OF NEBRASKA

Notes to Financial Statements

December 31, 1971 and 1970

(1) Bonds:
Bonds are stated at amortized cost. Bonds carried at $98,318 and $97,324 are on deposit with the State of Nebraska at December 31, 1971 and 1970, respectively as required by law.

(2) Change in Accounting for Investments in Stock:
Beginning in 1971 the company recorded its investments in stock at cost to be consistent with its parent company. Such investments were previously recorded at current market value. This change had the effect of decreasing the investment in common stock and unassigned surplus by $384,137.

(3) 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.

(4) 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 $968,688 and $2,500,000 in cash for all of the outstanding capital stock of the company by Associated Retail Stores, Inc. (Parent).

During 1971 the Parent contributed certain stock to the company. Such stock was recorded in the accounts at the Parent's cost of $2,386,701.

(5) Investments to be Reported on an Equity Method:
The investments in Blue Chip Stamps and Berkshire Hathaway, Inc. are carried at cost with dividends received thereon reflected in the accompanying statement of income. These investments meet the criteria set forth by the American Institute of Certified Public Accountants Accounting Principles Board for investments which must be reported on an equity method for all fiscal periods beginning after December 31, 1971. The retroactive effect in future financial statements based on unaudited information will be an increase in net earnings of approximately $305,000 and $28,000 for the periods ended December 31, 1971 and 1970, respectively.

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REINSURANCE CORP. OF NEBRASKA

Bonds

December 31, 1971

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 February 1972	$ 160,000	156,492	156,492	156,492	156,492	156,492
Special revenue and special assessment:						
Alabama, Montgomery Industrial Revenue	100,000	100,000	100,000	100,000	100,000	100,000
Arkansas, Danville Industrial Development Revenue	105,000	105,000	105,000	105,000	105,000	105,000
Georgia, Washington-Wilker Payroll Authority	100,000	100,000	100,000	100,000	100,000	100,000
Illinois Toll Road Commission	125,000	91,875	93,234	93,234	93,234	93,234
Indiana Toll Road Commission	150,000	90,000	93,970	93,970	93,970	93,970
Iowa, Burlington Industrial Revenue	100,000	99,000	99,025	99,025	99,025	99,025
Kansas, Lenexa Industrial Revenue	100,000	100,000	100,000	100,000	100,000	100,000
Louisiana, Beauregard Parish Industrial Revenue	20,000	16,100	16,349	16,349	16,349	16,349
Missouri, New Madrid Industrial Revenue	100,000	80,750	81,969	81,969	81,969	81,969
Missouri, Rolla Industrial Revenue	100,000	95,005	95,573	95,573	95,573	95,573
	1,000,000	877,730	885,120	885,120	885,120	885,120
	$ 1,160,000	1,034,222	1,041,612	1,041,612	1,041,612	1,041,612

Schedule I.1

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.2

REINSURANCE CORP. OF NEBRASKA

Stocks - Other Than Stocks of Affiliates

December 31, 1971

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	298,674	298,674
Banks, trusts and insurance companies:					
Girard Company	500	25,125	25,125	27,750	27,750
Harris Trust and Savings of Chicago	50	2,513	2,513	2,719	2,719
National Bank of Detroit	100	5,113	5,113	4,800	4,800
New England Merchants Co., Inc.	100	2,312	2,312	2,400	2,400
Omaha National Corporation	8,800	118,641	118,641	202,400	202,400
Pittsburg National Corporation	100	3,512	3,512	3,550	3,550
State Street Boston Financial	50	1,987	1,987	2,062	2,062
Third National Bank of Nashville, Tennessee	200	4,575	4,575	6,475	6,475
	9,900	163,778	163,778	252,156	252,156
Industrial and miscellaneous:					
Berkshire Hathaway, Inc.	35,067	1,757,986	1,757,986	2,454,690	2,454,690
Blue Chip Stamps	250,000	3,100,875	3,100,875	3,562,500	3,562,500
Grumman Corporation	100	1,723	1,723	1,537	1,537
Kennecott Corporation	100	2,735	2,735	2,438	2,438
New Yorker Magazine, Inc.	12,000	753,951	753,951	396,000	396,000
Northrup Corporation	100	1,952	1,952	2,163	2,163
Washington Post Company	100	2,434	2,434	2,537	2,537
Wesco Financial Corporation	100	1,799	1,799	1,700	1,700
	297,567	5,623,455	5,623,455	6,423,565	6,423,565
Total common stocks	318,529	$ 6,062,681	6,062,681	6,974,395	6,974,395

Schedule II.1

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
Rader 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.2

REINSURANCE CORP. OF NEBRASKA

Summary of Investments in Securities - Other Than Securities of Affiliates

December 31, 1971

Type of security	Actual cost	Book value	Market value	Amortized value	Admitted asset value
Bonds and notes:					
Government	$ 156,492	156,492	156,492	156,492	156,492
Special revenue and special assessment	877,730	885,120	885,120	885,120	885,120
Total bonds and notes	1,034,222	1,041,612	1,041,612	1,041,612	1,041,612
Stocks:					
Common stocks:					
Public utilities	275,448	275,448	298,674	-	298,674
Banks, trust and insurance companies	163,778	163,778	252,156	-	252,156
Industrial and miscellaneous	5,623,455	5,623,455	6,423,565	-	6,423,565
Total stocks	6,062,681	6,062,681	6,974,395	-	6,974,395
Total investments in securities other than securities of affiliates	$ 7,096,903	7,104,293	8,016,007	1,041,612	8,016,007

Schedule V.1

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

REINSURANCE CORP. OF NEBRASKA

Premiums, Losses and Underwriting Expenses

Year ended December 31, 1971

	Part 1 - Premiums				Part 2 - Losses and underwriting expenses			
Line of insurance	Unearned premiums beginning of period	Net premiums written	Unearned premiums end of period	Premium earned during period	Losses incurred during period	Loss expense incurred during period	Commissions and brokerage incurred during period	Other under-writing expense incurred during period
Fire	$ 14,503	477,397	254,843	237,057	217,415	15,674	99,956	743
Allied lines	3,191	91,549	31,764	62,976	5,439	562	19,283	140
Ocean marine	6,807	14,977	7,158	14,626	5,336	753	4,540	16
Inland marine	4,060	29,861	11,642	22,279	4,234	458	7,193	45
Workmen's compensation	1,031	6,631	758	6,904	3,803	598	1,283	8
Liability other than auto	19,509	111,516	34,163	96,862	51,612	28,005	23,735	150
Auto liability	2,936	246,085	33,829	215,192	164,188	14,564	23,870	388
Auto physical damage	184,300	409,637	340,917	253,020	134,851	33,823	139,585	456
Aircraft physical damage	347	5,020	822	4,545	-	72	341	6
Surety	2,477	9,584	4,400	7,661	(1,299)	(413)	2,877	11
International	-	1,203	-	1,203	435	-	120	9
Reinsurance	-	30,001	-	30,001	2,478	311	1,426	25
Other	-	179	93	86	-	256	1,946	28
	$ 239,161	1,433,640	720,389	952,412	588,492	94,663	326,155	2,025

REINSURANCE CORP. OF NEBRASKA

Premiums, Losses and Underwriting Expenses

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

	Part 1 - Premiums				Part 2 - Losses and underwriting expenses			
Line of insurance	Unearned premiums beginning of period	Net premiums written	Unearned premiums end of period	Premiums earned during period	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.2

EXHIBIT A

COMPUTATION OF EARNINGS PER SHARE

	Fiscal year ended				
	January 29, 1972	January 30, 1971	January 31, 1970	February 1, 1969	February 3, 1968
Average shares outstanding (1)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net earnings	$ 911,247(3)	$1,337,442	$ 102,671(2)	$1,997,700	$2,397,499
Per share amount	$ .91	$ 1.34	$ .10	$ 2.00	$ 2.40

(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.

(3) Includes extraordinary loss of $111,000.

END