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DIVERSIFIED RETAILING CO INC 10-K PT 1 & 2

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Diversified Retailing Co., Inc. (Md.) Co: D674000000
1300 Mercentile Bank & Trust Building
Baltimore, Md. 21201
SEC File No: 2-27473 Exch: Other
IRS No: 52-0846159 CUSIP: 2553279
Fiscal Year Ends: 1/29 SIC No: 531

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LEASCO INFORMATION PRODUCTS, INC.

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended
February 3, 1973

Commission file number:
2-27473

DIVERSIFIED RETAILING COMPANY, INC.

State of Incorporation: Maryland

I.R.S. Employer Identification No.
52-0846259

Address of principal executive offices:
1300 Mercantile Bank & Trust Building
2 Hopkins Plaza
Baltimore, Maryland 21201

Registrant's telephone number, including area code: (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.

Indicate by check mark whether the registrant (1) has filed all annual, quarterly and other reports required to be filed with the Commission and (2) has been subject to the filing requirements for at least the past 90 days. Yes __X__ No ____

PART I

ITEM 1. BUSINESS.

A. General

Diversified Retailing Company, Inc. (hereinafter referred to as "the Company"), a Maryland corporation, is a holding company which renders financial and operating advice to its wholly-owned subsidiary, Associated Retail Stores, Inc. (hereinafter referred to as "Associated") and to Associated's subsidiaries. The Company also owns certain marketable securities. The Company has no direct salaried employees and (with certain nominal exceptions noted under ITEM 12. DIRECTORS OF REGISTRANT and/or under ITEM 13. REMUNERATION OF DIRECTORS AND OFFICERS) does not compensate its Directors and Officers for their services. The Company's President, Robert M. Goldman, acts upon material corporate matters only with the approval of the Board of Directors of the Company.

B. Associated Retail Stores, Inc.

Associated, an Illinois corporation, is the Company's wholly-owned subsidiary. Associated operates a chain of sixty-eight (68) stores which sell at retail popularly priced women's and, in a number of stores, children's apparel. The stores are located in downtown, neighborhood and shopping center retail areas of principal cities in nine (9) states, in leased or owned premises (see ITEM 3. PROPERTIES), and operate under various trade names.

Associated seeks to afford its customers a wide variety of available merchandise while reducing its overhead costs to as low a level as is possible. Because of the number of stores operated by Associated, it is able to practice certain economies of scale. All of Associated's stores are served by a central buying and warehousing organization located in New York City, from which the stores' apparel

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NOTE: Unless the text otherwise indicates, all statements made in PART I describe circumstances existing as of February 3, 1973.

lines are administrated. A staff of merchandise managers and buyers maintains daily personal contact with the apparel markets located in New York City and elsewhere. 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 procedures, primarily through the use of a leased IBM 360 computer system with peripheral supporting equipment, in order to identify popular and fast-selling items for rapid replacement, and to identify those items requiring an immediate reduction in price so that they may be sold quickly. In addition, Associated utilizes interchangeable store fixtures to facilitate the opening and closing of its stores. Associated's policy of making sales only for cash or on credit under approved bank charge account plans has allowed it further to avoid unnecessary overhead costs.

Associated regularly employs approximately one thousand five hundred (1,500) full and part-time employees, and seasonally employs an additional two hundred (200) employees. All of its sales personnel are paid at an hourly rate, and none are paid sales commissions. Approximately eighty percent (80%) of Associated's employees are covered by union contracts which expire at various times. There were no significant changes in employee relations during the fiscal year ended February 3, 1973, and Associated's management considers its relations with its employees to be satisfactory.

The business of most of the stores, particularly those in the larger cities, involves intense competition with other stores selling similar merchandise, including discount and department stores, specialty shops and stores operated by national chains.

As discussed under <u>ITEM 3. PROPERTIES</u> and <u>ITEM 5. PENDING LEGAL PROCEEDINGS</u>, two premises upon which Associated operates stores in Philadelphia, Pennsylvania, have been the subject of condemnation proceedings. During the fiscal year ended February 3, 1973, the combined gross sales of the two stores were approximately $2,701,425, which amount represents approximately 7.3% of the aggregate gross sales of all stores operated by Associated. Although Associated has continued to operate both stores during the pendency of those proceedings, Associated has attempted, and will continue to attempt, to assure its ability to continue its present level of operations in the Philadelphia market, should it be unable to continue to occupy and use either or both of the said locations. However, at this time neither the Company nor Associated is able to state with assurance that Associated will be able to retain the right to occupy and use either location on other than a short-term basis, or that it would be able to relocate the operations of either store within the Philadelphia market, should it be unable to retain the said occupancy.

In addition to operating the chain of retail stores, Associated wholly owns three (3) subsidiaries:

(1) Fashion Outlet of Michigan, Inc.

Fashion Outlet of Michigan, Inc. (hereinafter referred to as "Fashion Outlet"), a Michigan corporation, is a wholly-owned subsidiary of Associated which operates, on leased premises, a single popularly priced women's and children's apparel store in Saginaw, Michigan. The store is operated under the name "Fashion Outlet" so as to allow Fashion Outlet to retain the right to use that name in Michigan. The store is similar in its method of operation to a majority of the stores operated directly by Associated. The store is operated by a staff employed by Fashion Outlet.

(2) Anbec, Inc.

Anbec, Inc. (hereinafter referred to as "Anbec"), an Illinois corporation, is a wholly-owned subsidiary of Associated, the sole business of which consists of the ownership of certain improved real property located in Chicago, Illinois, and the leasing of that property to Associated for the latter's operation of one of its retail stores. Anbec has no employees.

(3) Columbia Insurance Company

Columbia Insurance Company* (hereinafter referred to as "Columbia"), a Nebraska corporation, is a wholly-owned subsidiary of Associated which engages solely in the business of accepting portions of reinsurance contracts. Columbia operates under a certificate of authority to transact the business of insurance (with the exceptions of life and title insurance) issued by the Department of Insurance of the State of Nebraska. At present, Columbia's business consists solely of the acceptance of portions of reinsurance contracts generated through and offered to Columbia by the reinsurance division of National Indemnity Company (hereinafter referred to as "National Indemnity"), on occasions when National Indemnity does not itself insure the full amount of contracts offered to it for reinsurance by other insurers. When Columbia accepts from National Indemnity the portion of a reinsurance contract so offered to it, Columbia generally pays to National Indemnity a commission of one-half (1/2) of the standard commission applicable to such business, which standard commission normally is one percent (1%) on "pro rata" business and ten percent (10%) on certain "excess" business. In consideration of Columbia's payment to National Indemnity of such commission, National Indemnity manages the bookkeeping and other internal technical affairs of Columbia.

Approximately 99.95% of the common stock of National Indemnity is owned by Berkshire Hathaway, Inc. (hereinafter referred to as "Berkshire"), a Massachusetts corporation. Although as of February 3, 1973, Warren E. Buffett, a member of his immediate family, the Company

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* Prior to December 26, 1972, the name of the corporation was "Reinsurance Corp. of Nebraska". On that date, pursuant to the unanimous consent of its directors and its sole shareholder, articles of amendment to the articles of incorporation of Reinsurance Corp. of Nebraska were adopted, by which the name of that corporation was changed to "Columbia Insurance Company". Those articles of amendment were filed for record with the Secretary of State of Nebraska on December 28, 1972, and have been approved by the Department of Insurance of the State of Nebraska.

and its subsidiaries owned substantial amounts of the common stock of Berkshire and although Mr. Buffett is the Chairman of the Board of Directors of the Company, of Associated, of Columbia, and of Berkshire (see <u>ITEM 4, PARENTS AND SUBSIDIARIES</u> and <u>ITEM 12, DIRECTORS OF REGISTRANT</u>), both Mr. Buffett and the Company disclaim individual and/or joint control of Berkshire, and National Indemnity is not obligated to offer all or any portion of any reinsurance contract to Columbia. Accordingly, Columbia cannot be certain that it will continue to be offered business through the reinsurance division of National Indemnity, presently its only source of business. Columbia currently is completely dependent upon the continuance of its business arrangements with National Indemnity since Columbia has no independent staff for generating or evaluating business, settling losses or handling other administrative details.

The Company believes that its operations and those of Associated and its subsidiaries have at all times been conducted in accordance with the requirements imposed upon them by the federal wage-price controls.

C. <u>Lines of business and classes of similar products or services</u>

The Company's primary line of business (conducted through its subsidiary, Associated) is the retail sale of women's and children's apparel. Both prior to the fiscal year ended January 29, 1972, and during the fiscal year ended February 3, 1973, that line of business was the Company's only line of business accounting for more than fifteen percent (15%) of either the Company's total sales and revenues or the Company's income (or loss) before taxes and extraordinary items. During the fiscal year ended January 29, 1972, the reinsurance business of the Company's subsidiary's unconsolidated insurance subsidiary, Columbia, represented a second such line of business.

The following table indicates the percentages of (1) total sales and revenues; and (2) income (or loss) before income taxes, equity in earnings of affiliated companies and extraordinary items, attributable to each such line of business during the last five (5) fiscal years:

Line of Business

Fiscal year ended	the retail sale of women's and children's apparel: % of total sales and revenues	the retail sale of women's and children's apparel: % of consolidated income (or loss) before income taxes, equity in earnings of affiliated companies and extraordinary items (a)	reinsurance: % of total sales and revenues	reinsurance: % of consolidated income (or loss) before income taxes, equity in earnings of affiliated companies and extraordinary items (a)
February 1, 1969	100%	100%	(b)	(b)
January 31, 1970	100%	100%	(b)	(b)
January 30, 1971	99.7%	99.5%	0.3%	0.5%
January 29, 1972	97.6%	80.5%	2.4%	19.5%
February 3, 1973	95.8%	97.3%	4.2%	2.7%

Inasmuch as each line of business involves one and only one class of similar products and/or services, the percentages enumerated for a line of business are equally correct for the respective class involved therein.

(a) The Company has no operations other than those of Associated and its subsidiaries; its loss before income taxes and extraordinary items has been excluded in computing these percentages.

(b) Prior to the fiscal year ended January 30, 1971, the Company did not engage in the business of reinsurance.

A. Summary of consolidated operations (in thousands of dollars)

Diversified Retailing Company, Inc. and subsidiary

	Fiscal year ended February 3, 1973	January 29, 1972 (e)	January 30, 1971 (e)	January 31, 1970 (e)	February 1, 1969
Net sales	$38,918	$38,598	$39,832	$39,113	$37,508
Cost of goods sold	25,428	25,080	26,444	26,443	25,573
Interest and financing cost	607	673	647	565	609
Taxes on income	665	617	1,231	1,301	934
Earnings of continuing operations before equities of unconsolidated subsidiary and affiliated companies and extraordinary item	597	577	1,247	1,017	1,244
Earnings related to discontinued operations less applicable income taxes				403	754
Equity in earnings of unconsolidated subsidiary	955	621	93		
Equity in earnings of affiliated companies	1,173	429	380	13	
Extraordinary gain (loss) (a), (c), (d)	193	(111)		(1,319)	
Net earnings	2,918	1,516	1,720	114	1,998
Earnings per share (b):					
Earnings of continuing operations before equities in earnings of unconsolidated subsidiary and affiliated companies and extraordinary item	$ .60	$ .58	$ 1.25	$ 1.02	$ 1.24
Earnings related to discontinued operations less applicable income taxes				.40	.76
Equity in earnings of unconsolidated subsidiary	.96	.62	.09	.01	
Equity in earnings of affiliated companies	1.17	.43	.38	(1.32)	
Extraordinary gain (loss)	.19	(.11)			
Net earnings	2.92	1.52	1.72	.11	2.00
Cash dividends per share	None	None	None	None	None

DISCLOSURE® IF THE ABOVE PAGE IS LESS CLEAR THAN THIS STATEMENT, IT IS DUE TO POOR PHOTOGRAPHIC QUALITY OF THIS DOCUMENT.

(a) 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.

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

(c) The extraordinary loss for fiscal [illegible] resulted from additional income taxes related to the sale of the subsidiary referred to in note (a) above.

(d) The extraordinary gain for fiscal 1973 resulted from the taxable gain on an exchange of securities and is shown net of $83,000 of income taxes.

(e) Restated to reflect a change in 1973 to the equity method of accounting for investments in affiliated companies.

B. Statement of consolidated additional paid-in capital and earnings retained in the business

Diversified Retailing Company, Inc. and Subsidiary

Five years ended February 3, 1973

(in thousands of dollars)

	Additional paid-in capital	Earnings retained in the business
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		114
Balance at January 31, 1970	6,000	5,766
Net earnings for the year ended January 30, 1971		1,720
Unrealised 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	7,870
Net earnings for the year ended January 29, 1972		1,516
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	9,002
Net earnings for the year ended February 3, 1973		2,918
Balance at February 3, 1973	$6,000	$11,920

NOTE: The use of parentheses ( ) indicates a deduction. The notes to the consolidated financial statements are made a part hereof.

ITEM 3. PROPERTIES.

A. General

The operating offices of the Company are located in the law offices of the firm of Frank, Bernstein, Conaway and Goldman, 1300 Mercantile Bank and Trust Building, 2 Hopkins Plaza, Baltimore, Maryland 21201, in which firm Robert M. Goldman, the President of the Company, is a partner. The Company pays no rent for the said offices and, except for certain legal and bookkeeping activities, only limited operational activities of the Company take place therein.

B. Associated Retail Stores, Inc.

The stores operated by Associated (see ITEM 1. BUSINESS) range in size of floor area from approximately two thousand (2,000) square feet to approximately fifty thousand (50,000) square feet. The total floor area of all of the stores is approximately seven hundred fifty thousand (750,000) square feet.

Associated owns the land and improvements of only five of its store locations, all of which are in Chicago, Milwaukee and Philadelphia. One of those locations, however, is the subject of a pending condemnation proceeding. (See ITEM 1. BUSINESS and ITEM 5. PENDING LEGAL PROCEEDINGS.) Its subsidiary, Anbec, owns the land and improvements of one store location (in Chicago), which premises are leased to Associated for the latter's operation of a store. Associated leases its remaining store locations, for terms expiring on dates from 1973 to 1988. One store location is leased on a month-to-month basis. (See ITEM 5. PENDING LEGAL PROCEEDINGS.) The aggregate annual minimum rental paid by Associated for the store locations which it leases is approximately $1,450,000. Most of the leases, however, provide for the payment of additional rent based upon the volume of sales at the particular location, and a few provide for the payment by Associated of applicable real estate taxes and/or other expenses. The furniture and fixtures utilized in the stores are standardized and, in the opinion of the Company, represent a minimum investment.

Associated's executive, buying and administrative offices are located in a New York City warehouse (see ITEM 1. BUSINESS) leased by Associated for a term expiring on December 31, 1973. Associated has made no determination as to whether the lease will be renewed. The warehouse has a floor area of approximately eighty thousand (80,000) square feet. Associated leases an additional twelve thousand (12,000) square feet of floor area in a nearby building.

Fashion Outlet leases the premises upon which it operates its one retail store. Columbia has no independent operating offices and owns no facilities; all of Columbia's activities are conducted by Warren E. Buffett, its President and the Chairman of its Board of Directors, from his offices in Omaha, Nebraska.

ITEM 4. PARENTS AND SUBSIDIARIES.

A. Parents

As of February 3, 1973, Warren E. Buffett owned 39.01%* of the Company's common stock; First Manhattan Co. (of which David S. Gottesman was and is a general partner) held of record ten percent (10%) of that stock; Wheeler, Munger and Co. (of which Charles T. Munger was and is a general partner) owned ten percent (10%) of that stock; and Susan T. Buffett, the spouse of Warren E. Buffett, owned three percent (3%) of that stock. (See ITEM 11. PRINCIPAL SECURITY HOLDERS AND SECURITY HOLDINGS OF MANAGEMENT and ITEM 12. DIRECTORS OF REGISTRANT.) First Manhattan Co. and Wheeler, Munger & Co. each disclaims any status which would cause it to be deemed a parent of the Company.

B. Subsidiaries

The Company owns one hundred percent (100%) of the issued and outstanding voting securities of its subsidiary, Associated Retail

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* This percentage was computed without taking into account Mr. Buffet's interest as trustee under various trust instruments in certain shares of the Company's common stock, and his interest in certain other shares of such stock as a result of the interest in those shares of a member of his family. See ITEM 11. PRINCIPAL SECURITY HOLDERS AND SECURITY HOLDINGS OF MANAGEMENT.

Stores, Inc., an Illinois corporation. Associated owns one hundred percent (100%) of the issued and outstanding voting securities of its three subsidiaries: Anbec, Inc., an Illinois corporation; Columbia Insurance Company, a Nebraska corporation; and Fashion Outlet of Michigan, Inc., a Michigan corporation. Associated, Anbec and Fashion Outlet 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, Columbia is not so consolidated.

As of February 3, 1973, Associated beneficially owned approximately 11.68% of the common stock of Blue Chip Stamps (hereinafter referred to as "Blue Chip"), a California corporation; Columbia beneficially owned approximately 4.93% of that stock; and Warren E. Buffett beneficially owned approximately 10.85% of that stock. On that date, the beneficial ownership of that stock by Mr. Buffett and his associates, including Associated, Columbia, National Indemnity, National Fire and Marine Insurance Company (a wholly-owned subsidiary of Berkshire), Cornhusker Casualty Company, Lakeland Fire and Casualty Company, Texas United Insurance Company and Home and Automobile Insurance Company (each of which is a wholly-owned subsidiary of National Indemnity) aggregated approximately 46.76% of the common stock of Blue Chip. In addition, Wheeler, Munger & Co. (of which Charles T. Munger is a general partner) owned beneficially on that date approximately seven percent (7%) of that stock, and David S. Gottesman, a general partner of First Manhattan Co., owned beneficially substantially less than one percent (1%) of that stock. The Company, Mr. Buffett and each of his said associates, Wheeler, Munger & Co., and Mr. Gottesman disclaim individual and joint control of Blue Chip.

Prior to March 14, 1972, Associated owned approximately 270,584 shares of the Class A common stock of Thriftmart, Inc., a

California corporation. On that date, Associated exchanged all of the said shares for 300,000 shares of the common stock of Blue Chip. Neither the Company nor Associated and its subsidiaries had any interest in Thriftmart, Inc. as of February 3, 1973.

As of February 3, 1973, the Company owned beneficially approximately 2.6% of the common stock of Berkshire, a Massachusetts* corporation; Associated owned beneficially approximately 1.57% of that stock; and Columbia owned beneficially approximately 4.97% of that stock. In addition, on that date Warren E. Buffett and Susan T. Buffett, his spouse, respectively owned beneficially approximately 33.34% and approximately 2.5% of that stock. The Company, Associated, Columbia, Mr. Buffett and Mrs. Buffett disclaim individual and/or joint control of Berkshire.

ITEM 5. PENDING LEGAL PROCEEDINGS.

With the two following exceptions, other than ordinary routine litigation incidental to the business of the Company, Associated and Associated's subsidiaries, none of the said companies are parties to any material pending legal proceedings and none of their property is the subject thereof:

A. 913-917 Market Street, Philadelphia, Pennsylvania

Associated owns the improved real property located at 913-917 Market Street, Philadelphia, Pennsylvania, where it operates one of its retail stores. Condemnation proceedings were instituted against that property by the Philadelphia Redevelopment Authority on May 21, 1970, in the Court of Common Pleas of Philadelphia County, in which proceedings Associated challenged the condemnation. Associated has continued to occupy the premises and to operate the store thereon during the course of the condemnation proceedings, as it has since

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*In Berkshire's Proxy Statement for Special Meeting in Lieu of Annual Meeting of Stockholders, dated March 30, 1973, it is proposed that Berkshire reincorporate under Delaware law by means of a statutory merger into a newly organized, wholly-owned Delaware subsidiary. The said meeting was to be held on May 1, 1973.

1951. As of February 3, 1973, the real property and the improvements thereon were reflected on the books of Associated at a net book value of $874,336.

The Philadelphia Redevelopment Authority has paid into court the sum of $1,348,095, representing the Authority's estimate of what amount would constitute fair compensation to Associated for the condemnation. Associated recently has agreed informally with the Authority to accept that sum plus an additional sum of $134,809.50 (for a total of $1,482,904.50) plus certain other consideration, in exchange for its agreement to withdraw its challenge of the condemnation. The formal consummation of that agreement is pending. (See ITEM 1. BUSINESS and ITEM 3. PROPERTIES.)*

B. Personal injury suit

Associated is a defendant in a suit instituted in the Court of Common Pleas of Philadelphia County, Pennsylvania, claiming approximately $10,000 actual and $1,000,000 punitive damages for a personal injury sustained by a customer of one of Associated's Philadelphia stores while in that store. The suit was instituted more than five years ago. Associated's insurance carrier is defending the action, but has notified Associated that, under Pennsylvania law, the insurer has no liability under Associated's policy for punitive damages. Associated's counsel in the said litigation is of the opinion that the likelihood of a recovery of punitive damages by the plaintiff therein is remote.

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*Associated operates another of its stores on premises located at 835 Market Street, Philadelphia, Pennsylvania, which premises are leased by Associated from the Philadelphia Redevelopment Authority on a month-to-month basis. The Authority took title to the real property and improvements at that location from Associated's former landlord prior to the beginning of the fiscal year ended February 3, 1973, following a condemnation proceeding in which Associated, as tenant, had challenged the condemnation. Associated's participation in that proceeding terminated prior to the beginning of the said fiscal year. (See ITEM 1. BUSINESS and ITEM 3. PROPERTIES.)

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES.

None.

ITEM 7. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS.

Title of class	Number of record holders (a)
Diversified Retailing Co., Inc. common stock, par value $0.0003 per share	275

ITEM 8. EXECUTIVE OFFICERS OF THE REGISTRANT.

Name	Age (a)	Office(s) held
Warren E. Buffett	42	Chairman of the Board of Directors
Robert M. Goldman (b)	56	President; Director
David S. Gottesman	46	Vice-President; Director
Charles T. Munger	49	Vice-President; Director
Charles F. Heider	46	Director
Max H. Blumenthal (b)	32	Secretary
Larry C. Cummings (b)	29	Treasurer; Assistant 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 Annotated Code of Maryland (1957 ed., as amended), the Company may indemnify any Director, Officer, employee or agent of the Company against any expenses or liability incurred as a result of his good faith performance of duty in such capacity, subject to certain restrictions upon such indemnification which are provided in the said statute.

(a) The information is given as of February 3, 1973.

(b) Both Mr. Goldman and Mr. Blumenthal are partners in the law firm of Frank, Bernstein, Conaway and Goldman, 1300 Mercantile Bank and Trust Building, 2 Hopkins Plaza, Baltimore, Maryland, which firm represents the Company. Mr. Blumenthal became Secretary on March 1, 1972, following the resignation, effective as of that date, of Ronald M. Shapiro from that office. Mr. Shapiro was also a partner in that firm until his withdrawal therefrom on March 31, 1973. Mr. Cummings is an employee of that firm.

ITEM 10. FINANCIAL STATEMENTS - EXHIBITS FILED.

A. Financial statements

A list of the financial statements and schedules of the Company, of Associated, and/or of Associated's subsidiaries which are filed herewith immediately precedes those documents herein.

B. Exhibits filed

Exhibit A: Computation of earnings per share

Exhibit B: 1972 Annual Report of Blue Chip Stamps

Exhibit C: 1972 Annual Report of Berkshire Hathaway, Inc.

PART II

ITEM 11. PRINCIPAL SECURITY HOLDERS AND SECURITY HOLDINGS OF MANAGEMENT.

A. Principal Security Holders

Name and Address	Title of class	Type of ownership	Amount owned (a)	Percent of class
Warren E. Buffett 5505 Farnam Street Omaha, Nebraska	common	record and beneficial	390,075 (b)	39.01%
First Manhattan Co. 30 Wall Street New York, New York	common	record only	100,000 (c)	10.00%
Wheeler, Munger & Co. 618 South Spring St. Los Angeles, California.	common	record and beneficial	100,000 (d)	10.00%

(a) The information is given as of February 3, 1973.

(b) This amount does not include any of the following shares of common stock, as to which Mr. Buffett disclaims the beneficial ownership:

(i) 31,113 shares held by a member of Mr. Buffett's immediate family;

(ii) 3,732 shares held in trust under the Last Will and Testament of Howard H. Buffett, deceased, as to which Mr. Buffett is the trustee;

(iii) 552 shares held in equal amounts in three trusts, each of which is for the benefit of a member of Mr. Buffett's family, and as to each of which he is a co-trustee;

(iv) 2,304 shares 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; and

(v) 429 shares held in equal amounts in three trusts, as to each of which Mr. Buffett is a co-trustee.

(c) David S. Gottesman, a Director and a Vice-President of the Company (and a general partner of First Manhattan Co.) beneficially owned 35,000 of the said 100,000 shares. An additional 5,000 of the said 100,000 shares are held in trust for the benefit of certain members of Mr. Gottesman's immediate family and an additional 7,296 of the said 100,000 shares are owned beneficially by a member of Mr. Gottesman's immediate family. The remaining 52,704 of the said 100,000 shares are owned beneficially by other partners of the firm or their personal representatives. Mr. Gottesman disclaims the beneficial ownership of the shares held in the said trust and of the shares owned by the member of his immediate family.

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

B. Security Holdings of Management

Title of class	Amount beneficially owned (e)	Percent of class
Diversified Retailing Co., Inc., common stock, par value 0.0003 per share (f)	425,075 (g)	39.51%

Under the partnership agreement of First Manhattan Co., the firm possesses certain voting rights as to the 100,000 shares of the Company's common stock which the firm owns of record and which is beneficially owned in various amounts by certain partners therein, members of their immediate families or personal representatives. (See note (c) to this Item.)

(e) Subject to the exceptions indicated in note (g) to this Item, this column indicates the number of shares of the common stock of the Company beneficially owned directly or indirectly by all Directors and Officers of the Company, as a group, as of February 3, 1973.

(f) The Company has no other class of equity securities. No Director or Officer possesses the beneficial ownership of any share or shares of equity securities of the Company's subsidiary, Associated, or of any of Associated's subsidiaries (Anbec, Columbia and Fashion Outlet). As noted under ITEM 4. PARENTS AND SUBSIDIARIES, the Company, Associated and Columbia each disclaims control of Blue Chip.

(g) This amount does not include any of the following shares of common stock:

(i) the shares referred to in notes (b) and (d) to this Item, which notes are incorporated herein by reference;

(ii) The 5,000 shares held in trust for the benefit of certain members of David S. Gottesman's immediate family and the 7,296 shares owned beneficially by a member of Mr. Gottesman's immediate family referred to in note (c) to this Item, which note is incorporated herein by reference; and

(iii) 577 shares owned beneficially by a member of Charles C. Heider's immediate family, individually, and 370 shares owned beneficially by a member of Mr. Heider's immediate family as custodian for certain other members of Mr. Heider's immediate family, as to all of which shares Mr. Heider, a Director of the Company, disclaims the beneficial ownership.

ITEM 12. DIRECTORS OF THE REGISTRANT.

Each of the following persons served as a Director of the Company during the entire fiscal year ended February 3, 1973. The term of office of each such Director expired on February 6, 1973, the date upon which the Company held its annual meeting of stockholders. Each of the said persons was reelected for another full term as a Director, which term will expire on February 5, 1974.

A. Warren E. Buffett

Warren E. Buffett is the Chairman of the Board of Directors of the Company, having held that office since the Company's organization in 1966. Since January 1, 1970, Mr. Buffett's principal occupation has consisted of the making of personal investments. During the eight years prior thereto, his principal occupation was that of general partner of Buffett Partnership, Ltd. Since 1970, Mr. Buffett has been the Chairman of the Board of Directors of Associated and of Berkshire, and the Chairman of the Board of Directors, President and Treasurer of Columbia. Mr. Buffett is also the Chairman of the Board of Directors of Cornhusker Casualty Company and of National Fire and Marine Insurance Company.

B. David S. Gottesman

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

C. Charles T. Munger

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

D. Charles F. Heider

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

E. Rob   M. Goldman

Robert   Goldman, a Director and the Presid   of the Company, is and   been since July 1, 1966, a partner of the Maryland law firm of Frank, Bernstein, Conaway & Goldman. For more than fifteen years prior thereto, Mr. Goldman had been a partner in the Maryland law firm of Nyburg, Goldman and Walter, which on the said date was merged into the firm of Frank, Bernstein, Conaway & Goldman.

ITEM 13. REMUNERATION OF DIRECTORS AND OFFICERS.

Name of individual or number of persons in group	Capacities in which remuneration was received	Aggregate direct remuneration (a)
Larry C. Cummings	Treasurer	$ 500.00
All eight Directors and Officers as a group (b)		$ 500.00 (c)

ITEM 14. OPTIONS GRANTED TO MANAGEMENT TO PURCHASE SECURITIES.

None.

ITEM 15. INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS.

A. Other than the following, there have been no transactions

(a) Subject to the exceptions indicated in note (c) to this Item, this column indicates the aggregate amount of direct remuneration paid by the Company, Associated and Associated's subsidiaries to the person or persons specified, in all capacities, during the Company's fiscal year ended February 3, 1973.

(b) Including Ronald M. Shapiro, Secretary of the Company through March 1, 1972, the effective date of his resignation from that office.

(c) This amount does not include legal fees in the amount of $8,450.00 which the Company paid during its fiscal year ended February 3, 1973 to the law firm of Frank, Bernstein, Conaway & Goldman, in which Messrs. Goldman and Blumenthal are and were at the time of such payment partners, and in which Ronald M. Shapiro (see note (a) to this Item) was a partner until his withdrawal therefrom on March 31, 1972. Nor does the said amount include legal fees in the amount of $5,000 owed by the Company to the said firm as of November 30, 1972, and any additional such legal fees incurred by the Company between November 30, 1972 and February 3, 1973, for which amounts the said firm had not billed the Company as of February 3, 1973. Nor does the said amount include the interest of David S. Gottesman, as a partner in First Manhattan Co., in certain commissions paid to First Manhattan Co. by one of Associated's subsidiaries. See ITEM 15. INTEREST OF MANAGEMENT AND OTHERS IN CERTAIN TRANSACTIONS.

since the beginning of the fiscal year ended February 3, 1973, nor are there any presently proposed transactions, to which the Company, Associated or any of Associated's subsidiaries was or is to be a party, in which any Director or Officer of the Company, or any security holder named under section A of Item 11 hereof, or any relative or spouse of any of the foregoing persons who has the same home as such person or who is a Director or Officer of the Company or of Associated or any of Associated's subsidiaries, had or is to have a direct or indirect material interest:*

(1) During the Company's fiscal year ended February 3, 1973, Reinsurance Corp. of Nebraska (now Columbia) purchased certain securities traded on the New York Stock Exchange at a purchase price aggregating approximately $36,600, and sold certain securities for a net sale price of approximately $2,200. Those transactions were made through First Manhattan Co., of which David S. Gottesman is a general partner, acting as broker for Reinsurance Corp. of Nebraska. The commissions received by First Manhattan Co. in connection with the said transactions were determined by the application of the prevailing commission rates and totaled approximately $185.00;

(2) During the Company's fiscal year ended February 3, 1973, Columbia accepted reinsurance contracts from National Indemnity, of which Warren E. Buffett is the Chairman of the Board of Directors, representing premiums written in the approximate amount of $1,800,000. National Indemnity is paid ceding commissions equal to approximately one-half of the standard commissions. (See <u>ITEM 1. BUSINESS</u>.) The commissions paid by Columbia to National Indemnity aggregated approximately $9,516.24 during the calendar year 1972. (The records of both companies are kept on a calendar year accrual basis.)

(3) During the Company's fiscal year ended February 3, 1973, the Company paid and/or incurred certain legal fees in connection

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*Mr. Benjamin F. Rosner, the President of Associated (but neither an Officer nor a Director of the Company), owns and leases to Associated the land and improvements where Associated operates one of its retail stores.

with the representation of Company by the law firm of Frank, Bernstein, Conaway & Goldman (See Note (C) to ITEM 13. REMUNERATION OF DIRECTORS AND OFFICERS.)

B. During the Company's fiscal year ended February 3, 1973, no Director or Officer of the Company or associate of such persons was indebted to the Company, Associated or any of Associated's subsidiaries.

C. Other than any payments which may have been made pursuant to the terms of any pension, retirement, savings or similar plan which may have been provided by the Company, Associated or any of Associated's subsidiaries, during the Company's fiscal year ended February 3, 1973, there were no transactions, and there is no presently proposed transaction, to which any of the said plans was or is to be a party, in which any Director or Officer of the Company, any security holder named under section A of Item 11 hereof, or any relative or spouse thereof or relative of any such spouse who has the same home as any such Director, Officer or security holder or who is a Director or Officer of Associated or any of Associated's subsidiaries, had or is to have a direct or indirect material interest.

* * * * * *

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

Date: May 4, 1973

ANNUAL REPORT ON FORM 10-K

ITEM 10(a)

FINANCIAL STATEMENTS AND SCHEDULES

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973 and January 29, 1972

The following consolidated financial statements and schedules of the registrant and its subsidiary and of the registrant (parent company), for the fiscal years 1973 and 1972 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 - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
Schedule XVI - Supplementary Income Statement Information

All other schedules (Nos. II, IV, VII, VIII, IX, X, XI, XII, XIII, XIV, XV, XVII, XVIII and XIX) 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 1972 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 VI - Investments in Stocks of Affiliates
Schedule VII - Premiums, Losses and Underwriting Expenses
Schedule X - Income from Dividends - Equity in Net Profit of Affiliates
Schedule XI - Summary of Realized Gain on Sale of Investments

All other schedules (Nos. III, IV, VIII and IX) 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.

The following exhibits are attached and made a part of this filing:

Exhibit A - Computation of Earnings Per Share
Exhibit B - 1972 Annual Report of Blue Chip Stamps
Exhibit C - 1972 Annual Report of Berkshire Hathaway, Inc.

ERNST & ERNST
ONE NORTH CHARLES
BALTIMORE, MARYLAND
21201

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

We have examined the financial statements of Diversified Retailing Company, Inc. (parent company) and the consolidated financial statements of Diversified Retailing Company, Inc. and subsidiary for the years ended February 3, 1973 and January 29, 1972, 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 Associated Retail Stores, Inc. (Associated), a consolidated subsidiary, for the year ended January 29, 1972, which statements reflect total assets before restatement for the equity method of accounting, constituting 93% of the consolidated assets. These statements were examined by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to amounts included for Associated before the aforementioned restatement, is based solely on the report of the other auditors. We have reviewed the restatement of such financial statements to adopt the equity method of accounting for investments in affiliated companies as described in Notes A and C to the financial statements. Further, the financial statements of Associated's unconsolidated subsidiary and certain affiliated companies used as the basis for recording Associated's equity in net income of those corporations were examined by other auditors whose reports were furnished to us. Our opinion expressed herein, insofar as it relates to the amount of income included for those companies for each of the years ended February 3, 1973 and January 29, 1972 is based solely on the reports of other auditors.

The report of the other auditors on the financial statements of Blue Chip Stamps (Blue Chip), an affiliated company, is qualified with respect to the resolution of pending legal proceedings referred to in Note 11 to the financial statements of Blue Chip, which statements are included as Exhibit B to this annual report on Form 10-K. The investment in Blue Chip is held by Associated and its unconsolidated subsidiary and is carried at cost plus equity in undistributed earnings, which at February 3, 1973 aggregated $11,834,000.

In our opinion, based upon our examination and the aforementioned reports of other auditors, and subject to the effect if any, on the financial statements resulting from the ultimate outcome of the legal proceedings referred to in the preceding paragraph, the accompanying balance sheets and statements of earnings, earnings retained in the business and changes in financial position present fairly the financial position of Diversified Retailing Company, Inc. (parent company) and of Diversified Retailing Company, Inc. and subsidiary at February 3, 1973 and January 29, 1972, and the respective results of their operations, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for investments in affiliated companies as described in Notes A and C to the financial statements. Further, it is our opinion that Schedules I, III (subject to the effect of the aforementioned legal proceedings), V, VI and XVI present fairly the information set forth therein.

Ernst + Ernst

ERNST & ERNST

Baltimore, Maryland
April 23, 1973

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.

Eisner & Lubin
CERTIFIED PUBLIC ACCOUNTANTS

March 17, 1972
New York, New York

Attention is directed to our supplementary letter dated April 23, 1973, which is made a part hereof.

To the Board of Directors
Associated Retail Stores, Inc.

On March 17, 1972, we rendered our report on our examination of the consolidated financial statements and supporting schedules as at January 29, 1972 and for the year then ended, as set forth in such report, of Associated Retail Stores, Inc. and Consolidated Subsidiaries. A copy of our report is attached herewith.

You have advised us that the provisions of Accounting Principles Board Opinion No. 18, which became effective for fiscal periods beginning after December 31, 1971, have been applied retroactively to the aforementioned financial statements and schedules examined by us. We have not examined such adjustments to the aforementioned financial statements and schedules and no opinion is expressed by us on such adjustments.

Except for the effect of applying the provisions of Accounting Principles Board Opinion No. 18, we reaffirm our opinion of March 17, 1972 which is contained in the third and fourth paragraphs of our report of that date.

Ernst & Ernst

CERTIFIED PUBLIC ACCOUNTANTS

April 23, 1973

CONSOLIDATED BALANCE SHEET

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	February 3, 1973	January 29, 1972
ASSETS		
CURRENT ASSETS		
Cash	$ 882,020	$ 874,205
Short-term commercial paper and other marketable securities - at cost, which approximates market	1,495,297	999,278
Accounts receivable	249,212	218,624
Merchandise inventories - Notes A and L	3,818,520	4,484,384
Prepaid expenses	74,195	181,279
TOTAL CURRENT ASSETS	6,519,244	6,757,770
INVESTMENTS AND OTHER ASSETS		
Investment in unconsolidated subsidiary - Notes A, B and M	7,516,244	6,561,400
Investment in affiliated companies - Notes A, C and M	11,259,204	5,352,878
Other security investments - Notes A and M	206,763	3,769,225
Other assets - Note A	598,111	682,832
	19,580,322	16,366,335
PROPERTY, PLANT AND EQUIPMENT - at cost, less allowance for depreciation and amortization of $991,852 and $1,331,812 - Notes A, D and L	1,756,340	1,885,693
	$27,855,906	$25,009,798
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade and sundry accounts	$ 388,027	$ 610,384
Salaries, wages and bonuses	142,215	160,001
Taxes other than taxes on income	261,947	193,840
Accrued interest	162,008	157,345
Taxes on income	353,779	206,053
Other current liabilities	83,889	90,015
TOTAL CURRENT LIABILITIES	1,391,865	1,417,638
DEFERRED INCOME TAXES - Notes A, C and E	143,346	109,718
LONG-TERM DEBT - less current maturities - Note F	7,842,885	7,791,544
DEFERRED CREDIT - unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A	557,315	688,445
STOCKHOLDERS' EQUITY - Notes F, G and L		
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	11,920,495	9,002,453
	17,920,495	15,002,453
COMMITMENTS AND CONTINGENT LIABILITIES - Notes D, H, I and J		
	$27,855,906	$25,009,798

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended February 3, 1973 (53 weeks)	Fiscal year ended January 29, 1972 (52 weeks)
Net sales (including leased department sales)	$38,918,071	$38,597,747
Cost of goods sold	25,427,906	25,687,843
	13,490,165	12,909,904
Selling, general and administrative expenses	11,775,923	11,438,302
	1,714,242	1,471,602
Other income and (deductions):		
Amortization of excess of net assets of subsidiaries over acquisition cost - Note A	131,130	131,130
Dividends	20,060	46,507
Interest and financing cost	(687,408)	(673,049)
Interest income	9,995	28,869
Miscellaneous	73,710	188,626
EARNINGS BEFORE INCOME TAXES, EQUITIES IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES AND EXTRAORDINARY ITEMS	1,261,729	1,193,685
Taxes on income:		
Federal - Notes A and E	410,000	372,000
State and local	255,000	245,000
	665,000	617,000
EARNINGS BEFORE EQUITIES IN EARNINGS OF UNCONSOLIDATED SUBSIDIARY AND AFFILIATED COMPANIES AND EXTRAORDINARY ITEMS	596,729	576,685
Equity in earnings of unconsolidated subsidiary - Note B	954,844	620,887
Equity in earnings of affiliated companies (net of deferred income taxes: 1973 - $83,628; 1972 - $30,243) - Notes A and C	1,173,448	429,308
EARNINGS BEFORE EXTRAORDINARY ITEMS	2,725,021	1,626,880
Extraordinary items:		
Gain on exchange of securities - Note K	193,021	
Additional income taxes related to sale of subsidiary - Note E		(111,000)
NET EARNINGS	$ 2,918,042	$ 1,515,880
Earnings per share:		
Earnings before equities in earnings of unconsolidated subsidiary and affiliated companies and extraordinary items	$ .60	$ .58
Equity in earnings of unconsolidated subsidiary	.96	.62
Equity in earnings of affiliated companies	1.17	.43
Extraordinary items	.19	(.11)
Net earnings	$ 2.92	$ 1.52

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended February 3, 1973	Fiscal year ended January 29, 1972
Balance at beginning of year:		
As previously reported		$7,476,355
Adjustment to reflect equity in undistributed earnings of affiliated companies at January 30, 1971 - Note C		394,355
As restated	$ 9,002,453	7,870,710
Net earnings for the year	2,918,042	1,515,880
Reversal of equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary, less provision for income taxes - Note B		(384,137)
BALANCE AT END OF YEAR	$11,920,495	$9,002,453

( ) 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 February 3, 1973	Fiscal year ended January 29, 1972
SOURCE OF FUNDS		
From operations:		
Net earnings before extraordinary items	$2,725,021	$1,626,880
Charges (credits) to earnings which did not affect working capital:		
Depreciation and amortization	176,472	189,236
Amortization of excess of carrying amount of net assets of subsidiary over acquisition costs	(131,130)	(131,130)
Deferred income taxes	(50,000)	25,000
Amortization of finance costs	28,202	28,280
Equity in earnings of unconsolidated insurance subsidiary	(954,844)	(620,887)
Equity in earnings of affiliated companies in excess of dividends received	(1,125,020)	(376,595)
Deferred taxes (related to equity in earnings of affiliated companies)	83,628	30,243
TOTAL FROM OPERATIONS	752,329	771,027
Extraordinary items:		
Income taxes applicable to extraordinary gain on exchange of securities	(82,724)	
Additional income taxes related to sale of subsidiary		(111,000)
Proceeds from long-term borrowing	51,341	354,238
Deductions from property, plant and equipment	1,827	12,083
Decrease in other assets	56,519	
	779,292	1,026,348
APPLICATION OF FUNDS		
Investment in unconsolidated subsidiary		728,951
Investment in affiliated companies	943,099	282,038
Additions to property, plant and equipment	48,946	177,766
Increase in other security investments		54,036
Increase in other assets		12,373
	992,045	1,255,164
DECREASE IN WORKING CAPITAL	$ 212,753	$ 228,816

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

	Fiscal year ended February 3, 1973	Fiscal year ended January 29, 1972
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash	$ 7,815	($2,060,287)
Short-term commercial paper and other marketable securities	496,019	858,278
Accounts receivable	30,588	(19,166)
Merchandise inventories	(665,864)	666,854
Prepaid expenses	(107,084)	45,951
	(238,526)	(508,370)
Current liabilities:		
Trade and sundry accounts	(222,357)	191,900
Salaries, wages and bonuses	(17,786)	318
Taxes other than taxes on income	68,107	(21,090)
Accrued interest	4,663	15,633
Taxes on income	147,726	(204,894)
Other current liabilities	(6,126)	(91,433)
Current portion of long-term debt		(169,988)
	(25,773)	(279,554)
NET CHANGE	$212,753	$ 228,816

( ) indicate red figure.

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973 and January 29, 1972

Note A - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 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.

Associated's investment in Columbia Insurance Company (formerly Reinsurance Corp. of Nebraska), a wholly-owned unconsolidated insurance subsidiary (Note B), is accounted for using the equity method, whereby the Company recognizes currently in the consolidated statement of operations its interest in the earnings of such subsidiary. Columbia maintains its records on a calendar-year basis in accordance with state insurance regulations.

Merchandise Inventories

Inventories are priced at the lower of cost or market by use of the retail inventory method except as to warehouse inventories where cost is determined by the first-in, first-out method.

Investment in Affiliated Companies

In compliance with Accounting Principles Board Opinion No. 18, the Company adopted in fiscal 1973 the equity method of accounting for investments in companies in which it has the ability to exercise significant influence through its direct and indirect holdings (Note C). Under this method, which has been applied retroactively, the Company currently recognizes its equity in the net earnings of such affiliates. In determining the amounts reported as equity in net earnings of affiliated companies provision has been made for the amortization over a forty-year period of the difference between the cost of the Company's investment and the underlying equity in net assets at the dates of acquisition of the various blocks of stock of the affiliated companies. Deferred income taxes have also been provided on the portion of such equity represented by undistributed earnings. In making this computation it has been assumed that the earnings ultimately would be distributed as dividends and the dividends received deductions would be available to offset 85% of the gross dividends.

In the opinion of management the Company does not have the ability to exercise significant influence over certain other security investments, which are accounted for under the cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973 and January 29, 1972

Note A - Property and Equipment
(Cont'd)

Expenditures for maintenance, repairs, renewals and betterments are reviewed by management and those items representing improvements to property and equipment are capitalized; other items are charged to current operations. At the time assets are retired or otherwise disposed of, the cost and related allowances for depreciation are eliminated from the asset and allowance accounts and the profit or loss on such disposition is reflected in current operations. When assets become fully depreciated the cost and related allowances for depreciation are written off.

Depreciation for financial accounting and income tax purposes is based on the 150% declining balance method as to buildings and substantially on the straight-line method for all other property and equipment.

Federal Income Taxes

The Company, Associated and Columbia file a consolidated federal income tax return. The investment tax credit (not material) is accounted for as a reduction of federal income taxes in the year in which the credit arises (flow-through method).

Financing Costs

Certain costs incurred in connection with the issuance of the 8% Debentures have been capitalized and are being amortized ratably over the stipulated life of the debentures.

Note B - INVESTMENT IN UNCONSOLIDATED INSURANCE SUBSIDIARY

Associated owns all of the issued and outstanding capital stock of Columbia Insurance Company, which reinsures risks other than life and title. The cost of the investment ($5,855,389) is comprised of original contributions of cash of $2,500,000 and marketable securities (at cost) of $3,355,389.

As of December 31, 1970, marketable securities of Columbia were stated at market value and, accordingly, the change in unrealized appreciation of $384,137 (net of deferred income taxes) was credited directly to stockholder's equity. In 1971, Columbia changed its method of accounting for marketable securities to the cost basis so as to present its securities investments on the same basis as that of Associated and Diversified. Accordingly, the $384,137 net change in unrealized appreciation at December 31, 1970 was reversed and is reflected as a direct charge to stockholder's equity during the year ended December 31, 1971.

Note C - INVESTMENT IN AFFILIATED COMPANIES

At February 3, 1973 the Company, Associated and Columbia hold in the aggregate 16% and 9% of the outstanding common stock of Blue Chip Stamps and Berkshire Hathaway, Inc., respectively. In addition certain related persons own 30% and 36%, respectively, of the outstanding common stock of these companies. Although disposition of all or any lesser amount of said common stock of these affiliated companies may be subject to certain restrictions, the aggregate quoted market value of an equivalent number of unrestricted shares at February 3, 1973 exceeds the cost of the aggregate investments of the Company, Associated and Columbia.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.
AND SUBSIDIARY
February 3, 1973 and January 29, 1972

Note C - (Cont'd) The cost of Associated's investment in Blue Chip (Diversified has no investment in Blue Chip) exceeded the underlying equity in net assets at the dates of acquisition of the several blocks of Blue Chip stock by $2,109,025 at February 3, 1973. Blue Chip dividends received by Associated were $142,056 and $88,956 for the fiscal years ended February 3, 1973 and January 29, 1972, respectively, and have been applied as a reduction of the investment in the affiliated company pursuant to the change to the equity method of accounting for such investments as described below and in Note A.

The cost of the Company's and Associated's investments in Berkshire Hathaway, Inc. exceeded the underlying equity in net assets at the dates of acquisition of the several blocks of stock by $9,903 at February 3, 1973. Berkshire has paid no dividends during the period of affiliation.

In accordance with Accounting Principles Board Opinion No. 18 the Company, Associated and Columbia in 1973 changed to the equity method (as described in Note A) of accounting for the investments in Blue Chip Stamps and Berkshire Hathaway, Inc. It previously had been the policy of these companies to recognize as income only dividends received within the applicable fiscal year. The effect of this change was to increase earnings before extraordinary items and net earnings by $1,780,184 ($1.78 per share) and $604,633 ($.60 per share), respectively, for the fiscal years ended February 3, 1973 and January 29, 1972. After provision for applicable income taxes (Note A) the cumulative effect of the change upon prior fiscal years of $394,355 has been credited to earnings retained in the business as of January 30, 1971.

The 1972 Annual Reports for Blue Chip Stamps and Berkshire Hathaway Inc. are included with this filing as Exhibits B and C, respectively, and should be read in conjunction with the consolidated financial statements.

Note D - PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following:

	February 3, 1973	January 29, 1972
Land	$ 894,722	$ 894,722
Buildings	599,373	599,373
Building improvements	154,880	534,310
Leasehold improvements	351,805	397,641
Furniture, fixtures and equipment	747,412	791,459
	2,748,192	3,217,505
Less allowances for depreciation and amortization	991,852	1,331,812
	$1,756,340	$1,885,693

Generally, the estimated useful lives used for computing depreciation range from 20 to 33 years for buildings, 4 to 14 years for furniture, fixtures and equipment and the life of the lease for leasehold improvements.

On or about April 2, 1973, Associated, in a condemnation proceeding on one of its properties which was carried at a net book value of approximately $875,000 at February 3, 1973, received notification of a settlement approximating $1,350,000. An additional amount of approximately $135,000 is presently being negotiated and, in counsel's opinion, will be forthcoming. Associated intends to continue to occupy the premises on a month-to-month basis at an annual rental of $72,000. Depreciation expense on the condemned property amounted to $8,000 during the year ended February 3, 1973.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973 and January 29, 1972

Note E - INCOME TAXES

The Company's consolidated federal income tax returns have been examined by the Internal Revenue Service through February 1, 1969. In management's opinion, there will be no material assessments for subsequent years.

Earnings subject to federal income taxes for the fiscal years ended February 3, 1973 and January 29, 1972 were reduced by approximately $17,000 and $40,000, respectively, as a result of the dividends received deduction for dividends received on other security investments.

As of January 29, 1972 the current liability for income taxes had been reduced by $49,000 due to the benefit of certain premium costs of Columbia Insurance Company which were deductible for income tax purposes but deferred for financial accounting purposes: such amount was classified as deferred federal income taxes in the Associated accounts. During the fiscal year ended February 3, 1973, Columbia, which provides income taxes in its accounts on a separate return basis, recognized deferred taxes in its accounts for such timing difference, and Associated eliminated its provision for such items.

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.

Interest income imputed at a rate of 5% has been recognized for the year ended January 29, 1972 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.

Note F - LONG-TERM DEBT

	February 3, 1973	January 29, 1972
8% Debentures	$6,600,000	$6,600,000
9% Notes payable	1,242,885	1,191,544
	$7,842,885	$7,791,544

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. No contingent interest was payable under these provisions during the fiscal years ended February 3, 1973 and January 29, 1972.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973 and January 29, 1972

Note F - (Cont'd) The Debentures are subject to redemption at the option of the Company at 105.5% of the principal amount of each such Debenture to October 31, 1973 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, 1973. 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 February 3, 1973 earnings retained in the business were not subject to such restrictions.

Notes payable were issued primarily in exchange for common stock of an affiliated company. These notes become due at varying dates from May 1, 1974 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. The current maturity of these notes is immaterial and has not been separately disclosed in current liabilities.

Interest expense on long-term debt was $639,000 and $612,000 for the two years ended February 3, 1973 and January 29, 1972, respectively.

Note G - STOCKHOLDERS' EQUITY

There were no changes in the capital stock and additional paid-in capital accounts during the fiscal years ended February 3, 1973 and January 29, 1972.

At February 3, 1973 earnings retained in the business included $3,382,000 representing undistributed earnings of affiliated companies and Associated's unconsolidated subsidiary.

Note H - LITIGATION

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

There are various other suits and claims pending against Associated which, in management's opinion, will not result in any material liability.

Note I - LEASES

Associated and its consolidated subsidiaries lease 68 stores, warehouse facilities and New York offices, under leases expiring at various dates through 1988 which require minimum annual rentals plus, under the terms of certain leases, additional payments for taxes, other expenses and percentage rentals. The additional charges amounted to approximately $360,000 for the fiscal year ended February 3, 1973. Minimum annual rentals under existing leases follow:

Fiscal year ending in	Minimum Annual Rentals
1973	$1,521,000
1974	1,564,000
1975	1,383,000
1976	1,129,000
1977	1,020,000
1978	756,000

Associated leases data processing equipment for approximately $50,000 a year through 1975.

Note J - PENSION PLAN

Associated has a non-contributory trusteed pension plan covering eligible full-time employees. The total pension expense for the fiscal years ended February 3, 1973 and January 29, 1972 was $65,000 and $64,000, respectively, which includes amortization of past service liability over a thirty-year period. Associated's policy is to fund pension cost accrued. Participants do not have a vested interest in the plan. The unfunded past service liability at February 3, 1973 was approximately $117,000.

Note K - EXTRAORDINARY GAIN ON EXCHANGE OF SECURITIES

In March 1972 the Company exchanged certain other securities for 300,000 shares of Blue Chip Stamps common stock with a basis of $3,861,000. This transaction was considered a taxable exchange under applicable income tax regulations and the gain on the exchange, after reduction for income taxes of $82,724, has been shown as an extraordinary gain in the statement of earnings.

Note L - SUPPLEMENTAL NOTE - INVENTORIES

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

January 30, 1971	$3,817,530
January 29, 1972	4,484,384
February 3, 1973	3,818,520

Note M - 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.

BALANCE SHEET

DIVERSIFIED RETAILING COMPANY, INC.

	February 3, 1973	January 29, 1972
ASSETS		
Cash	$ 83,992	$ 84,840
Due from subsidiary	21,000	21,000
Investment in affiliated company - Notes A and B	1,707,532	1,322,952
Investment in subsidiary - Notes A, C and H	24,357,260	21,846,505
Unamortized cost of long-term financing - Note A	359,273	387,475
	$26,529,057	$23,662,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accrued interest and other expenses	$ 171,610	$ 166,839
Deferred income taxes - Note A	36,752	13,491
8% Debentures - Note D	6,600,000	6,600,000
9% Notes payable - Note E	1,242,885	1,191,544
Unamortized excess of carrying amount of net assets of subsidiary over acquisition cost - Note A	557,315	688,445
Stockholders' equity - Notes D, G and I:		
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	11,920,495	9,002,453
	17,920,495	15,002,453
	$26,529,057	$23,662,772

See notes to financial statements.

STATEMENT OF EARNINGS

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended February 3, 1973 (53 weeks)	Fiscal year ended January 29, 1972 (52 weeks)
Income - amortization of excess of net assets of subsidiary over acquisition cost - Note A	$ 131,130	$ 131,130
Expenses:		
General and administrative expenses	19,978	20,253
Interest and financing costs - Note A	667,470	640,214
	687,448	660,467
LOSS BEFORE INCOME TAXES, EQUITIES IN EARNINGS OF SUBSIDIARY AND AFFILIATED COMPANY AND EXTRAORDINARY ITEM	(556,318)	(529,337)
Federal income tax credit - Note A	330,000	317,000
LOSS BEFORE EQUITIES IN EARNINGS OF SUBSIDIARY AND AFFILIATED COMPANY AND EXTRAORDINARY ITEM	(226,318)	(212,337)
Equity in earnings of subsidiary - Notes A, B and C	2,840,255	1,670,845
Equity in earnings of affiliated company net of deferred income taxes: 1973 - $23,261; 1972 - $12,715 - Notes A and C	304,105	168,372
EARNINGS BEFORE EXTRAORDINARY ITEM	2,918,042	1,626,880
Extraordinary item - additional income taxes related to sale of subsidiary - Note F		(111,000)
NET EARNINGS	$2,918,042	$1,515,880
Earnings per share:		
Loss before equities in earnings of subsidiary and affiliated company and extraordinary item	($ .23)	($ .21)
Equity in earnings of subsidiary	2.84	1.67
Equity in earnings of affiliated company	.31	.17
Extraordinary item		(.11)
Net earnings	$ 2.92	$ 1.52

( ) indicate red figure.

See notes to financial statements.

STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended February 3, 1973	Fiscal year ended January 29, 1972
Balance at beginning of year:		
As previously reported		$7,476,355
Adjustment to reflect equity in undistributed earnings of affiliated company at January 30, 1971 - Note C		394,355
As restated	$ 9,002,453	7,870,710
Net earnings for the year	2,918,042	1,515,880
Reversal of equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary, less provision for income taxes		(384,137)
BALANCE AT END OF YEAR	$11,920,495	$9,002,453

( ) indicate red figure.

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

DIVERSIFIED RETAILING COMPANY, INC.

	Fiscal year ended February 3, 1973	Fiscal year ended January 29, 1972
SOURCE OF FUNDS		
From operations:		
Net earnings for the year before extraordinary item	$2,918,042	$1,626,880
Charges (credits) to earnings which did not affect working capital:		
Amortization of excess of carrying amounts of net assets of subsidiary over acquisition cost	(131,130)	(131,130)
Amortization of long-term financing costs	28,202	28,280
Excess of equity in earnings of subsidiary over dividends received	(2,510,755)	(1,355,845)
Equity in earnings of affiliated company	(327,366)	(181,087)
Deferred income taxes (applicable to equity in earnings of affiliated company)	23,261	12,715
TOTAL FROM OPERATIONS	254	(187)
Extraordinary item - additional income taxes related to sale of subsidiary		111,000
Reduction of investment in subsidiary resulting from extraordinary item		(111,000)
Proceeds from long-term borrowing	51,341	350,502
Decrease in other assets		731
	51,595	351,046
APPLICATION OF FUNDS		
Investment in affiliated company	57,214	282,038
(DECREASE) INCREASE IN WORKING CAPITAL	($ 5,619)	$ 69,008

	1973	1972
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash	($ 848)	$84,150
Due from subsidiary		1,000
	(848)	85,150
Current liability:		
Accrued interest and other expenses	4,771	16,142
NET CHANGE	($5,619)	$69,008

( ) indicate red figure.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DIVERSIFIED RETAILING COMPANY, INC.

February 3, 1973 and January 29, 1972

Note A - SIGNIFICANT ACCOUNTING POLICIES

Investment in Subsidiary

The investment in the Company's wholly-owned subsidiary, Associated Retail Stores, Inc. (Associated) (Note B), is accounted for under the equity method. 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.

Investment in Affiliated Companies

In compliance with Accounting Principles Board Opinion No. 18 the Company adopted in fiscal 1973 the equity method of accounting for investments in companies in which it has the ability to exercise significant influence through its direct and indirect holdings (Note C). Under this method, which has been applied retroactively, the Company currently recognizes its equity in the net earnings of such affiliates. In determining the amounts reported as equity in earnings of affiliated companies provision has been made for the amortization over a forty-year period of the difference between the cost of the Company's investment and the underlying equity in net assets at the dates of acquisition of the various blocks of stock of the affiliated companies. Deferred income taxes have also been provided on the portion of such equity represented by undistributed earnings. In making this computation it has been assumed that the earnings ultimately would be distributed as dividends and dividends received deductions would be available to offset 85% of the gross dividend.

Financing Costs

Certain costs incurred in connection with the issuance of 8% debentures have been capitalized and are being amortized ratably over the stipulated life of the debentures.

Federal Income Taxes

The Company's policy of filing a consolidated federal income tax return with Associated and Associated's wholly-owned insurance subsidiary, Columbia Insurance Company (formerly Reinsurance Corp. of Nebraska), has resulted in tax credits to Diversified. The investment tax credit (not material) is accounted for as a reduction of federal income taxes in the year in which the credit arises (flow-through method).

Note B - INVESTMENT IN SUBSIDIARY

Associated holds common stock of certain affiliated companies (Note C). These investments, as well as Associated's investment in Columbia, are accounted for under the equity method in Associated's statement of earnings, which is summarized below:

	Fiscal year ended	
	February 3, 1973	January 29, 1972
Earnings before equity in earnings of unconsolidated subsidiary and affiliated companies	$ 823,047	$ 789,022
Equity in earnings of unconsolidated subsidiary	954,844	620,887
Equity in earnings of affiliated companies	869,343	260,936
Extraordinary gain	193,021	
NET EARNINGS	$2,840,255	$1,670,845

Associated's balance sheet at February 3, 1973 included a $7,516,000 investment in unconsolidated subsidiary (Columbia) and a $9,552,000 investment in affiliated companies (Note C) in the $26,705,000 total assets. Comparable figures for January 29, 1972 were $6,561,000 and $4,030,000 of total assets of $23,214,000. Associated's investment in affiliated companies included $2,267,000 representing the excess of the cost over the underlying equity in net assets at the dates of acquisition of the various blocks of stock.

Note C - INVESTMENT IN AFFILIATED COMPANIES

At February 3, 1973 the Company, Associated and Columbia hold in the aggregate 16% and 9% of the outstanding common stock of Blue Chip Stamps and Berkshire Hathaway Inc., respectively. In addition certain related persons own 30% and 36%, respectively, of the outstanding common stock of these companies. Although disposition of all or any lesser amount of said common stock of these affiliated companies may be subject to certain restrictions, the aggregate quoted market value of an equivalent number of unrestricted shares at February 3, 1973 exceeds the cost of the aggregate investments of the Company, Associated and Columbia.

The underlying equity in net assets at the dates of the Company's acquisition of the several blocks of Berkshire stock exceeded the Company's cost by $148,118. Berkshire has paid no dividends during the period of the Company's affiliation.

In accordance with Accounting Principles Board Opinion No. 18 the Company, Associated and Columbia in 1973 changed to the equity method (as described in Note A) of accounting for the investments in Blue Chip Stamps and Berkshire Hathaway Inc. It previously has been the policy of these companies to recognize as income only dividends received within the applicable fiscal year. The effect of this change was to increase earnings before extraordinary items and net earnings by $1,780,184 ($1.78 per share) and $604,633 ($.60 per share), respectively, for the fiscal years ended February 3, 1973 and January 29, 1972. After provision for applicable income taxes (Note A) the cumulative effect of the change upon prior fiscal years of $394,355 has been credited to earnings retained in the business as of January 30, 1971.

The 1972 Annual Reports for Blue Chip Stamps and Berkshire Hathaway Inc. are included with this filing as Exhibits B and C, respectively, and should be read in conjunction with the financial statements.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

February 3, 1973 and January 29, 1972

Note D - 8% DEBENTURES

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 as 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. No contingent interest was incurred under these provisions for the fiscal years ended February 3, 1973 and January 29, 1972.

The Debentures are subject to redemption at the option of the Company at 105.5% 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, 1973. 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 February 3, 1973 earnings retained in the business were not subject to such restrictions.

Note E - 9% NOTES PAYABLE

The notes payable were issued in exchange for common stock of an affiliated company. These notes become due at varying dates from May 1, 1974 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. The current maturity of these notes is immaterial and has not been separately disclosed in current liabilities.

Note F - INCOME TAXES

The Company's consolidated federal income tax returns have been examined by the Internal Revenue Service through February 1, 1969. In management's opinion, there will be no material assessments for subsequent years.

Note F - (Cont'd) 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.

Interest income imputed at a rate of 5% has been recognized for the year ended January 29, 1972 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.

Note G - STOCKHOLDERS' EQUITY

There were no changes in the capital stock and additional paid-in capital accounts during the fiscal years ended February 3, 1973 and January 29, 1972.

At February 3, 1973 earnings retained in the business included $6,285,000 representing undistributed earnings of subsidiary and affiliated company.

Note H - LITIGATION

Associated is a defendant in a suit claiming punitive damages of $1,000,000 and personal injury 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 counsel for the Company, recovery by the plaintiff of punitive damages is remote.

There are various other suits and claims pending against Associated which, in management's opinion, will not result in any material liability.

Note I - SUBSEQUENT EVENTS

On or about April 2, 1973, Associated, in a condemnation proceeding on one of its properties which was carried at a net book value of approximately $875,000 at February 3, 1973, received notification of a settlement approximating $1,350,000. An additional amount of approximately $135,000 is presently being negotiated and, in counsel's opinion, will be forthcoming. Associated intends to continue to occupy the premises on a month-to-month basis at an annual rental of $72,000. Depreciation expense on the condemned property amounted to $8,000 during the year ended February 3, 1973.

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SCHEDULE I - SHORT-TERM COMMERCIAL PAPER, MARKETABLE SECURITIES

AND OTHER SECURITY INVESTMENTS

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

February 3, 1973

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
Short-term commercial paper:			
Clark Equipment Credit Co., 5.625%, due March 1, 1973	$500,000	$ 498,047	$ 498,047
Harris Bankcorp Inc., 5.5%, due March 1, 1973	500,000	498,090	498,090
International Harvester Co., 5.5%, due February 15, 1973	500,000	499,160	499,160
		$1,495,297	$1,495,297
Other security investment:			
New Yorker Magazine, Inc. Common Stock (1)	5,731	$ 206,763	$ 272,223

(1) Additional shares of this company are owned by Columbia Insurance Company (unconsolidated subsidiary). See Schedule II for Columbia.

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

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SCHEDULE III - INVESTMENTS IN SECURITIES OF AFFILIATES

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units: Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Year ended February 3, 1973:									
Unconsolidated subsidiary:									
Columbia Insurance Company									
Common Stock	5,000	$6,561,400	$ 954,844				5,000	$ 7,516,244	
Affiliates (4) (5):									
Blue Chip Stamps Common Stock	291,900	$3,861,318	$ 777,578	$3,838,207 (2)	$142,056		591,900	$ 8,335,047	
Berkshire Hathaway, Inc. Common Stock	29,064	1,491,560	489,498	943,099 (3)			41,745	2,924,157	
		$5,352,878	$1,267,076 (1)	$4,781,306	$142,056			$11,259,204	

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SCHEDULE III - INVESTMENTS IN SECURITIES OF AFFILIATES - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Consolidated:									
Year ended January 29, 1972:									
Unconsolidated subsidiary:									
Columbia Insurance Company				$2,386,701(4) 60,920(5)					
Common Stock)	5,000	$3,877,029	$620,887	$2,447,621		$ 384,137(6)	5,000	$6,561,400	
Affiliates (4) (5):									
Blue Chip Stamps Common Stock	396,900	$4,979,039	$256,692	$ 347,293(5) 282,038(7) 15,617(5)	$88,956	$1,632,750(8)	291,900	$3,861,318	
Berkshire Hathaway, Inc. Common Stock	24,515	985,046	208,859	297,655			29,064	1,491,560	
		$5,964,085	$465,551(1)	$ 644,948	$88,956	$1,632,750		$5,352,878	

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SCHEDULE III - INVESTMENTS IN SECURITIES OF AFFILIATES - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

(PARENT COMPANY ONLY)

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Year ended February 3, 1973:									
Associated Retail Stores, Inc. Common Stock	453,000	$21,846,505	$2,840,255		$329,500		453,000	$24,357,260	
Affiliate (4) (5):									
Berkshire Hathaway, Inc. Common Stock	25,624	$ 1,322,952	$ 327,366(1)	$57,214(9)			26,392	$ 1,707,532	

SCHEDULE III - INVESTMENTS IN SECURITIES OF AFFILIATES - CONTINUED

DIVERSIFIED RETAILING COMPANY, INC.

(PARENT COMPANY ONLY)

COL. A	COL. B		COL. C		COL. D		COL. E		COL. F
	BALANCE AT BEGINNING OF PERIOD		ADDITIONS		DEDUCTIONS		BALANCE AT END OF PERIOD		
NAME OF ISSUER AND DESCRIPTION OF INVESTMENT	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Equity Taken Up in Earnings (Losses) of Affiliates and Other persons for the Period	(2) Other	(1) Distribution of Earnings By Persons in Which Earnings (Losses) Were Taken Up	(2) Other	(1) Number of Shares or Units. Principal Amount of Bonds and Notes	(2) Amount in Dollars	Dividends Received During the Period from Investments Not Accounted for by the Equity Method
Parent company only:									
Year ended January 29, 1972:									
Associated Retail Stores, Inc.									
Common Stock	453,000	$20,603,896	$1,670,845	$381,900(5)	$315,000	$384,136(6)	453,000	$21,846,505	
						111,000(10)			
						$495,136			
Affiliate:									
Berkshire Hathaway, Inc.				$282,038(7)					
				13,231(5)					
Common Stock	21,075	$ 846,596	$ 181,087(1)	$295,269			25,624	$ 1,322,952	

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(1) Reconciliation to statement of operations:

	Consolidated		Parent Company	
Equity in earnings	$1,267,076	$465,551	$327,366	$181,087
Applicable income taxes	93,628	36,243	23,261	12,715
	$1,173,448	$429,308	$304,105	$168,372

(2) Fair value of 300,000 shares of Blue Chip Stamps, Inc. common stock received in exchange for 270,584 shares of Thriftimart, Inc. common stock (cost $3,562,482) included in other security investments.

(3) Acquisition of 12,681 shares at cost.

(4) Capital contribution (see note (8) below).

(5) Cumulative effect representing increase in equity in unremitted earnings resulting from change to equity method of accounting for investments in affiliated companies. Reconciliation to statement of earnings retained and used in the business:

	Consolidated	Parent Company
Equity in unremitted earnings for years prior to January 29, 1972:		
Unconsolidated subsidiary/Associated	$ 60,920	$381,900
Blue Chip Stamps	347,293	
Berkshire Hathaway, Inc.	15,617	13,231
	423,830	395,131
Less applicable income taxes	29,475	776
	$394,355	$394,355

(6) Reversal of equity in unrealized appreciation of marketable securities of unconsolidated insurance subsidiary of Associated Retail Stores, Inc., less provision for income taxes.

(7) Acquisition of 4,549 shares at cost.

(8) Cost of 105,000 shares contributed to unconsolidated insurance subsidiary as additional paid-in capital.

(9) Acquisition of 768 shares at cost.

(10) Additional income taxes related to sale of subsidiary - proceeds of sale originally credited to additional paid-in capital of Associated.

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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 February 3, 1973:					
Land	$ 894,722				$ 894,722
Buildings	1,133,683	$ 3,468	$382,898		754,253
Fixtures and equipment	791,459	34,222	78,269		747,412
Leasehold improvements	397,641	11,256	57,092		351,805
	$3,217,505	$ 48,946	$518,259(1)		$2,748,192
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(1)		$3,217,505

(1) Includes fully depreciated assets written-off of $509,911 and $32,874 for the years ended February 3, 1973 and January 29, 1972, respectively.

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

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SCHEDULE VI—ACCUMULATED 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	COL. F
DESCRIPTION	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Other Changes—Add (Deduct)—Describe	Balance at End of Period
Year ended February 3, 1973:					
Buildings	$ 703,611	$ 27,355	$382,898		$ 348,068
Furniture and equipment	423,693	91,808	76,743		438,758
Leasehold improvements	204,508	57,309	56,791		205,026
	$1,331,812	$176,472	$516,432(1)		$ 991,852
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)		$1,331,812

(1) See note on Schedule V.

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

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SCHEDULE XVI—SUPPLEMENTARY INCOME STATEMENT INFORMATION

DIVERSIFIED RETAILING COMPANY, INC.

AND SUBSIDIARY

COL. A		COL. B
ITEM		Charged to Costs and Expenses
Year ended February 3, 1973:		
Maintenance and repairs		$ 421,521
Depreciation and amortization		176,472
Taxes other than taxes on income:		
Real estate		203,622
State and local		124,904
Payroll		410,531
	TOTAL TAXES	739,057
Management and service contract fees		None
Rentals		1,771,996
Royalties		None
Advertising		97,621
Research and development		None
Year ended January 29, 1972:		
Maintenance and repairs		$ 372,315
Depreciation and amortization		189,236
Taxes other than taxes on income:		
Real estate		149,652
State and local		123,430
Payroll		376,901
	TOTAL TAXES	649,983
Management and service contract fees		None
Rentals		1,706,250
Royalties		None
Advertising		125,061
Research and development		None

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

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Financial Information for Inclusion in Annual 10-K Report

December 31, 1972 and 1971

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REPORT

The Board of Directors
Columbia Insurance Company:

We have examined the financial statements and related schedules of Columbia Insurance Company (formerly Reinsurance Corp. of Nebraska) as listed in the accompanying index. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Blue Chip Stamps and its subsidiary, a significant nonconsolidated affiliated company, which statements were examined by other auditors whose qualified report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to Blue Chip Stamps and its subsidiary included in stock of affiliates, $3,498,635 and $3,243,336 at December 31, 1972 and 1971, respectively, and $315,299 and $130,210 in equity in net profit, affiliated companies for 1972 and 1971, respectively, is based solely upon the report of the other auditors.

We have reviewed the audited financial statements issued by Blue Chip Stamps for the year ended March 3, 1973 and noted the pending legal proceedings resulting in a qualified opinion on such financial statements by the other auditors. These legal proceedings are explained in note 4 to the financial statements.

In our opinion, based upon our examination and the report of the other auditors and subject to the effect, if any, upon the investment in Blue Chip Stamps resulting from the ultimate outcome of the legal proceedings referred to in the preceding paragraph, such financial statements present fairly the financial position of Columbia Insurance Company at December 31, 1972 and 1971 and the results of its operations, changes in capital stock and surplus and changes in its financial position for the respective years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for investments in stock of affiliates as described in note 2 to the financial statements; and the supporting schedules, in our opinion, present fairly the information set forth therein.

PEAT, MARWICK, MITCHELL & CO.

Omaha, Nebraska
March 21, 1973

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Index to Financial Statements

Schedules III, IV, VIII and IX are omitted because they are not applicable.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Balance Sheets

December 31, 1972 and 1971

Assets	1972	1971
Bonds at amortized value (note 1) (Schedule I)	$ 1,058,203	1,041,612
Stocks (notes 1, 2 and 4):		
Other than stocks of affiliates (Schedule II)	1,187,548	1,203,820
Affiliates (Schedule VI)	7,034,077	5,203,590
	8,221,625	6,407,410
Cash and bank deposits	16,266	14,028
Uncollected premiums (net of commissions payable of $81,205, 1972; $103,139, 1971)	272,738	329,430
Investment income due and accrued	46,406	23,429
Prepaid acquisition costs	143,000	164,320
Other assets	345	505
	$ 9,758,583	7,980,734

Liabilities, Capital Stock and Surplus	1972	1971
Losses and claims (note 1)	$ 1,005,227	409,513
Loss adjustment expenses	171,485	86,525
Unearned premiums (note 1) (Schedule VII)	845,259	720,389
Assumed losses payable	64,738	60,366
Federal income taxes:		
Current	794	86,000
Deferred	153,258	55,528
	154,052	141,528
Other liabilities	1,578	1,013
	2,242,339	1,419,334
Capital stock and surplus:		
Capital stock par value $100. Authorized, issued and outstanding 5,000 shares (note 3)	500,000	500,000
Surplus:		
Paid-in	5,355,389	5,355,389
Unassigned	1,660,855	706,011
Total surplus	7,016,244	6,061,400
	7,516,244	6,561,400
	$ 9,758,583	7,980,734

See accompanying notes to financial statements.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Statements of Operations

Years ended December 31, 1972 and 1971

	1972	1971
Underwriting income:		
Net premiums written (Schedule VII)	$ 1,834,106	1,433,640
Increase in unearned premiums	124,870	481,228
Premiums earned (Schedule VII)	1,709,236	952,412
Losses incurred (Schedule VII)	1,159,875	588,492
Loss expense incurred (Schedule VII)	128,568	94,663
	1,288,443	683,155
	420,793	269,257
Underwriting expenses incurred:		
Commissions and brokerage	347,294	326,155
Taxes, licenses and fees	3,788	179
Other underwriting expenses	4,508	1,846
Decrease (increase) in prepaid acquisition costs	21,320	(112,231)
	376,910	215,949
Profit from underwriting	43,883	53,308
Investment income:		
Interest on bonds	75,661	72,382
Dividends, unaffiliated companies (Schedule X)	74,148	31,396
Equity in net profit, affiliated companies (note 4) (Schedule X)	858,521	315,763
Total investment income	1,008,330	419,544
Investment expenses	1,226	1,564
Net investment income	1,007,104	417,980
Income before provision for income taxes	1,050,987	471,288
Deferred Federal income taxes	97,729	50,541
Net income	953,258	420,747
Realized gains on investments (Schedule XI)	2,266	286,140
Less Federal income taxes on gain	680	86,000
Net realized gains on investments	1,586	200,140
Net income and realized gains on investments	$ 954,844	620,887

See accompanying notes to financial statements.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Statements of Capital Stock and Surplus

Years ended December 31, 1972 and 1971

Capital Stock	1972 Number of shares	1972 Par value	1971 Number of shares	1971 Par value
Balance at beginning and end of year	5,000	$ 500,000	5,000	$ 500,000

Surplus	1972 Paid-in	1972 Unassigned	1971 Paid-in	1971 Unassigned
Balance at beginning of year	$ 5,355,389	706,011	2,968,688	408,341
Equity adjustment (note 2)	-	-	-	60,920
Balance at beginning of year, restated	5,355,389	706,011	2,968,688	469,261
Net income	-	954,844	-	620,887
Unrealized gain from excess of market value over book value of stocks, net of Federal income taxes	-	-	-	(384,137)
Contribution by parent (note 3)	-	-	2,386,701	-
Balance at end of year	$ 5,355,389	1,660,855	5,355,389	706,011

See accompanying notes to financial statements.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Statements of Changes in Financial Position

Years ended December 31, 1972 and 1971

	1972	1971
Funds provided:		
From operations:		
Net income	$ 954,844	620,887
Charges (credits) to income not requiring (providing) funds:		
Amortization of bond discount	(5,346)	-
Increase in loss and loss expense reserves	680,674	442,846
Increase in unearned premium reserves	124,870	481,227
Increase in assumed losses payable	4,372	33,607
Increase in deferred taxes	97,730	50,541
(Decrease) increase in accrued taxes and expenses	(84,641)	86,570
Decrease (increase) in uncollected premiums	56,692	(212,214)
(Increase) decrease in interest receivable	(22,977)	1,952
Decrease (increase) in prepaid acquisition costs	21,320	(112,231)
Equity in net profit, affiliated companies, net of dividends	(798,522)	(278,822)
Amortization of organization expense	160	126
Funds provided from operations	1,029,176	1,114,489
From investments sold or matured:		
Bonds	750,814	1,957,443
Common stocks	21,834	647,775
	772,648	2,605,218
Contribution by parent (note 3)	-	2,386,701
Decrease in cash	-	2,023
Total funds provided	$ 1,801,824	6,108,431
Funds used:		
Cost of investments purchased:		
Bonds	762,059	2,516,269
Common stocks:		
Other than stocks of affiliates	5,562	780,031
Affiliates	1,031,965	2,812,131
	1,037,527	3,592,162
	1,799,586	6,108,431
Increase in cash	2,238	-
	$ 1,801,824	6,108,431

See accompanying notes to financial statements.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Notes to Financial Statements

December 31, 1972 and 1971

(1) Summary of Significant Accounting Policies and Practices:

Insurance Premiums:

Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro rata basis. Policy acquisition costs or commissions are deferred and charged against income ratably over the terms of the policies.

Securities:

Investments in bonds are stated at cost, adjusted where appropriate for amortization of premium or accretion of discount. Investments in stock are stated at cost. Certain bonds and stocks deposited in trust with regulatory authorities or with an affiliated company in accordance with various reinsurance treaties were as follows:

	1972	1971
Bonds at amortized cost	$ 295,238	293,892
Stocks	1,369,682	1,369,682
	$ 1,664,920	1,663,574

Reserve for Losses:

The reserve for losses and loss adjustment expenses is based upon past experience and estimates received relating to assumed reinsurance and estimates of unreported losses.

Catastrophe Reserves:

The company does not provide a reserve for catastrophe losses. The Committee on Insurance Accounting and Auditing of the American Institute of Certified Public Accountants in cooperation with industry representatives is working toward the development of a definitive statement as to the appropriate accounting for catastrophe losses and resolution may lead to changes in the accounting practices being followed.

Income Taxes:

The company accounts for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these timing differences.

The company joins its parent and other affiliated companies in filing a consolidated Federal income tax return. It is the policy of the company to accrue appropriate income taxes on the unremitted earnings of affiliates.

(2) Investments Reported on the Equity Method:

The investment in Blue Chip Stamps and Berkshire Hathaway, Inc. meet the criteria set forth by the American Institute of Certified Public Accountants Accounting Principles Board for investments which must be reported on the equity method for all fiscal periods beginning after December 31, 1971. Such investments previously were carried at cost with dividends received thereon reflected in income. This change had the effect of increasing net earnings by approximately $258,000 and $61,000 for the years ended December 31, 1971 and 1970, respectively.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Notes to Financial Statements, Continued

(3) Organization of the Company:

During December 1971 the company changed its name from Reinsurance Corp. of Nebraska to Columbia Insurance Company.

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.

(4) Legal Proceedings of Blue Chip Stamps:

The financial statements of Blue Chip Stamps include the following note (the "Company" refers to Blue Chip Stamps):

"Legal proceedings: Pursuant to a consent final judgment entered in 1967, the Company in June 1972 submitted for approval by the United States District Court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. In January 1973 the court signed an order (1) disapproving said plan, (2) requiring the Company to continue efforts to negotiate a sale and (3) calling for the the appointment of an independent expert witness to study the feasibility of a sale or spin-off of a portion of the Company's trading stamp business under existing conditions. The Company believes that such a sale or spin-off, 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 a purported class action to recover for stamp savers monies collected by it as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that redemption transactions are not taxable and that all reimbursements were excess reimbursements or alternatively that reimbursement collections exceeded the tax properly payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections. The Company has asserted claims against the state for reimbursement of all or part of any recovery by plaintiffs on either of those theories. The complaint was recently amended to allege fraud and to seek punitive damages from the Company. In the opinion of counsel for the Company, substantial defenses are available, but counsel cannot predict the ultimate outcome of the action.

"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 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, but the Company has not yet been served with process in that action. In the opinion of counsel for the Company, upon the facts known, the complaints are without merit and all defendants should prevail.

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Notes to Financial Statements, Continued

(4) Legal Proceedings of Blue Chip Stamps, Cont.:

"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 formerly engaged in the trading stamp business. The complaint seeks treble damages in substantial amounts 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."

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Bonds

December 31, 1972

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
U. S. Government -						
U. S. Treasury Bills due March 1973	$ 100,000	98,716	98,716	98,716	98,716	98,716
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	94,615	94,615	94,615	94,615
Indiana Toll Road Commission	150,000	90,000	96,517	96,517	96,517	96,517
Iowa, Burlington Industrial Revenue	100,000	99,000	99,076	99,076	99,076	99,076
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	16,517	16,517	16,517	16,517
Missouri, New Madrid Industrial Revenue	100,000	80,750	82,795	82,795	82,795	82,795
Missouri, Rolla Industrial Revenue	100,000	95,005	95,925	95,925	95,925	95,925
	1,000,000	877,730	890,445	890,445	890,445	890,445
Industrial and miscellaneous -						
F.M.C. Corporation Convertible Subordinated Debentures	97,000	69,020	69,042	68,870	69,042	69,020
	$ 1,197,000	1,045,466	1,058,203	1,058,031	1,058,203	1,058,181

Schedule I.1

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COLUMBIA INSURANCE COMPANY
(formerly 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
U. S. Government -						
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.2

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Stocks - Other than Stocks of Affiliates

December 31, 1972

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	$ 275,449	275,449	309,736	309,736
Banks, trusts and insurance companies:					
Cleveland Trust Company	10	802	802	925	925
Girard Company	100	5,025	5,025	5,563	5,563
Harris Trust and Savings of Chicago	50	2,512	2,512	2,913	2,913
National Bank of Detroit	100	5,112	5,112	5,075	5,075
New England Merchants Co., Inc.	100	2,313	2,313	2,375	2,375
Omaha National Corporation	8,800	118,641	118,641	226,600	226,600
Pittsburgh National Corporation	100	3,513	3,513	3,650	3,650
State Street Boston Financial	50	1,988	1,988	2,413	2,413
Third National Bank of Nashville, Tennessee	200	4,575	4,575	9,550	9,550
	9,510	144,481	144,481	259,064	259,064
Industrial and miscellaneous:					
Boeing Company	100	2,177	2,177	2,500	2,500
Grumann Corporation	100	1,723	1,723	1,000	1,000
Investors Diversified Services	100	848	848	900	900
Kennecott Copper Corporation	100	2,735	2,735	2,375	2,375
New Yorker Magazine, Inc.	12,000	753,951	753,951	576,000	576,000
Northrup Corporation	100	1,952	1,952	2,313	2,313
Washington Post Company	100	2,433	2,433	3,800	3,800
Wesco Financial Corporation	105	1,799	1,799	1,693	1,693
	12,705	767,618	767,618	590,581	590,581
Total common stocks		$ 1,187,548	1,187,548	1,159,381	1,159,381

Schedule II.1

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COLUMBIA INSURANCE COMPANY
(formerly 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:					
Grumann Corporation	100	1,723	1,723	1,537	1,537
Kennecott Copper 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
	12,500	764,594	764,594	406,375	406,375
Total common stocks		$ 1,203,820	1,203,820	957,205	957,205

Schedule II.2

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Summary of Investments in Securities - Other than Securities of Affiliates

December 31, 1972

Type of security	Actual cost	Book value	Market value	Amortized value	Admitted asset value
Bonds and notes:					
U. S. Government	$ 98,716	98,716	98,716	98,716	98,716
Special revenue and special assessment	877,730	890,445	890,445	890,445	890,445
Industrial and miscellaneous	69,020	69,042	68,870	69,042	69,020
Total bonds and notes	1,045,466	1,058,203	1,058,031	1,058,203	1,058,181
Stocks:					
Common stocks:					
Public utilities	275,449	275,449	309,736	-	309,736
Banks, trusts and insurance companies	144,481	144,481	259,064	-	259,064
Industrial and miscellaneous	767,618	767,618	590,581	-	590,581
Total stocks	1,187,548	1,187,548	1,159,381	-	1,159,381
Total investments in securities - other than securities of affiliates	$ 2,233,014	2,245,751	2,217,412	1,058,203	2,217,562

Schedule V.1

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COLUMBIA INSURANCE COMPANY
(formerly 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:					
U. S. 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, trusts 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.2

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Investments in Common Stocks of Affiliates

December 31, 1972

Name of issuer	Number of shares	Actual cost	Equity in net assets and excess cost	Market value	Admitted asset value
Berkshire Hathaway, Inc.	48,635	$ 2,789,951	3,535,442	3,890,800	3,890,800
Blue Chip Stamps	250,000	3,100,875	3,498,635	3,843,750	3,843,750
	298,635	$ 5,890,826	7,034,077	7,734,550	7,734,550

December 31, 1971

Name of issuer	Number of shares	Actual cost	Equity in net assets and excess cost	Market value	Admitted asset value
Berkshire Hathaway, Inc.	35,067	$ 1,757,986	1,960,254	2,454,690	2,454,690
Blue Chip Stamps	250,000	3,100,875	3,243,336	3,562,500	3,562,500
	285,067	$ 4,858,861	5,203,590	6,017,190	6,017,190

Schedule VI

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Premiums, Losses and Underwriting Expenses

Year ended December 31, 1972

Line of insurance	Part 1 - Premiums: Unearned premiums beginning of period	Part 1 - Premiums: Net premiums written	Part 1 - Premiums: Unearned premiums end of period	Part 1 - Premiums: Premiums earned during period	Part 2 - Losses and underwriting expenses: Losses incurred during period	Part 2 - Losses and underwriting expenses: Loss expense incurred during period	Part 2 - Losses and underwriting expenses: Commissions and brokerage incurred during period	Part 2 - Losses and underwriting expenses: Other under-writing expense incurred during period
Fire	$ 254,843	349,707	252,858	351,692	208,327			
Allied lines	31,765	107,984	59,907	79,842	42,703			
Homeowners multiple peril	58	3[illegible]	118	284	-			
Commercial multiple peril	7,158	109,6[illegible]	42,480	74,353	53,523			
Inland marine	11,641	38,500	16,436	33,705	16,492			
Workmen's compensation	758	26,403	8,526	18,635	2,304			
Liability other than auto	34,163	288,893	87,343	235,713	117,090			
Auto liability	33,829	740,932	249,139	525,622	392,681			
Auto physical damage	340,917	65,896	71,931	334,882	267,164			
Aircraft (all perils)	822	13,871	-	14,693	1,802			
Surety	4,400	9,944	8,417	5,927	6,874			
Burglary and theft	13	246	112	147	-			
Boiler and machinery	22	334	183	173	60			
International	-	48,467	20,286	28,181	21,528			
Reinsurance	-	32,910	27,523	5,387	29,327			
	$ 720,389	1,834,106	845,259	1,709,236	1,159,875	128,568	347,294	8,296

Schedule VII.1

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COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Premiums, Losses and Underwriting Expenses

Year ended December 31, 1971

Line of insurance	Part 1 - Premiums: Unearned premiums beginning of period	Part 1 - Premiums: Net premiums written	Part 1 - Premiums: Unearned premiums end of period	Part 1 - Premiums: Premiums earned during period	Part 2 - Losses and underwriting expenses: Losses incurred during period	Part 2: Loss expense incurred during period	Part 2: Commissions and brokerage incurred during period	Part 2: Other under-writing expense incurred during period
Fire	$ 14,503	477,397	254,843	237,057	217,415			
Allied lines	3,191	91,549	31,764	62,976	5,439			
Ocean marine	6,807	14,977	7,158	14,626	5,336			
Inland marine	4,060	29,861	11,642	22,279	4,234			
Workmen's compensation	1,031	6,631	758	6,904	3,803			
Liability other than auto	19,509	111,516	34,163	96,862	51,612			
Auto liability	2,936	246,085	33,829	215,192	164,188			
Auto physical damage	184,300	409,637	340,917	253,020	134,851			
Aircraft physical damage	347	5,020	822	4,545	-			
Surety	2,477	9,584	4,400	7,661	(1,299)			
International	-	1,203	-	1,203	435			
Reinsurance	-	30,001	-	30,001	2,478			
Other	-	179	93	86	-			
	$ 239,161	1,433,640	720,389	952,412	588,492	94,663	326,155	2,025

Schedule VII.2

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Schedule X.1

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Income from Dividends - Equity in Net Profit of Affiliates

December 31, 1972

Name of issuer and title of issue	Amount of cash dividends	Amount of equity in net profit
Public utilities - California Water Service Co.	$ 19,469	-
Banks, trusts and insurance companies:		
Cleveland Trust Company	26	-
Girard Company	600	-
Harris Trust and Savings of Chicago	100	-
National Bank of Detroit	228	-
New England Merchants Co., Inc.	140	-
Omaha National Corporation	10,912	-
Pittsburg National Corporation	142	-
State Street Boston Financial	120	-
Third National Bank of Nashville, Tennessee	150	-
	12,418	-
Industrial and miscellaneous:		
Berkshire Hathaway, Inc.	-	543,222
Boeing Company	20	-
Blue Chip Stamps	-	315,299
Grumann Corporation	25	-
Investors Diversified Services	11	-
Kennecott Copper Corporation	100	-
New Yorker Magazine, Inc.	42,000	-
Northrup Corporation	75	-
Rheingold Corporation	10	-
Washington Post Company	20	-
	42,261	858,521
	$ 74,148	858,521

Schedule X.2

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Income from Dividends - Equity in Net Profit of Affiliates

December 31, 1971

Name of issuer and title of issue	Amount of cash dividends	Amount of equity in net profit
Public utilities - California Water Service Co.	$ 18,806	-
Banks, trusts and insurance companies:		
Girard Company	1,500	-
Harris Trust and Savings of Chicago	25	-
National Bank of Detroit	110	-
New England Merchants Co., Inc.	35	-
Omaha National Corporation	10,560	-
State Street Boston Financial	30	-
Third National Bank of Nashville, Tennessee	200	-
	12,460	-
Industrial and miscellaneous:		
Berkshire Hathaway, Inc.	-	185,553
Blue Chip Stamps	-	130,210
Grumann Corporation	50	-
Kennecott Copper Corporation	25	-
Northrup Corporation	50	-
Washington Post Company	5	-
	130	315,763
	$ 31,396	315,763

COLUMBIA INSURANCE COMPANY
(formerly Reinsurance Corp. of Nebraska)

Summary of Realized Gains on Sale of Investments

Year ended December 31, 1972

Type of security	Aggregate cost	Aggregate proceeds	Gain
Stocks:			
Banks, trusts and insurance companies	$ 20,100	21,900	1,800
Industrial and miscellaneous	1,734	2,200	466
	21,834	24,100	2,266
Income taxes allocated to realized gains	-	-	680
Net realized gains	$ 21,834	24,100	1,586

Year ended December 31, 1971

Type of security	Aggregate cost	Aggregate proceeds	Gain
Stocks:			
Industrial and miscellaneous	$ 647,775	933,915	286,140
Income taxes allocated to realized gains	-	-	86,000
Net realized gains	$ 647,775	933,915	200,140

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EXHIBIT A

COMPUTATION OF EARNINGS PER SHARE

	Fiscal year ended				
	February 3, 1973	January 29, 1972	January 30, 1971	January 31, 1970	February 1, 1969
Average shares outstanding (1)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net earnings	$2,918,042 (4)	$1,515,880 (3)(5)	$1,720,265 (5)	$ 114,203 (2)(5)	$1,997,700 (6)
Per share amount	$ 2.92	$ 1.52	$ 1.72	$ .11	$ 2.00

(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.

(4) Includes extraordinary gain of $193,021.

(5) Restated to reflect change in 1973 to equity method of accounting for investments in affiliated companies.

(6) Not necessary to restate as in (5) above since no investments were held in the affiliated companies at this date.

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BLUE CHIP STAMPS

1973 Annual Report

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Photographs in this annual report follow the flow of merchandise through Blue Chip's distribution system.

Directors and Officers

Directors

Warren E. Buffett
Personal investments

Z. Wayne Griffin
Chairman of Community Redevelopment Agency of the City of Los Angeles; real estate developer; personal investments

John P. Guerin, Jr.
General partner of J. P. Guerin & Co., investors; director of Pacific Stock Exchange, Inc.; Chairman of the Board of New America Fund, Inc.

Joseph P. Hughes
President of Hughes Markets, Inc.; Chairman of the Board of Certified Grocers of California, Ltd.

Emmett H. Jones
President of Terminal Oil Company, Industrial Engineering & Equipment Corporation and Westates Investment Co.

Donald A. Koeppel
Chairman of the Board and President of the Company

Charles T. Munger
General partner of Wheeler, Munger & Co., investors

William F. Ramsey
Executive Vice President of the Company

Ron Stever
Chairman of the Board of The Stever Companies, consulting actuaries and insurance brokers, and of Crescent Wharf & Warehouse Co.

Andrew J. Wolf
President of A & B Supermarkets, Inc.

Officers

Donald A. Koeppel
Chairman of the Board and President

William F. Ramsey
Executive Vice President

Raymond H. Allen
Vice President, Information Systems

Gerald N. Anderson
Vice President, Sales

James D. Carter
Vice President, Operations

Walter M. Cusack
Vice President, Incentives

William K. Klepper
Vice President, Merchandise

Robert H. Bird
Secretary and Treasurer

Ernest P. Paulson
Controller

Eleanor Reynolds
Assistant Secretary

Transfer Agents and Registrars

Bank of America, N.T.&S.A.
Los Angeles

Bankers Trust Company
New York

Financial Highlights

	1973
[illegible]	$ 88,736,000
[illegible]	132,323,000
[illegible]	8,108,000
[illegible]	(82,000)
[illegible]	(925,000)
[illegible]	7,101,000
[illegible]	$1.58
[illegible]	1.38


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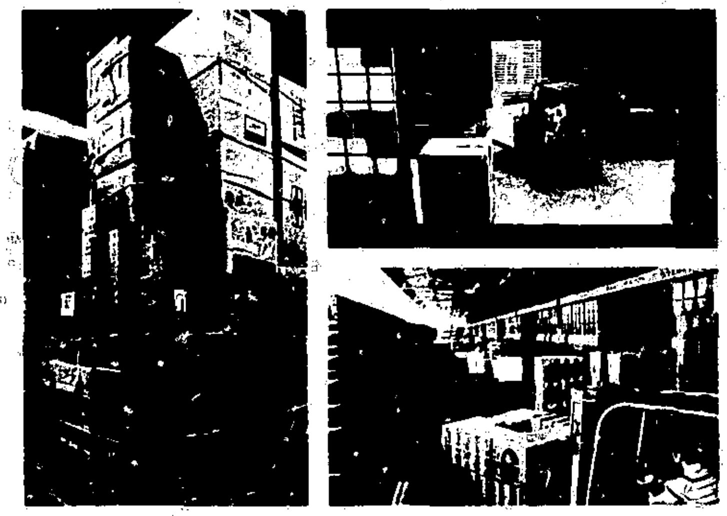


To Our Stockholders

Net income increased to $1.38 per share for the current fiscal year from $.82 for the prior year. Income before securities losses and extraordinary charges amounted to $1.58 and $1.15 per share, respectively.

The increase in earnings was achieved in spite of a 12% decline in stamp service revenues from $100,622,000 to $88,736,000 currently. This decline reflects additional losses of supermarket business and a reduction in multiple stamping by service station operators. We do not expect stamp service volume to level off or turn upward in the near future.

Total revenues amounted to $132,323,000 including $32,049,000 from sales of See's candy. Last year's total revenues of $114,102,000 included only $4,104,000 of See's sales due to our acquisition of the candy business late in the fiscal year.

Although our incentive sales are still relatively small, $3,624,000, we are pleased with this year's performance and look forward to further growth.

Net losses on sales of securities declined from $1,693,000 or $.33 per share to $82,000 or $.02 per share. The losses were incurred as part of our program of restructuring marketable securities with emphasis on after-tax yields and sound values. The restructuring is now substantially complete.

The extraordinary charges, which amounted to $925,000 or $.18 per share after income taxes, represented complete settlement of eleven civil lawsuits.

As required in a 1967 consent judgment, in June 1972 the Company submitted to the United States District Court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. In January 1973 the court disapproved the plan, ordered the Company to continue efforts to negotiate a sale and called for the appointment of an independent expert witness to study the feasibility of a sale or spin-off under existing market conditions. We believe that a sale or spin-off, if consummated, might have a materially adverse effect on our ability to continue in the trading stamp business.

We were truly saddened by Mr. Charles J. Futterman's recent resignation as a member of our board of directors to concentrate on other activities. Mr. Futterman has been associated with Blue Chip as director, counselor and friend since 1958.

The board of directors, as provided for in our bylaws, reduced the size of the board from eleven to ten members.

During the past several months we have acquired just under 25% of the outstanding common stock of Wesco Financial Corporation and have applied to federal and state regulatory authorities for permission to increase our holdings beyond 25%. Wesco's principal subsidiary, Mutual Savings and Loan Association, operates at seven locations in Southern California.

Cordially yours,

Donald a Koeppel

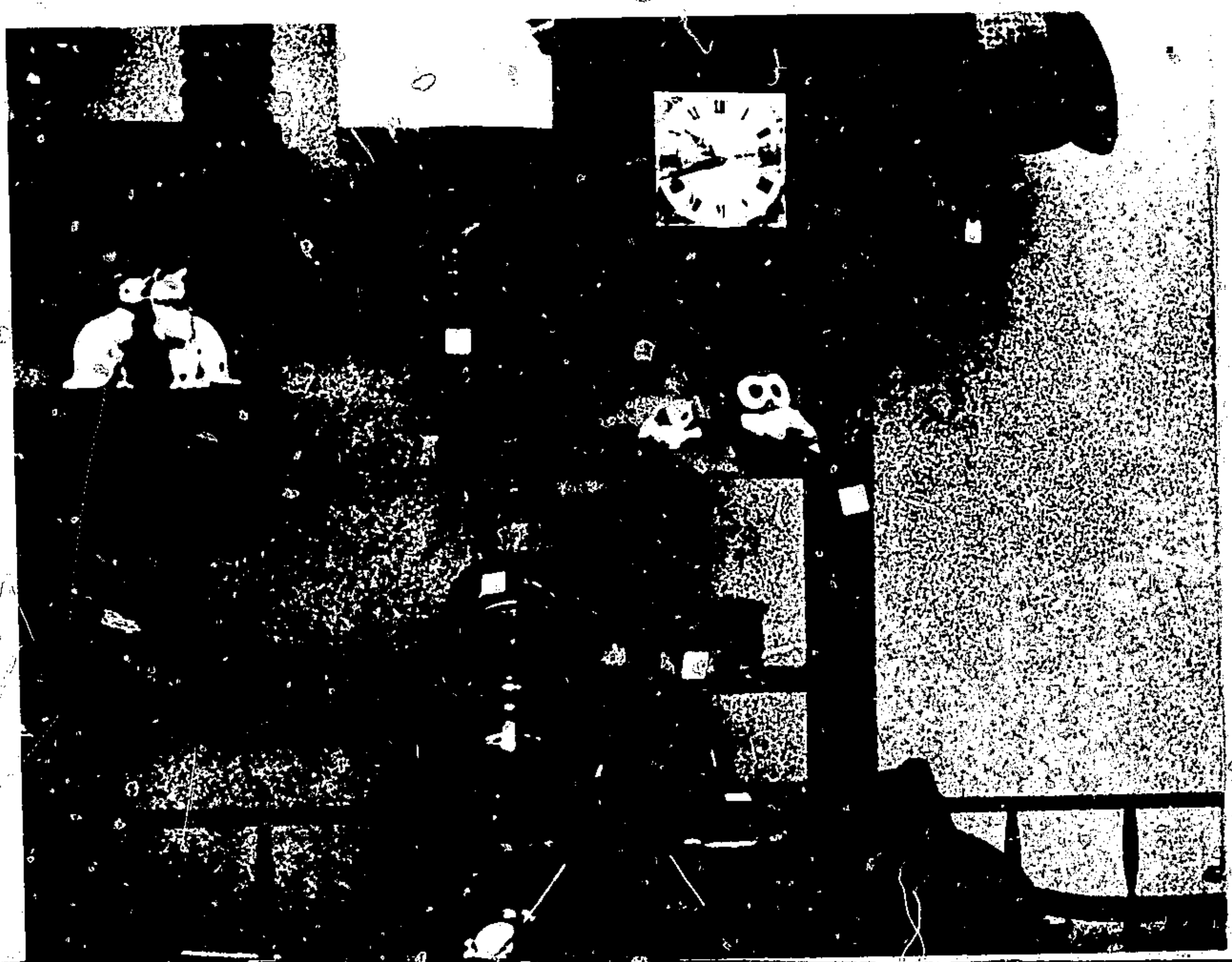
Donald A. Koeppel
Chairman of the Board and President

April 6, 1973

Comparative Summary

	3/3/73	3/4/72	2/27/71	2/28/70
Total for the Fiscal Year				
Stamp service revenues	$ 88,736,000	$100,622,000	$118,374,000	$124,180,000
Total revenues	132,323,000	114,102,000	127,784,000	132,020,000
Income before securities gains (losses) and extraordinary charges	8,108,000	5,907,000	8,739,000	7,738,000
Securities gains (losses)	(82,000)	(1,693,000)	(155,000)	27,000
Extraordinary charges	(925,000)	—	—	(378,000)
Net income	7,101,000	4,214,000	8,584,000	7,387,000
Total at Fiscal Year End				
Total assets	199,724,000	190,740,000	148,422,000	147,333,000
Stockholders' equity	53,125,000	46,381,000	43,296,000	35,431,000
Average Shares Outstanding*	5,069,000	5,028,000	4,957,000	4,877,000
Per Share*				
Income before securities gains (losses) and extraordinary charges	$1.58	$1.15	$1.72	$1.53
Net income	1.38	.82	1.69	1.46

*Adjusted for 5-for-1 stock split, October 1969.



3/1/69	3/2/68	3/4/67	2/26/66	2/27/65	2/29/64
$107,602,000	$91,097,000	$91,209,000	$81,065,000	$71,969,000	$68,615,000
112,151,000	94,574,000	94,760,000	83,772,000	74,256,000	70,360,000
5,415,000	3,333,000	4,365,000	4,444,000	2,276,000	1,722,000
229,000	85,000	(81,000)	22,000	228,000	93,000
(3,651,000)	—	—	—	—	—
1,993,000	3,418,000	4,284,000	4,466,000	2,504,000	1,815,000
123,796,000	95,772,000	81,999,000	77,713,000	65,207,000	59,924,000
28,049,000	23,060,000	19,487,000	15,202,000	10,736,000	8,232,000
3,530,000	3,108,000	3,108,000	3,108,000	3,108,000	3,108,000
$1.54	$1.07	$1.41	$1.43	$ .73	$ .55
.57	1.10	1.38	1.44	.81	.58

Blue Chip Stamps

Consolidated Balance Sheet

March 3, 1973 and March 4, 1972 (Note 1)

Assets	1973	1972
Current assets:		
Cash	$ 4,196,000	$ 3,988,000
Marketable securities (Notes 3 and 5)	144,601,000	134,731,000
Accounts receivable	4,148,000	4,947,000
Merchandise and supplies inventories, at the lower of cost (first-in, first-out) or market	13,114,000	14,187,000
Prepaid income taxes and other expenses (Note 6)	4,792,000	4,057,000
Total current assets	170,851,000	161,910,000
Property, fixtures and equipment, at cost, less accumulated depreciation and amortization (Note 4)	10,785,000	10,933,000
Unamortized debenture discount	1,347,000	1,706,000
Excess of cost over equity in net assets of subsidiary, less accumulated amortization (Note 1)	16,741,000	16,191,000
	$199,724,000	$190,740,000

Liabilities and Stockholders' Equity	1973	1972
Current liabilities:		
Accounts payable and accrued expenses	$ 8,476,000	$ 7,680,000
Note payable to bank	1,000,000	—
Current portion of long-term debt	5,751,000	5,452,000
Income taxes payable (Note 6)	4,027,000	2,698,000
Liability for unredeemed trading stamps (Note 2)	93,351,000	89,245,000
Total current liabilities	112,605,000	105,075,000
Long-term debt (Note 5):		
Note payable to bank, less current portion	23,004,000	27,259,000
6¾% Subordinated Debentures due 1978	10,840,000	10,840,000
Total long-term debt	33,844,000	38,099,000
Minority interest in subsidiary (Note 1)	150,000	1,185,000
Stockholders' equity (Notes 5, 7 and 11):		
Common stock, par value $1.00 Shares authorized — 7,000,000 Shares outstanding — 5,179,000 and 5,039,000	5,179,000	5,039,000
Paid-in capital	1,579,000	862,000
Retained earnings	46,367,000	40,480,000
Total stockholders' equity	53,125,000	46,381,000
	$199,724,000	$190,740,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Income

Fifty-two Weeks Ended March 3, 1973 and Fifty-three Weeks Ended March 4, 1972 (Note 1)

	1973	1972
Revenues:		
Stamp service revenues (Note 2)	$ 88,736,000	$100,622,000
Incentive sales	3,624,000	2,145,000
Candy sales	32,049,000	4,104,000
Interest and dividends	7,315,000	6,359,000
Other	599,000	872,000
	132,323,000	114,102,000
Costs and expenses:		
Cost of redemptions and sales (Note 2)	95,662,000	93,791,000
Selling, general and administrative expenses	21,729,000	10,917,000
Interest and discount amortization	2,996,000	1,292,000
	120,387,000	106,000,000
Income before income taxes, securities losses and extraordinary charges	11,936,000	8,102,000
Provision for income taxes (Note 6)	3,828,000	2,195,000
Income before securities losses and extraordinary charges	8,108,000	5,907,000
Securities losses less applicable income tax effect (Note 6)	(82,000)	(1,693,000)
Extraordinary charges (Note 11)	(925,000)	—
Net income	$ 7,101,000	$ 4,214,000
Per share (Note 8):		
Income before securities losses and extraordinary charges	$1.58	$1.15
Securities losses	(.02)	(.33)
Extraordinary charges	(.18)	—
Net income	$1.38	$ .82

Consolidated Statement of Stockholders' Equity

Fifty-two Weeks Ended March 3, 1973 and Fifty-three Weeks Ended March 4, 1972

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings
Balance at February 27, 1971	5,026,000	$5,026,000	$ 796,000	$37,474,000
Exercise of stock options	13,000	13,000	66,000	—
Cash dividends of $.24 per share	—	—	—	(1,208,000)
Net income	—	—	—	4,214,000
Balance at March 4, 1972	5,039,000	5,039,000	862,000	40,480,000
Exercise of stock options (Note 7)	140,000	140,000	717,000	—
Cash dividends of $.24 per share (Note 5)	—	—	—	(1,214,000)
Net income	—	—	—	7,101,000
Balance at March 3, 1973	5,179,000	$5,179,000	$1,579,000	$46,367,000

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Fifty-two Weeks Ended March 3, 1973 and Fifty-three Weeks Ended March 4, 1972 (Note 1)

	1973	1972
Working capital was provided by:		
Income before extraordinary charges	$ 8,026,000	$ 4,214,000
Income charges not affecting working capital:		
Depreciation and amortization	2,141,000	1,351,000
Minority interest in net income of subsidiary	35,000	43,000
Working capital provided by operations	10,202,000	5,608,000
Note payable to bank (long-term portion)	1,496,000	27,259,000
Exercise of stock options	857,000	79,000
Minority interest in subsidiary	(1,070,000)	1,142,000
	11,485,000	34,088,000
Working capital was used for:		
Excess of cost over equity in net assets of subsidiary	978,000	16,245,000
Property additions, net, including $6,602,000 in 1972 relating to acquisition of subsidiary	1,206,000	7,652,000
Payment of dividends	1,214,000	1,208,000
Transfer of long-term debt to short-term debt	5,751,000	—
Extraordinary charges (Note 11)	925,000	—
	10,074,000	25,105,000
Increase in working capital, including $11,006,000 in 1972 of working capital of subsidiary at acquisition	$ 1,411,000	$ 8,983,000

	1973	1972
Increases (decreases) in components of working capital:		
Cash	$ 208,000	$ 3,457,000
Marketable securities	9,870,000	21,563,000
Accounts receivable	(799,000)	(2,846,000)
Inventories	(1,073,000)	(3,010,000)
Prepaid income taxes and other expenses	735,000	608,000
Accounts payable and accrued expenses	(796,000)	(2,284,000)
Note payable to bank (short-term)	(1,000,000)	—
Current portion of long-term debt	(299,000)	(5,452,000)
Income taxes payable	(1,329,000)	(1,237,000)
Liability for unredeemed trading stamps	(4,106,000)	(1,810,000)
Increase in working capital	$ 1,411,000	$ 8,983,000

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1 — Subsidiary company:

The consolidated financial statements include the accounts of the Company and of its majority-owned subsidiary, See's Candy Shops, Incorporated ("See's"), from date of acquisition. On January 3, 1972, the Company acquired 67% of the common stock of See's. As a result of an invitation for tenders and subsequent purchases, ownership was increased to 93% through March 4, 1972 and to 99% through March 3, 1973, for a total cost of $34,661,000. The acquisition has been recorded as a purchase. The excess of cost over equity in underlying net assets is being amortized over 40 years; amortization amounted to $428,000 and $54,000 for the fiscal years ended March 3, 1973 and March 4, 1972.

The following pro-forma results of operations for the fiscal year ended March 4, 1972, which are furnished solely to comply with a requirement of the Accounting Principles Board, assume that the Company owned 99% of See's for such fiscal year:

Total revenues	$140,240,000
Income before securities losses	6,754,000
Net income	5,061,000
Per share:	
Income before securities losses	$1.32
Net income	.99

NOTE 2 — Stamp service accounting:

The Company recognizes stamp service revenues upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of the cost of merchandise and related redemption expenses. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations, the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. The liability for unredeemed trading stamps of $93,351,000 at March 3, 1973 included $77,354,000 for the cost of merchandise and $15,997,000 for redemption expenses.

NOTE 3 — Marketable securities:

Following is a summary of marketable securities, which are stated at cost (less amortization of bond premium):

	Cost	Market Value
March 3, 1973 —		
Short-term investments	$ 21,298,000	$ 21,298,000
Preferred and common stocks	123,303,000	127,004,000
	$144,601,000	$148,302,000
March 4, 1972 —		
Short-term investments	$ 20,940,000	$ 20,958,000
State and municipal bonds	17,335,000	13,372,000
Preferred and common stocks	96,456,000	97,409,000
	$134,731,000	$131,739,000

At March 3, 1973 the Company owned 21.9% of the outstanding shares of Wesco Financial Corporation common stock at a cost of $8,099,000 and has subsequently increased its ownership to 24.9% through April 6, 1973. The Company is presently seeking permission of Federal and California regulatory authorities to increase such ownership beyond 25%.

NOTE 4 — Property, fixtures and equipment:

Following is a summary of property, fixtures and equipment:

	March 3, 1973	March 4, 1972
Land	$ 2,900,000	$ 2,900,000
Buildings	5,703,000	5,572,000
Furniture, fixtures and equipment	8,957,000	8,897,000
Leasehold improvements	4,116,000	3,406,000
	21,676,000	20,775,000
Less accumulated depreciation and amortization	10,891,000	9,842,000
	$10,785,000	$10,933,000

Depreciation and amortization of property, fixtures and equipment are provided by straight-line and accelerated methods over the estimated useful lives of the assets. Total provisions amounted to $1,354,000 and $932,000 for the fiscal years ended March 3, 1973 and March 4, 1972.

NOTE 5 — Long-term debt:

The debentures are subordinated to senior indebtedness as defined in the underlying indenture, as supplemented on May 15, 1972. At least 20% of the debentures must be paid to a sinking fund annually beginning December 1, 1974, and the Company may redeem or acquire debentures after December 1, 1974. Under the terms of the indenture, as so supplemented, the Company is permitted to pay cash dividends in any fiscal year in an amount not to exceed the greater of (a) 24 cents per share or (b) 25% of the net income for the preceding fiscal year. Dividends may not be paid if the Company is in arrears in any sinking fund payments. On May 15, 1972 the interest rate on the debentures was changed from 6½% to 6¾%.

The long-term bank loan at March 3, 1973 is repayable $5,751,000 in January 1974 and the balance in January 1975. Interest is payable quarterly at one-quarter to one-half per cent above prime rate. In addition to the stock of See's, securities having an aggregate market value of approximately two-thirds the unpaid balance are pledged as collateral. Under the most restrictive covenants of the loan agreement, total unsubordinated long-term debt (including the loan) may not exceed the sum of stockholders' equity and subordinated debt, and the Company's current liabilities may not exceed the aggregate of cash, marketable securities and merchandise inventory.

NOTE 6 — Income taxes:

Prepaid income taxes of $3,802,000 and $2,951,000 at March 3, 1973 and March 4, 1972 result primarily from deducting certain redemption expenses for income tax reporting purposes when stamps are redeemed and for financial reporting purposes when stamps are issued. The net increase in prepaid income taxes resulting from timing differences amounted to $851,000 and $36,000 for the fiscal years ended March 3, 1973 and March 4, 1972.

Income tax benefits resulting from securities losses amounted to $3,000 and $124,000 for the fiscal years ended March 3, 1973 and March 4, 1972.

At March 3, 1973 the Company had capital loss carry-forwards of $1,674,000 which may be offset against capital gains of $1,589,000 and $85,000 through fiscal years ending in 1977 and 1978, respectively.

Investment tax credits, which have not been material, are recognized as the tax benefits are realized.

On May 15, 1972, the Company received a notice of deficiency from the Internal Revenue Service claiming additional taxes of approximately $7,500,000, excluding interest, for the three years ended February 27, 1971. Of this amount, more than $5,500,000 results from the Service's contention that the Company has overstated its liability for unredeemed stamps by overestimating the number of stamps issued which will ultimately be redeemed. Since its inception in 1956, the Company's financial statements and tax returns have been prepared on the basis that 97.5% of all stamps issued will ultimately be redeemed. This percentage has been based upon annual statistical evaluations of stamp redemptions. Other items in the notice involve the disallowances of certain expenses. The Company disagrees with the Service's position and accordingly has petitioned the United States Tax Court for a determination that there are no additional federal income taxes due for the year ended February 27, 1971 and prior years. The California Franchise Tax Board is deferring action on proposed assessments which are substantially based on the federal notice.

NOTE 7 — Stock options:

Under the Company's qualified stock option plan, options to purchase shares of the Company's common stock were outstanding at March 3, 1973, as follows: 3,000 shares at $6.10 (which are all currently exercisable), 7,200 shares at $14.75 (including 5,325 currently exercisable) and 18,000 shares at $15.1875 which were granted during the current fiscal year. Options for 140,500 shares were exercised at $6.10 during the fiscal year ended March 3, 1973.

NOTE 8 — Per share computations:

Per share amounts are based upon the weighted average number of shares of common stock outstanding during the fiscal year adjusted for the dilutive effect of all outstanding stock options. Such dilution is calculated assuming all such options have been exercised and the proceeds used to purchase shares at the average market price during the year.

NOTE 9 — Pension plan:

The Company has a noncontributory pension plan which covers employees meeting certain eligibility requirements. Pension costs charged to income include amortization of prior service costs over a thirty-year period and are funded annually. The cost of the plan for the fiscal years ended March 3, 1973 and March 4, 1972 amounted to $300,000 and $450,000. At March 3, 1973 the liability for unfunded prior service costs amounted to $384,000.

NOTE 10 — Long-term lease commitments:

At March 3, 1973, minimum annual rental commitments under leases expiring through 1991 amounted to $2,721,000, excluding taxes, insurance and other expenses payable directly by the Company.

NOTE 11 — Legal proceedings:

During the year ended March 3, 1973, the Company settled eleven lawsuits for $1,923,000. The settlements, less $998,000 applicable income taxes, were charged against income as extraordinary charges.

Pursuant to a consent final judgment entered in 1967, the Company in June 1972 submitted for approval by the United States District Court a plan to offer for sale one-third of its California trading stamp business located within a contiguous geographical area in Southern California. In January 1973 the court signed an order (1) disapproving said plan, (2) requiring the Company to continue efforts to negotiate a sale and (3) calling for the appointment of an independent expert witness to study the feasibility of a sale or spin-off of a portion of the Company's trading stamp business under existing conditions. The Company believes that such a sale or spin-off, 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 a purported class action to recover for stamp savers monies collected by it as reimbursement for California sales taxes on redemption of stamps. Plaintiffs claim that redemption transactions are not taxable and that all reimbursements were excess reimbursements or alternatively that reimbursement collections exceeded the tax properly payable and such excess should be returned. The Company has paid sales taxes to the state equal to its reimbursement collections. The Company has asserted claims against the state for reimbursement of all or part of any recovery by plaintiffs on either of those theories. The complaint was recently amended to allege fraud and to seek punitive damages from the Company. In the opinion of counsel for the Company, substantial defenses are available, but counsel cannot predict the ultimate outcome of the action.

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 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, but the Company has not yet been served with process in that 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 formerly engaged in the trading stamp business. The complaint seeks treble damages in substantial amounts 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.

Accountants' Report

Price Waterhouse & Co.
Los Angeles, California

April 6, 1973

To the Board of Directors and
Stockholders of Blue Chip Stamps

We have examined the consolidated balance sheet of Blue Chip Stamps and its subsidiary as of March 3, 1973 and March 4, 1972, and the related consolidated statements of income, stockholders' equity and changes in financial position for the fiscal years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 11 to the accompanying financial statements, the Company is subject to certain legal proceedings.

In our opinion, subject to the effect, if any, of the legal proceedings referred to in the preceding paragraph, the consolidated financial statements examined by us present fairly the financial position of Blue Chip Stamps and its subsidiary at March 3, 1973 and March 4, 1972 and the results of their operations and changes in financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.

Price Waterhouse & Co.

Blue Chip Stamps
5801 South Eastern Avenue
Los Angeles, California 90040

BERKSHIRE HATHAWAY INC.

1972

ANNUAL REPORT TO THE STOCKHOLDERS
(52 WEEKS ENDED DECEMBER 30, 1972)

Contents

Berkshire Hathaway Inc.

To the Stockholders of
Berkshire Hathaway Inc.:

Operating earnings of Berkshire Hathaway during 1972 amounted to a highly satisfactory 19.8% of beginning shareholders' equity. Significant improvement was recorded in all of our major lines of business, but the most dramatic gains were in insurance underwriting profit. Due to an unusual convergence of favorable factors — diminishing auto accident frequency, moderating accident severity, and an absence of major catastrophes — underwriting profit margins achieved a level far above averages of the past or expectations of the future.

While we anticipate a modest decrease in operating earnings during 1973, it seems clear that our diversification moves of recent years have established a significantly higher base of normal earning power. Your present management assumed policy control of the company in May, 1965. Eight years later, our 1972 operating earnings of $11,116,256 represent a return many-fold higher than would have been produced had we continued to devote our resources entirely to the textile business. At the end of the 1964 fiscal year, shareholders' equity totaled $22,138,753. Since that time, no additional equity capital has been introduced into the business, either through cash sale or through merger. On the contrary, some stock has been reacquired, reducing outstanding shares by 14%. The increase in book value per share from $19.46 at fiscal year-end 1964 to $69.72 at 1972 year-end amounts to about 16½% compounded annually.

Our three major acquisitions of recent years have all worked out exceptionally well — from both the financial and human standpoints. In all three cases, the founders were major sellers and received significant proceeds in cash — and, in all three cases, the same individuals, Jack Ringwalt, Gene Abegg and Vic Raab, have continued to run the businesses with undiminished energy and imagination which have resulted in further improvement of the fine records previously established.

We will continue to search for logical extensions of our present operations, and also for new operations which will allow us to continue to employ our capital effectively.

Textile Operations

As predicted in last year's annual report, the textile industry experienced a pickup in 1972. In recent years, Ken Chace and Ralph Rigby have developed an outstanding sales organization enjoying a growing reputation for service and reliability. Manufacturing capabilities have been restructured to complement our sales strengths.

Helped by the industry recovery, we experienced some payoff from these efforts in 1972. Inventories were controlled, minimizing close-out losses in addition to minimizing capital requirements; product mix was greatly improved. While the general level of profitability of the industry will always be the primary factor in determining the level of our textile earnings, we believe that our relative position within the industry has noticeably improved. The outlook for 1973 is good.

Insurance Underwriting

Our exceptional underwriting profits during 1972 in the large traditional area of our insurance business at National Indemnity present a paradox. They served to swell substantially total corporate profits for 1972, but the factors which produced such profits induced exceptional amounts of new competition at what we believe to be a non-compensatory level of rates. Over-all, we probably would have retained better prospects for the next five years if profits had not risen so dramatically this year.

Substantial new competition was forecast in our annual report for last year and we experienced in 1972 the decline in premium volume that we stated such competition implied. Our belief is that industry underwriting profit margins will narrow substantially in 1973 or 1974 and, in time, this may produce an environment in which our historical growth can be resumed. Unfortunately, there is a lag between deterioration of underwriting results and tempering of competition. During this period we expect to continue to have negative volume comparisons in our traditional operation. Our seasoned management, headed by Jack Ringwalt and Phil Liesche, will continue to underwrite to produce a profit, although not at the level of 1972, and base our rates on long-term expectations rather than short-term hopes. Although this approach has meant dips in volume from time to time in the past, it has produced excellent long-term results.

Also as predicted in last year's report, our reinsurance division experienced many of the same competitive factors in 1972. A multitude of new organizations entered what has historically been a rather small field, and rates were often cut substantially, and we believe unsoundly, particularly in the catastrophe area. The past year turned out to be unusually free of catastrophes and our underwriting experience was good.

George Young has built a substantial and profitable reinsurance operation in just a few years. In the longer term we plan to be a very major factor in the reinsurance field, but an immediate expansion of volume is not sensible against a background of deteriorating rates. In our view, underwriting exposures are greater than ever. When the loss potential inherent in such exposures becomes an actuality, repricing will take place which should give us a chance to expand significantly.

In the "home state" operation, our oldest and largest such company, Cornhusker Casualty Company, operating in Nebraska only, achieved good underwriting results. In its second full year, the home state marketing appeal has been proven with the attainment of volume on the order of one-third of that achieved by "old line" giants who have operated in the state for many decades.

Our two smaller companies, in Minnesota and Texas, had unsatisfactory loss ratios on very small volume. The home state managements understand that underwriting profitability is the yardstick of success and that operations can only be expanded significantly when it is clear that we are doing the right job in the underwriting area. Expense ratios at the new companies are also high, but that is to be expected when they are in the development stage.

John Ringwalt has done an excellent job of launching this operation, and plans to expand into at least one additional state during 1973. While there is much work yet to be done, the home state operation appears to have major long-range potential.

Last year it was reported that we had acquired Home and Automobile Insurance Company of Chicago. We felt good about the acquisition at the time, and we feel even better now. Led by Vic Raab, this company continued its excellent record in 1972. During 1973 we expect to enter the Florida (Dade County) and California (Los Angeles) markets with the same sort of specialized urban auto coverage which Home and Auto has practiced so successfully in Cook County. Vic has the managerial capacity to run a much larger operation. Our expectation is that Home and Auto will expand significantly within a few years.

Insurance Investment Results

We were most fortunate to experience dramatic gains in premium volume from 1969 to 1971 coincidental with virtually record-high interest rates. Large amounts of investable funds were thus received at a time when they could be put to highly advantageous use. Most of these funds were placed in tax-exempt bonds and our investment income, which has increased from $2,025,201 in 1969 to $6,755,242 in 1972, is subject to a low effective tax rate.

Our bond portfolio possesses unusually good call protection, and we will benefit for many years to come from the high average yield of the present portfolio. The lack of current premium growth, however, will moderate substantially the growth in investment income during the next several years.

Banking Operations

Our banking subsidiary, The Illinois National Bank and Trust Co. of Rockford, maintained its position of industry leadership in profitability. After-tax earnings of 2.2% on average deposits in 1972 are the more remarkable when evaluated against such moderating factors as: (1) a mix of 60% time deposits heavily weighted toward consumer savings instruments, all paying the maximum rates permitted by law; (2) an unvaryingly strong liquid position and avoidance of money-market borrowings; (3) a loan policy which has produced a net charge-off ratio in the last two years of about 5% of that of the average commercial bank. This record is a direct tribute to the leadership of Gene Abegg and Bob Kline who run a bank where the owners and the depositors can both eat well and sleep well.

During 1972, interest paid to depositors was double the amount paid in 1969. We have aggressively sought consumer time deposits, but have not pushed for large "money market" certificates of deposit although, during the past several years, they have generally been a less costly source of time funds.

During the past year, loans to our customers expanded approximately 38%. This is considerably more than indicated by the enclosed balance sheet which includes $10.9 million in short-term commercial paper in the 1971 loan total, but which has no such paper included at the end of 1972.

Our position as "Rockford's Leading Bank" was enhanced during 1972. Present rate structures, a decrease in investable funds due to new Federal Reserve collection procedures, and a probable increase in already substantial non-federal taxes make it unlikely that Illinois National will be able to increase its earnings during 1973.

Financial

On March 15, 1973, Berkshire Hathaway borrowed $20 million at 8% from twenty institutional lenders. This loan is due March 1, 1993, with principal repayments beginning March 1, 1979. From the proceeds, $9 million was used to repay our bank loan and the balance is being invested in insurance subsidiaries. Periodically, we expect that there will be opportunities to achieve significant expansion in our insurance business and we intend to have the financial resources available to maximize such opportunities.

Our subsidiaries in banking and insurance have major fiduciary responsibilities to their customers. In these operations we maintain capital strength far above industry norms, but still achieve a good level of profitability on such capital. We will continue to adhere to the former objective and make every effort to continue to maintain the latter.

Warren E. Buffett
Chairman of the Board

March 16, 1973

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
40 WESTMINSTER STREET
PROVIDENCE, RHODE ISLAND 02903

The Board of Directors and Stockholders
Berkshire Hathaway Inc.:

We have examined the consolidated balance sheets of Berkshire Hathaway Inc. as of December 30, 1972 and January 1, 1972, the statements of assets and liabilities of the Berkshire Hathaway Inc. - Insurance Group and the consolidated statements of condition of The Illinois National Bank & Trust Co. of Rockford and subsidiary as of December 31, 1972 and 1971, and the related consolidated statements of earnings and retained earnings and changes in financial position of Berkshire Hathaway Inc. for the 52 weeks ended December 30, 1972 and January 1, 1972; the statements of income and realized investment gains, paid-in and unassigned surplus and changes in financial position of the Berkshire Hathaway Inc. - Insurance Group for the years ended December 31, 1972 and 1971; and the consolidated statements of income, changes in capital accounts and changes in financial position of The Illinois National Bank and Trust Co. of Rockford and subsidiary for the years ended December 31, 1972 and 1971. 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 Berkshire Hathaway Inc., the Berkshire Hathaway Inc. - Insurance Group and The Illinois National Bank & Trust Co. of Rockford and subsidiary at December 31, 1972 and 1971 (December 30, 1972 and January 1, 1972 in the case of Berkshire Hathaway Inc.) and the results of their operations and changes in their financial position for the years ended December 31, 1972 and 1971 (the 52 weeks ended December 30, 1972 and January 1, 1972 in the case of Berkshire Hathaway Inc.) in accordance with generally accepted accounting principles which, except for the change (of which we approve) in the method of accounting for investments in stocks by the Berkshire Hathaway Inc. - Insurance Group, as described in Note 2 of their financial statements, have been applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

March 8, 1973
(except for Note 10 to the consolidated financial statements, as to which the date is March 15, 1973)

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEETS

December 30, 1972 and January 1, 1972

	Dec. 30, 1972	Jan. 1, 1972
ASSETS		
Current assets:		
Cash (Jan. 1, 1972 includes short-term investments at cost, which approximates market value)	$ 1,953,858	$ 962,010
Accounts receivable (less allowance for doubtful accounts: Dec. 30 — $226,530; Jan. 1 — $197,708)	4,054,676	5,099,853
Inventories (notes 1 and 3)	6,827,043	6,030,647
Prepaid and deferred charges	92,250	110,290
Total current assets	12,927,827	12,202,800
Property, plant and equipment (notes 1 and 4):		
Property comprising land, buildings, machinery and equipment	14,959,876	14,941,903
Less accumulated depreciation and amortization	12,993,741	12,732,699
Net property, plant and equipment	1,966,135	2,209,204
Investment in unconsolidated subsidiaries (notes 1 and 2):		
Insurance subsidiaries	44,981,758	33,501,882
Bank subsidiary	20,472,590	20,116,846
Other subsidiaries	1,258,832	1,258,832
Total investment in unconsolidated subsidiaries	66,713,180	54,877,560
	$81,607,142	$69,289,564
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,235,859	$ 3,305,390
Accrued Federal, State and local taxes (note 1)	434,960	174,009
Total current liabilities	3,670,819	3,479,399
Long-term debt:		
Notes payable to banks (notes 6 and 10)	9,000,000	9,000,000
7½% subordinated debentures (note 7)	641,300	641,300
Total long-term debt	9,641,300	9,641,300
Stockholders' equity:		
Common stock, $5 par value. Authorized 1,722,983 shares; issued 1,017,547 shares	5,087,735	5,087,735
Retained earnings	64,024,663	51,898,505
	69,112,398	56,986,240
Less 37,978 shares of common stock in treasury, at cost	817,375	817,375
Total stockholders' equity	68,295,023	56,168,865
	$81,607,142	$69,289,564

Other information (notes 1, 8 and 9)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

52 weeks ended December 30, 1972 and January 1, 1972

	52 weeks ended *Dec. 30, 1972*	52 weeks ended *Jan. 1, 1972*
Operating income:		
Net sales of textile products	$27,741,969	$26,011,267
Equity in pretax earnings (excluding investment gains) of unconsolidated subsidiaries:		
Insurance subsidiaries	10,811,674	6,433,482
Bank subsidiary	2,618,224	2,273,391
Interest income	30,027	81,273
	41,201,894	34,799,413
Operating costs:		
Cost of textile products sold	23,655,273	23,445,423
Administrative and selling expenses	2,606,126	2,467,177
Interest expense	583,724	594,885
	26,845,123	26,507,485
Operating earnings before applicable income taxes	14,356,771	8,291,928
Applicable income tax expense (notes 1 and 5)	3,240,515	1,351,019
Earnings before investment gains	11,116,256	6,940,909
Investment gains net of applicable income taxes (note 5)	1,009,902	744,623
Net earnings	12,126,158	7,685,532
Retained earnings at beginning of year	51,898,505	44,212,973
Retained earnings at end of year	$64,024,663	$51,898,505
Net earnings per share of outstanding common stock, based on the unchanged shares outstanding:		
Earnings before investment gains	$11.35	$ 7.09
Investment gains	1.03	.76
Net earnings	$12.38	$ 7.85

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

52 weeks ended December 30, 1972 and January 1, 1972

	Dec. 30, 1972	Jan. 1, 1972
Funds provided:		
Net earnings	$12,126,158	$ 7,685,532
Nonfund items:		
Add depreciation and amortization	427,062	459,746
Deduct equity in undistributed earnings of unconsolidated subsidiaries	(9,335,521)	(6,179,824)
Total nonfund items	(8,908,459)	(5,720,078)
Funds derived from operations	3,217,699	1,965,454
Long-term debt financing		9,000,000
Other	—	2,167
	3,217,699	10,967,621
Funds used:		
Investment in unconsolidated subsidiaries	2,500,100	8,496,332
Additions to property and equipment, net	183,992	175,175
Repayment of long-term debt		3,750,000
	2,684,092	12,421,507
Increase (decrease) in working capital	$ 533,607	($1,453,886)
Changes in working capital:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 991,848	($ 389,557)
Receivables	(1,045,177)	1,183,521
Inventories	796,396	(2,441,151)
Prepayments, etc.	(18,040)	(90,051)
Decrease (increase) in current liabilities:		
Current installments of long-term debt	—	1,500,000
Accounts payable and accrued expenses	69,531	(1,290,547)
Accrued Federal, State and local taxes	(260,951)	73,899
Increase (decrease) in working capital	$ 533,607	($1,453,886)

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 30, 1972 and January 1, 1972

(1) Summary of Significant Accounting Policies

Accounting Period: Accounts of Berkshire Hathaway Inc. and its wholly-owned consolidated subsidiary, Bourne Mills of Canada, Ltd., are maintained on the basis of a 52-53 week year ending on the Saturday nearest December 31. Equity in earnings of non-consolidated subsidiaries is determined on the basis of their calendar year accounting periods ending on the corresponding December 31.

Principles of Consolidation and Subsidiaries Not Consolidated: The accounts of Berkshire Hathaway Inc., the parent company, are consolidated only with the accounts of Bourne Mills of Canada, Ltd., a wholly-owned Canadian textile sales subsidiary.

Three immaterial subsidiaries are not consolidated and investments therein are carried at cost.

The investment of Berkshire Hathaway Inc. in its Insurance Group, representing substantially all of the net assets of the Group, is accounted for on the equity method. This Group was comprised, at December 30, 1972, of a wholly-owned intermediary subsidiary which in turn owned 100% of the outstanding stock of National Fire and Marine Insurance Company and substantially 100% of the outstanding stock of National Indemnity Company, both casualty insurance underwriters. National Indemnity Company has several wholly-owned subsidiaries, all of which are engaged in the casualty insurance business. Composition of the Group at January 1, 1972 was similar to the above except that the intermediary subsidiary did not exist.

Berkshire Hathaway Inc. owns approximately 98% of the outstanding stock of The Illinois National Bank and Trust Co. of Rockford. The Company applies the equity method of accounting for this investment.

Cost in Excess of Net Assets of Companies Acquired: Cost in excess of net assets of companies acquired is not being amortized. No such excess has arisen at the parent company level subsequent to November 1, 1970.

Inventories: Inventories are stated at the lower of cost or market. "Cost" is standard cost developed annually for individual items on the basis of material, labor, and overhead costs in effect for normal activity levels at the time the costs are developed. The effect of this method approximates that of the "first-in, first-out" method in that it assigns a balance sheet valuation at near current replacement cost. "Market" has been considered as estimated selling market, thus making allowance for goods as to which cost cannot be recovered.

Property, Plant and Equipment: Items of property and plant (including significant betterments and renewals) are carried at cost depreciated over their useful lives estimated at the date of acquisition. The double-declining balance method is used to calculate depreciation of new items acquired after 1965; the straight-line method is applied for new items acquired prior to 1966 and for used items. Maintenance, repairs, and renewals of a minor nature are generally charged to income as incurred.

Income Taxes: The liability for income taxes reflected in the consolidated balance sheet is that part of the consolidated Federal income tax liability expected to be apportioned to the parent company, less payments (net of payments by subsidiaries) on estimated tax, plus the foreign tax liability of the consolidated subsidiary and plus state or provincial income taxes of the parent company and consolidated subsidiary.

Income tax expense reflects that of the parent and consolidated subsidiary plus a proportion (based on ownership) of the income tax expense of those unconsolidated subsidiaries whose income is reflected on the equity method.

Income taxes other than Federal income tax (i.e., foreign and state income taxes) are less than 5% of the total income tax expense.

Reclassification and Format: The format of the consolidated statement of earnings for the year ended January 1, 1972 has been changed and minor reclassifications of the figures have been made for comparability with the corresponding statement for the year ended December 30, 1972.

(2) Equity in Book Values of Subsidiaries Not Consolidated

The carrying values of $66,713,180 at December 30, 1972 and $54,877,560 at January 1, 1972 for all unconsolidated subsidiaries were approximately $2,000,000 and $900,000 respectively, in excess of the Company's equity in book values reflected in the financial state-

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

ments of the subsidiaries as of those dates. The figure for excess cost changed principally because of the change by the insurance subsidiaries in 1972 to the cost method from the market value method of valuing stocks.

Financial statements of the Berkshire Hathaway Inc. Insurance Group and the Illinois National Bank & Trust Co. of Rockford and Subsidiary (the bank subsidiary) are presented elsewhere herein.

(3) Inventories

A summary of inventories follows:

	Dec. 30, 1972	Jan. 1, 1972
Raw materials and supplies	$ 690,219	$ 510,394
Stock in process	1,676,141	1,331,472
Griege and finished cloth	4,460,683	4,188,781
	$6,827,043	$6,030,647

(4) Property, Plant and Equipment

The composition of property, plant and equipment is shown below:

	Dec. 30, 1972	Jan. 1, 1972
Land	$ 84,860	$ 87,116
Buildings	2,344,684	2,345,977
Machinery and equipment	11,869,465	11,873,592
Furniture and fixtures and leasehold improvements	660,867	635,218
	14,959,876	14,941,903
Less accumulated depreciation and amortization	12,993,741	12,732,699
	$ 1,966,135	$ 2,209,204

Depreciation expense recorded in 1972 was $427,062 and $459,746 in 1971.

(5) Income Taxes

Composition of income tax expense is as follows:

	1972 Total	1972 Current	1972 Deferred
Applicable to operating earnings:			
Parent and consolidated subsidiary	$ 480,844	$ 480,844	$ —
Insurance Group	2,760,017	2,815,520	(55,503)
Bank subsidiary	(346)	1,301	(1,647)
	$3,240,515	$3,297,665	$(57,150)
Applicable to securities gains	$ 502,479	$ 502,479	$ —

	1971 Total	1971 Current	1971 Deferred
Applicable to operating earnings:			
Parent and consolidated subsidiary	$ 33,188	$ 33,188	$ —
Insurance Group	1,211,620	625,342	586,278
Bank subsidiary	106,211	118,211	(12,000)
	$1,351,019	$776,741	$ 574,278
Applicable to securities gains	$ 317,055	$317,055	$ —

The income taxes applicable to operating earnings are less than the statutory 48% *rate* because of the nontaxable nature of certain investment income of the insurance and bank subsidiaries.

(6) Notes Payable to Banks

The Company was liable, as of December 30, 1972 and January 1, 1972, for $9,000,000 under the terms of a term loan agreement with certain banks. These borrowings were refinanced in March 1973. See Note 10.

(7) 7½% Subordinated Debentures

Debentures bear interest at the rate of 7½% payable February 1 and August 1 and will be due on August 1, 1987. The debentures are not secured by any lien and are not convertible; they are subordinated to senior indebtedness which includes indebtedness of the Company for money borrowed. The debentures may, at the Company's option, be redeemed at 105% through July 31, 1973 and thereafter at 100%. The indenture under which the debentures are issued requires the Company to provide for the retirement by redemption at principal amount plus accrued interest, through a sinking fund, on August 1 in each of the years 1973 to and including 1986, of one-fifteenth of the total amount of debentures issued.

(8) "One-Bank Holding Company" Status

The Company is a bank holding company under Federal legislation enacted in 1970. It has filed with the Federal Reserve Board an irrevocable election to divest of its holdings in The Illinois National Bank & Trust Co. of Rockford prior to January 1, 1981. No determination has been made as to how it will affect

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

such divestiture and so long as the Company controls the bank, it is subject to the restrictions imposed upon it by the Federal Bank Holding Company Act.

(9) Economic Stabilization Program

The Company [illegible] subject to price control regulations under the Economic Stabilization Program. Based on interpretations of the price control regulations which management [illegible] believe are reasonable, it is the [illegible] that the Company is in substantial [illegible] with the price control regulations. At present, however, there are significant uncertainties [illegible] the interpretation of the regulations, and it is not possible to determine whether the Company's interpretations will be accepted by the Price Commission. Since it is not possible to reasonably estimate the effect of any remedies that may be imposed if the Price Commission takes issue with the Company's interpretations, no provision for remedies has been made in the accompanying financial statements.

(10) Subsequent Event—Refinancing

On March 15, 1973, the Company issued at par $20,000,000 [illegible]% Senior Notes due March 1, 1993. Part of the proceeds will be used to repay the $9,000,000 of outstanding term notes from certain banks; the remainder of the proceeds will be used by the Company for additional capital contributions to subsidiaries which are part of the Company's Insurance Group.

The new notes call for mandatory annual prepayments of $1,143,000 on March 1 in each of the years from 1979 to 1992, inclusive. Optional prepayments are permitted without premium up to the amount of the required prepayments in each of the years 1979 to 1992; this right is not cumulative. Additionally, the Company may also prepay the notes at any time, in full or in part, at a premium of 8% in the twelve months commencing March 1, 1973; the premium declines ratably to par in 1992. The Company agreed it will not effect any optional prepayment prior to March 1, 1983 from proceeds of any refunding operation involving the incurring of any indebtedness at an effective annual interest rate of less than 8%.

In the note instruments the Company agreed, among other things, as to both the Company and restricted subsidiaries as defined, to limitations as to permissible outstanding funded debt and subordinated funded debt; to a limitation on current debt (generally, money borrowed); and to a limitation on mortgage debt except as to after acquired property. Further, the Company covenanted that it would not make "restricted payments", which term includes dividends or other equity distributions plus investment in unrestricted subsidiaries (those not bound by the terms of the Agreement), in excess of stated formula amounts. Retained earnings of approximately $13,000,000 as of December 30, 1972, are unrestricted by this provision; the remainder is restricted.

The Agreement also contains limiting terms relating to sales of its assets, mergers or consolidations, and allows the noteholders to demand prepayment, at par, within 60 days of notice that, during the lifetime of Warren E. Buffett, stock ownership in the Company by Warren E. Buffett and the members of his immediate family, including certain trusts and charitable organizations, has decreased to less than 15% of the outstanding capital stock of the Company.

Berkshire Hathaway Inc.

INSURANCE GROUP

Financial Statements
1972 and 1971

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF ASSETS AND LIABILITIES

December 31, 1972 and 1971

ASSETS

	1972	1971
Bonds, at amortized cost (note 1)	$ 88,148,480	$ 84,079,023
Stocks, 1972 at cost, 1971 at market (notes 1, 2 and 3):		
Preferred stocks	2,942,252	998,631
Common stock of Blue Chip Stamps	11,287,396	4,128,225
Other common stocks	17,411,780	11,676,048
	31,641,428	16,802,904
Real estate, equipment and furniture, at cost less allowance for depreciation 1972, $546,682; 1971, $442,442	1,674,114	1,312,772
Cash and bank deposits	3,044,367	4,563,077
Agents' balances and premiums in course of collection	6,892,288	7,131,037
Reinsurance recoverable on loss payments	277,741	440,396
Investment income due and accrued	1,629,176	1,500,148
Amounts due from sale of securities	—	206,513
Other	552,855	506,406
Prepaid acquisition costs	5,624,000	6,771,656
	$139,484,449	$123,313,932

LIABILITIES, CAPITAL STOCK AND SURPLUS

	1972	1971
Losses and loss adjustment expenses (note 1)	$ 60,275,018	$ 52,990,625
Unearned premiums (note 1)	23,839,397	25,516,268
Funds held under reinsurance treaties	957,845	1,025,737
Contingent commissions	369,152	268,151
Other expenses	210,833	347,788
Taxes, licenses and fees	567,914	908,500
Agents' and policyholders' deposits	540,742	787,429
Federal income taxes:		
Current	3,141,149	1,002,500
Deferred	3,214,084	3,742,611
Amounts due for purchase of securities	674,123	1,331,182
Mortgage and contract payable on rental property	58,995	9,845
Other liabilities	53,906	140,160
	93,903,158	88,070,796
Capital stock and surplus (note 4):		
Common stock of $10 par value per share. Authorized 500,000 shares; issued 400,000 shares	4,000,000	4,000,000
Common stock of $100 par value per share. Authorized 50,000 shares 1972, 20,000 shares 1971; issued 25,000 shares 1972, 20,000 shares 1971	2,500,000	2,000,000
Paid-in surplus	9,851,250	7,851,250
Unassigned surplus	29,230,041	21,391,886
	45,581,291	35,243,136
	$139,484,449	$123,313,932

See accompanying notes to financial statements of Berkshire Hathaway Inc.—Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF INCOME AND REALIZED INVESTMENT GAINS

Years ended December 31, 1972 and 1971

	1972	1971
Underwriting income:		
Net premiums written	$57,950,178	$66,455,532
Decrease (increase) in unearned premiums	1,676,872	(5,588,326)
Premiums earned	59,627,050	60,867,206
Losses and loss expenses incurred	36,987,030	40,783,230
	22,640,020	20,083,976
Underwriting expenses:		
Commissions and brokerage	12,305,064	15,331,620
Salaries and other compensation	2,125,645	1,667,167
Taxes, licenses and fees	1,136,177	1,325,562
Other underwriting expenses	1,641,330	1,667,362
Decrease (increase) in prepaid acquisition costs	1,147,656	(1,316,962)
	18,355,872	18,674,749
Net underwriting gain	4,284,148	1,409,227
Investment income:		
Interest on bonds	5,899,570	4,429,701
Dividends on stock	829,930	595,041
Real estate income	310,951	221,085
	7,040,451	5,245,827
Investment expenses	285,209	272,199
	6,755,242	4,973,628
Profit from underwriting and investments	11,039,390	6,382,855
Other income (expense)	(222,283)	53,910
Income before Federal income taxes and realized gains on investments	10,817,107	6,436,765
Federal income taxes (credit) (note 1):		
Current	2,816,437	625,647
Deferred	(55,090)	586,565
	2,761,347	1,212,212
Income before realized gains on investments	8,055,760	5,224,553
Realized gains on investments	1,358,930	1,027,764
Less Federal income taxes	430,344	308,405
	928,586	719,359
Net income	$ 8,984,346	$ 5,943,912

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1972 and 1971

	1972	1971
Funds provided:		
From operations:		
Net income	$ 8,984,346	$ 5,943,912
Charges (credits) to income not requiring funds:		
Increase in loss and loss expense reserves	7,284,393	23,231,886
(Decrease) increase in unearned premium reserves	(1,676,871)	8,033,311
(Decrease) increase in funds held under reinsurance treaties	(67,892)	509,017
(Decrease) increase in deferred taxes	(55,090)	874,346
Increase in current income taxes	2,138,649	1,260,979
(Decrease) increase in accrued taxes and expenses	(376,540)	276,049
Decrease (increase) in agents' balances and uncollected premiums, net	238,749	(4,094,642)
Decrease (increase) in prepaid insurance acquisition costs	1,147,656	(1,781,510)
Depreciation	109,296	78,407
Increase in accrued investment income	(13,794)	(717,159)
Amortization of discount on bonds	(538,715)	—
Decrease (increase) in reinsurance recoverable loss payments	162,655	(440,396)
Decrease in agents' and policyholders' deposits	(246,687)	(153,550)
Other, net	(132,703)	30,311
Funds provided from operations	16,957,452	33,050,961
Proceeds fom sale of capital stock	1,000,000	8,500,000
Contribution from parent	1,500.000	—
From investments sold or matured:		
Bonds	53,779,887	73,402,063
Common stocks	7,111,015	2,362,779
Preferred stocks	—	163,190
	60,890,902	75,928,032
Decrease in cash	1,518,710	—
Total funds provided	$ 81,867,064	$117,478,993
Funds used:		
Cost of investments purchased:		
Bonds	$ 58,700,930	$106,166,036
Common stocks	20,785,640	6,829,009
Preferred stocks	1,959,005	160,499
	81,445,575	113,155,544
Payments on mortgage note payable	1,969	9,169
Purchase of equipment, net of disposals	419,520	199,944
Increase in cash	—	3,750,603
Excess of purchase cost over market value of assets of acquired subsidiary	—	363,733
	$ 81,867,064	$117,478,993

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

STATEMENTS OF PAID-IN AND UNASSIGNED SURPLUS

Years ended December 31, 1972 and 1971

	1972	1971
PAID-IN SURPLUS		
Beginning of year	$ 7,851,250	$ 1,851,250
Contribution from parent	1,500,000	—
Excess of proceeds over par value of capital stock issued	500,000	6,000,000
End of year	$ 9,851,250	7,851,250
UNASSIGNED SURPLUS		
Beginning of year	$21,391,886	$14,482,568
Net income	8,984,346	5,943,912
Increase in net unrealized appreciation of investments	—	1,306,083
Increase in deferred income taxes on unrealized appreciation of investments	—	(340,677)
Excess of market value over cost on stocks (note 2)	(1,146,191)	—
End of year	$29,230,041	$21,391,886

See accompanying notes to financial statements of Berkshire Hathaway Inc. — Insurance Group.

Berkshire Hathaway Inc.

INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS

December 31, 1972 and 1971

(1) Summary of Significant Accounting Policies and Practices

Basis of Presentation: The financial statements of the Berkshire Hathaway Inc. — Insurance Group include those of National Indemnity Company and its wholly-owned subsidiaries, plus those of National Fire & Marine Insurance Company. National Indemnity Company has four wholly-owned subsidiaries: Cornhusker Casualty Company, formed in 1970; Lakeland Fire and Casualty Company, formed in 1971; Home and Automobile Insurance Company, purchased in 1971; Texas United Insurance Company, formed in 1972. The statements are presented on a combined basis, with significant intercompany transactions and balances eliminated.

Insurance Premiums: Insurance premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro rata basis and are stated after deduction for reinsurance placed with other insurers in the amount of $3,691,310 and $5,738,332 at December 31, 1972 and 1971, respectively. Policy acquisition costs such as commissions, premium taxes and certain other underwriting and agency expenses are deferred and charged against income ratably over the terms of the policies.

Securities: Investments in bonds are stated at cost, adjusted where appropriate for amortization of premium or accretion of discount. Bonds with amortized cost of $16,582,277 and $19,920,841 at December 31, 1972 and 1971, respectively, were deposited in trust with various regulatory authorities or in accordance with the terms of various reinsurance treaties.

Investments in stock at December 31, 1972 are stated at cost. At December 31, 1971, investments in stocks are stated at market value with unrealized gains and losses, net of applicable deferred income taxes, being reflected in stockholders' equity. Details concerning this accounting change are presented in note 2.

Reserve for Losses: The insurance companies provide a reserve for losses and loss adjustment expenses based upon (1) aggregate case basis estimates for losses reported, in respect to direct premiums written, (2) estimates of unreported losses based upon past experience, (3) estimates received relating to assumed reinsurance, and (4) deduction of amounts for reinsurance placed with reinsurers in the amount of $3,324,369 and $3,166,379 at December 31, 1972 and 1971, respectively.

Catastrophe Reserves: The insurance companies do not provide a reserve for catastrophe losses. The Com-

Berkshire Hathaway Inc.
INSURANCE GROUP

NOTES TO FINANCIAL STATEMENTS, *Continued*

mittee on Insurance Accounting and Auditing of the American Institute of Certified Public Accountants in cooperation with industry representatives is working toward the development of a definitive statement as to the appropriate accounting for catastrophe losses and resolution may lead to changes in the accounting practices being followed.

Real Estate, Equipment and Furniture: Real estate, equipment and furniture are stated at net depreciated cost. Provision for depreciation is based upon their estimated useful lives and is computed under the straight-line method. Maintenance and repairs are charged to expense and betterments are capitalized. Gains and losses on routine dispositions are charged against income.

Income Taxes: The insurance companies account for certain income and expense items differently for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are being made in recognition of these timing differences. Investment tax credits realized at the time of property acquisitions are credited to income.

The insurance companies join with Berkshire Hathaway Inc. in filing a consolidated Federal income tax return.

(2) Change in Method of Accounting for Investment in Stocks

Stocks are carried at cost at December 31, 1972. This represents a change from December 31, 1971, at which date stocks were reflected at market values with unrealized gains and losses, net of applicable deferred income taxes being reflected in stockholders' equity. The change does not affect the statements of income and realized investment gains. The change was made because management believes the presentation at cost to be of greater continuing significance than presentation at market value and to conform the accounting practices of the Insurance Group with the method used by the parent company, Berkshire Hathaway Inc. in accounting for investment in its subsidiary companies. Market values will continue to be disclosed in footnotes or otherwise. The comparison of amounts is as follows:

	Cost	Market
December 31, 1972:		
Preferred stocks	$ 2,942,252	$ 2,872,980
Common stock of Blue Chip Stamps	11,287,396	13,130,968
Other common stocks	17,411,780	18,698,164
December 31, 1971:		
Preferred stocks	983,247	998,631
Common stock of Blue Chip Stamps	3,545,650	4,128,225
Other common stocks	$10,746,439	$11,676,049

The change from the market to cost method required a charge of $1,146,191 to unassigned surplus in 1972, representing total unrealized appreciation at December 31, 1971 less applicable deferred income taxes of $473,437.

(3) Common Stock of Blue Chip Stamps

During 1972 the Berkshire Hathaway Insurance Group increased its holdings of Blue Chip Stamps from approximately 6% of that company's outstanding capital stock at December 31, 1971 to approximately 17% at December 31, 1972. The holdings were purchased in the open market. Blue Chip Stamps is engaged in the trading stamp business in California, and through a subsidiary, See's Candy Shops, Incorporated, in the manufacture and sale of candy.

A major stockholder of Berkshire Hathaway Inc., the parent company of the Insurance Group, owns directly or indirectly a substantial additional stock interest in Blue Chip Stamps. Blue Chip Stamps is considered an "investee" of the Insurance Group under the provision of Accounting Principles Board Opinion No. 18. Dividends of $111,168 and $63,486 received by the Insurance Group from Blue Chip Stamps are included in investment income of the Insurance Group respectively in 1972 and 1971. No additional income from the investment in Blue Chip Stamps is recognized, since the equity in undistributed earnings was not significant in either 1972 or 1971 after considering amortization of excess of purchase cost over net assets acquired. Such excess cost amounted to approximately $3,600,000 and $1,115,000 at December 31, 1972 and 1971, respectively.

(4) Stockholders' Equity

The following additional common stock was sold during the two years ended December 31, 1972:

National Indemnity Company, $10 par value common stock:
- May 1971 — 100,000 shares for $4,500,000
- January 1972 — 50,000 shares for $2,000,000

National Fire & Marine Insurance Company, $100 par value common stock:
- April 1971 — 5,000 shares for $1,000,000
- January 1972 — 5,000 shares for $1,000,000
- July 1972 — 5,000 shares for $1,000,000

The January 12, 1972 additions were retroactively reflected as of December 31, 1971 in the accompanying financial statements.

Surplus is restricted for dividend purposes by the various insurance departments of the states in which the companies do business.

Berkshire Hathaway Inc.

BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford

Financial Statements
1972 and 1971

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CONDITION
December 31, 1972 and 1971

ASSETS

	1972	1971
Cash and due from banks	$ 22,111,475	$ 17,832,686
Investment securities (note 2):		
United States Government obligations	10,614,548	12,633,150
Obligations of states and political subdivisions	50,162,736	42,884,831
Other securities	7,778,900	5,864,759
Loans (note 3)	59,618,025	54,031,811
Bank premises and equipment, at cost less accumulated depreciation (note 4)	1,360,892	1,522,546
Accrued interest receivable and other assets	1,750,315	1,252,113
	$153,396,891	$136,021,496

LIABILITIES AND CAPITAL FUNDS

	1972	1971
Demand deposits	$ 55,129,900	$ 51,208,396
Time deposits	77,558,396	64,639,857
Total deposits	132,688,296	115,848,253
Accrued taxes and other liabilities	886,645	813,769
Total liabilities	133,574,941	116,662,022
Reserve for loan losses (note 5)	1,024,601	854,671
Capital funds:		
Common stock, $20 par value, Authorized and issued 250,000 shares (note 6)	5,000,000	5,000,000
Surplus	5,000,000	5,000,000
Undivided profits	7,796,349	7,503,803
Reserve for contingencies	1,001,000	1,001,000
Total capital funds	18,797,349	18,504,803
	$153,396,891	$136,021,496

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 1972 and 1971

	1972	1971
Operating income:		
Interest and fees on loans	$4,134,013	$4,006,094
Income on Federal funds sold	109,905	109,271
Interest and dividends on:		
United States Government obligations	598,308	708,058
Obligations of states and political subdivisions	2,677,138	2,093,649
Other securities	524,229	227,684
Trust department	385,389	336,362
Service charges on deposit accounts	127,258	137,345
Other	411,413	306,616
Total operating income	8,967,653	7,925,079
Operating expenses:		
Salaries	1,366,702	1,291,568
Pensions, profit sharing, and other employee benefits	238,618	207,709
Interest on deposits	3,418,746	2,732,651
Interest on Federal funds purchased	3,137	1,632
Net occupancy expense of bank premises (note 4)	314,221	358,709
Equipment rentals, depreciation, and maintenance (note 4)	264,366	288,761
Provision for loan losses (note 5)	36,900	35,900
Other	644,882	681,238
Total operating expenses	6,287,572	5,598,168
Income before income taxes and securities gains	2,680,081	2,326,911
Applicable income taxes:		
Current	1,331	121,000
Deferred	(1,685)	(12,288)
Total applicable income taxes	(354)	108,712
Income before securities gains	2,680,435	2,218,199
Securities gains, net of related taxes of $72,351 in 1972 and $9,000 in 1971	83,715	26,201
Net income	$2,764,150	$2,244,400
Income per share (based on 250,000 shares) (note 6):		
Income before securities gains	$10.72	$ 8.87
Net income	11.06	8.98

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY

The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL ACCOUNTS

Years Ended December 31, 1972 and 1971

	Common stock	*Surplus*	*Undivided profits*	*Reserve for contingencies*	*Reserve for asset re-evaluation*
Balance, January 1, 1971	$2,000,000	$5,000,000	$10,137,393	$1,001,000	$75,000
Add:					
Net income			2,244,400		
Excess of loan loss provision over allowable for tax purposes, net of tax of $17,232 (note 5)			18,668		
Other			28,342		
Less:					
Cash dividends			(2,000,000)		
Transfer to common stock related to stock dividend (note 6)	3,000,000	(3,000,000)			
Transfer to surplus		3,000,000	(3,000,000)		
Transfer to undivided profits			75,000		(75,000)
Balance, December 31, 1971	5,000,000	5,000,000	7,503,803	1,001,000	—
Add:					
Net income			2,764,150		
Less:					
Cash dividends			(2,400,000)		
Transfer to reserve for possible loan losses, exclusive of portion charged against income, net of tax of $66,095 (note 5)			(71,604)		
Balance, December 31, 1972	$5,000,000	$5,000,000	$ 7,796,349	$1,001,000	—

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended December 31, 1972 and 1971

	1972	*1971*
Funds provided for investment:		
Increase in:		
Capital funds:		
Net income	$ 2,764,150	$ 2,244,400
Cash dividends declared	(2,400,000)	(2,000,000)
Other, net	(71,604)	47,010
Net changes in capital funds	292,546	291,410
Deposits	16,840,043	14,274,944
Other, net	493,308	580,866
Total	$17,625,897	$15,147,220
Funds used:		
Invested in earning assets:		
Loans	$ 5,503,742	$ 2,844,218
Investment securities	7,173,845	9,416,606
Direct lease equipment	195,009	89,430
	12,872,596	12,350,254
Additions to bank premises and equipment	49,186	120,865
Increase in cash and due from banks	4,278,789	2,676,101
Other, net	425,326	—
Total	$17,625,897	$15,147,220

See accompanying notes to consolidated financial statements of Bank Subsidiary.

Berkshire Hathaway Inc.
BANK SUBSIDIARY
The Illinois National Bank & Trust Co. of Rockford
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1972 and 1971

(1) Significant Accounting Policies

The accounting policies of The Illinois National Bank & Trust Co. of Rockford (a subsidiary of Berkshire Hathaway Inc.) and its wholly-owned subsidiary, Brown Building Corporation, conform to generally accepted accounting principles and to general practice within the banking industry. The following is a description of the more significant of those policies:

Consolidation: The consolidated financial statements included those of the Bank and its wholly-owned subsidiary. All significant intercompany transactions have been eliminated in consolidation. At January 1, 1972, the Illinois National Safe Deposit Company (a wholly-owned subsidiary of the Bank) was dissolved in a tax-free liquidation, and its assets, liabilities and capital (which are not significant in amount) were merged into the Bank. The Illinois National Safe Deposit Company had been reported on a consolidated basis with the Bank in prior years and, accordingly, the liquidation has no effect on the current consolidated financial statements.

Investment Securities: Investment securities are stated at cost, adjusted for amortization of premium.

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation based on the estimated useful life of each asset. Depreciation is computed on the straight-line method for building and automobiles, and on an accelerated method for improvements, equipment, and drive-in and parking facilities.

Federal Income Taxes: Taxable income is determined using the cash basis of accounting whereas the accrual method of accounting is used in preparation of financial statements. Deferred taxes are provided in recognition of the timing differences.

The Bank and its subsidiary join in the filing of a consolidated Federal income tax return with Berkshire Hathaway Inc., the parent company of the Bank.

(2) Investment Securities

The appropriate market value of investment securities at December 31, 1972 and 1971 was $72,990,000 and $64,042,000, respectively.

Investment securities with a book value of $10,038,639 and $9,136,472 at December 31, 1972 and 1971, respectively, were pledged to secure public deposits and for other purposes.

(3) Loans

Loans have been *reduced by unearned discount* of $2,226,579 and $1,934,534 on December 31, 1972 and 1971, respectively.

(4) Bank Premises and Equipment

Bank premises and equipment are recorded at cost less accumulated depreciation of $1,676,936 and $1,480,008 at December 31, 1972 and 1971, respectively. Depreciation expense totaled $210,840 for 1972 and $222,540 for 1971.

(5) Reserve for Loan Losses

The Bank follows the policy of providing additions to the reserve for possible loan losses in accordance with maximum amounts allowed under the applicable Federal tax laws. For financial reporting purposes, the minimum provision to be charged to operating expenses is based upon the Bank's loan loss experience over the last five years.

Transactions in the reserve for loan losses for the years ended December 31, 1972 and 1971 were as follows:

	1972	1971
Balance at beginning of year	$854,671	$860,445
Provisions charged to:		
Operating expenses	36,900	35,900
Undivided profits	71,604	—
Accrued income taxes	66,095	—
	1,029,270	896,345
Less loans charged off, net of recoveries of $29,259 in 1972 and $29,232 in 1971	4,669	5,774
Transfer to:		
Undivided profits (1)	—	18,668
Accrued income taxes	—	17,232
Balance at end of year	$1,024,601	$854,671

(1) Provision charged to operating expenses not deductible for tax purposes in 1971 was transferred to undivided profits, net of tax.

The portion of the reserve which was available for loan losses was $706,422 at December 31, 1972 and $674,191 at December 31, 1971.

(6) Capital Funds

On April 12, 1971, capital stock was increased $3,000,000 by a transfer from surplus representing the par value of 150,000 shares issued in connection with a 2½ for 1 stock split effected in the form of a stock dividend approved by the shareholders on January 12, 1971.

(7) Reclassifications

Certain items of expense in the 1971 consolidated statement of income have been reclassified to conform to classifications of similar items in 1972.

BERKSHIRE HATHAWAY INC.

DIRECTORS

WARREN E. BUFFETT, *Chairman*
KENNETH V. CHACE
MALCOLM G. CHACE, JR.
J. VERNE MCKENZIE

END