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— ASSETS —

	1965	1964
CURRENT ASSETS:		
Cash	$ 775,504	$ 920,089
Marketable securities (including $2,600,000 of short term certificates of deposit), at cost, approximate market	2,900,000	—0—
Accounts receivable (less allowance for doubtful accounts — 1965 — $280,302)	7,422,726	7,450,564
Inventories (*Note A*)	10,277,178	11,689,145
Prepaid insurance, taxes and other expense	196,391	190,563
TOTAL CURRENT ASSETS	21,571,799	20,250,361
PROPERTIES, PLANTS AND EQUIPMENT (*Note B*):		
Properties comprising land, buildings, machinery and equipment	28,019,742	33,635,553
Less accumulated depreciation and amortization	19,593,163	21,853,689
	8,426,579	11,781,864
Less estimated loss on properties to be sold	1,809,132	4,210,621
	6,617,447	7,571,243
MORTGAGE NOTES RECEIVABLE AND OTHER ASSETS	33,141	65,442
TOTAL ASSETS	$28,222,387	$27,887,046

See accompanying n

HATHAWAY INC.

BALANCE SHEET

1965
res for 1964

LIABILITIES AND STOCKHOLDERS' EQUITY

	1965	*1964*
CURRENT LIABILITIES:		
Notes payable — banks	$ —0—	$ 2,500,000
Accounts payable	2,581,585	2,096,726
Accrued wages and salaries	296,256	294,764
Accrued state and local taxes	441,951	365,112
Social security and withholding taxes payable	382,481	491,691
TOTAL CURRENT LIABILITIES	3,702,273	5,748,293
STOCKHOLDERS' EQUITY:		
Common stock ($5 par value) authorized 1,843,214 shares — issued 1,137,778 shares (*Note E*)	5,688,890	8,036,900
Retained earnings	20,469,068	19,417,576
	26,157,958	27,454,476
Less common stock in treasury at cost — 120,231 shares (*Note E*)	1,637,844	5,315,723
	24,520,114	22,138,753
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$28,222,387	$27,887,046

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BERKSHIRE HATHAWAY INC.

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED OCTOBER 2, 1965
with comparative figures for 1964

	1965	*1964*
Net sales	$49,300,685	$49,982,830
Cost of sales	42,478,984	47,382,337
Gross profit	6,821,701	2,600,493
Selling, general and administrative expenses	2,135,038	2,072,822
Operating income	4,686,663	527,671
Other deductions, net	127,348	126,060
Idle plant expense	240,109	226,025
	367,457	352,085
Earnings before charge equivalent to Federal income taxes	4,319,206	175,586
Charge equivalent to Federal income taxes (*Note C*)	2,040,000	50,000
Net earnings	$ 2,279,206	$ 125,586
Depreciation and amortization	$ 862,424	$ 1,101,147

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of year	$19,417,576	$22,241,990
Net earnings for the year	2,279,206	125,586
Credit resulting from charge equivalent to Federal income taxes (*Note C*)	2,040,000	50,000
Retirement of treasury stock (*Note E*)	(2,967,714)	—0—
Estimated loss on properties to be sold	(300,000)	(3,000,000)
Balance at end of year	$20,469,068	$19,417,576

See accompanying notes to financial statements.

BERKSHIRI

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—— ASSETS ——

	Dec. 30, 1967	Oct. 1, 1966
CURRENT ASSETS:		
Cash	$ 835,301	$ 628,721
Marketable securities, at cost (note 3)	3,825,077	5,445,795
Accounts receivable (less allowance for doubtful accounts— 1967 — $220,966; 1966 — $299,433)	7,571,694	8,114,240
Inventories (note 4)	11,585,598	12,239,261
Prepaid and deferred charges	223,554	161,635
TOTAL CURRENT ASSETS	24,041,224	26,589,652
PROPERTIES, PLANTS AND EQUIPMENT (note 10):		
Properties comprising land, buildings, machinery and equipment	24,878,601	24,426,192
Less accumulated depreciation and amortization	19,238,314	18,119,666
NET PROPERTIES, PLANTS AND EQUIPMENT	5,640,287	6,306,526
INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES (note 2)	10,259,079	—
	$39,940,590	$32,896,178

See accompanyin

HATHAWAY INC.

BALANCE SHEET

30, 1967

at October 1, 1966

LIABILITIES AND STOCKHOLDERS' EQUITY

	Dec. 30, 1967	*Oct. 1, 1966*
CURRENT LIABILITIES:		
Note payable — bank, unsecured	$ 2,000,000	$ —
Accounts payable and accrued expenses	5,433,556	2,978,712
Accrued Federal, State, and local taxes (note 5)	322,799	422,546
TOTAL CURRENT LIABILITIES	7,756,355	3,401,258
LONG-TERM DEBT:		
7½% subordinated debentures (note 6)	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	27,032,370	24,407,185
	32,120,105	29,494,920
Less common stock in treasury, at cost (note 7)	577,170	—
TOTAL STOCKHOLDERS' EQUITY	31,542,935	29,494,920
	$39,940,590	$32,896,178

financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

Three months ended December 30, 1967 and twelve months ended September 30, 1967 with comparative figures for twelve months ended October 1, 1966

	Three months ended Dec. 30, 1967	*Twelve months ended Sept. 30, 1967*	*Twelve months ended Oct. 1, 1966*
Net sales	$11,599,890	$39,055,671	$49,372,328
Cost of sales	10,353,859	36,669,665	42,195,572
Gross profit	1,246,031	2,386,006	7,176,756
Selling and administrative expenses	684,785	2,330,487	2,328,142
Operating income	561,246	55,519	4,848,614
Other income, net	46,901	163,055	155,900
Earnings before provision for income taxes, equity in earnings of unconsolidated subsidiaries, and extraordinary items	608,147	218,574	5,004,514
Provision for Federal and Foreign income taxes (note 5)	215,127	3,200	2,242,000
Earnings before equity in earnings of unconsolidated subsidiaries, and extraordinary items	393,020	215,374	2,762,514
Equity in earnings of unconsolidated subsidiaries (net of Federal income taxes — ($29,000) and $345,000)	478,761	791,938	—
Earnings before extraordinary items	871,781	1,007,312	2,762,514
Extraordinary items:			
Reduction in Federal and Foreign income taxes (note 5)	210,150	—	2,212,292
Realized investment gains — unconsolidated subsidiaries (net of Federal income taxes — $103,800 and $33,400)	311,453	100,147	—
	521,603	100,147	2,212,292
Net earnings	$ 1,393,384	$ 1,107,459	$ 4,974,806
Depreciation and amortization deducted above	$ 223,186	$ 979,016	$ 963,081
Per share of common stock:			
Earnings before extraordinary items	$ .88	$1.02	$2.71
Extraordinary items, net of tax	.53	.10	2.18
Net earnings	$1.41	$1.12	$4.89

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning:			
As previously reported	$25,638,986	$24,407,185	$20,469,068
Adjustments (note 9)	—	226,097	226,097
At restated	25,638,986	24,633,282	20,695,165
Net earnings	1,393,384	1,107,459	4,974,806
	27,032,370	25,740,741	25,669,971
Less:			
Dividends paid — $.10 per share	—	101,755	—
Retirement of treasury stock	—	—	1,036,689
Retained earnings, ending	$27,032,370	$25,638,986	$24,633,282

See accompanying notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 30, 1967

(1) Accounting Period

The Company, effective December 30, 1967, changed its fiscal year from one ending on the Saturday nearest September 30 to one ending on Saturday nearest December 31. Accordingly, the accompanying financial statements reflect financial position at the end of its newly established fiscal year, December 30, 1967, and results of operations for the twelve months ended September 30, 1967 and the three months ended December 30, 1967.

(2) Basis of Consolidation

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned noninsurance Canadian subsidiary. In March 1967, the Company purchased for $8,577,000 over 99% of the outstanding stock of National Indemnity Company and 100% of the outstanding stock of National Fire & Marine Insurance Company, both headquartered in Omaha, Nebraska. The accompanying financial statements reflect the Company's equity in earnings since March 31, 1967 of these insurance subsidiaries, which derive over 80% of their premium volume from automobile lines of insurance. These companies are functionally independent of the textile operations of the parent. The Company's equity in unconsolidated subsidiaries exceeded the cost plus equity in earnings by approximately $500,000 at December 30, 1967.

(3) Marketable Securities

The market value of the securities portfolio, primarily marketable common stocks, was $7,422,000 at December 30, 1967. At October 1, 1966, market value approximated cost.

(4) Inventories

Inventories are stated at the lower of cost or market. Costs are determined, generally, on an average basis from current purchase invoices for raw materials, and from current standards for in-process inventories and cloth, with the exception of cotton content of in-process inventory at King Philip D Division (see note 10), which is priced at a standard cost established in 1933 which is less than current cost or market.

A comparative summary follows:

	Dec. 30, 1967	*Oct. 1, 1966*
Raw materials and supplies	$ 2,053,503	$ 2,596,100
Stock in process	3,074,160	2,689,448
Cloth	6,457,935	6,953,713
	$11,585,598	$12,239,261

(5) Taxes on Income

For Federal income tax purposes, earnings of Berkshire Hathaway Inc. for the year ended September 30, 1967 and for the three months ended December 30, 1967 have been reduced by operating loss carryovers, including losses in prior years resulting from disposals of plant assets. It is not currently the intention of the Company to file a consolidated Federal income tax return with its insurance subsidiaries, and, on an individual return basis, for Berkshire Hathaway Inc. there were no Federal income taxes payable for the year ended September 30, 1967, and only a nominal liability (estimated at $1,000) is payable for earnings during the three months ended December 30, 1967. At December 30, 1967 the Company had unused investment tax credit carryforwards amounting to approximately $200,000. There was no remaining operating loss carryover.

Earnings have been reduced for Federal and Foreign income taxes computed without regard to availability of operating loss carryovers. In order to conform to Opinion No. 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants, the Company has classified tax savings resulting from these carryovers as an extraordinary item instead of, as in prior years, a direct credit to retained earnings. In the accompanying comparative statement for 1966, this item has been accordingly reclassified.

Equity in earnings of insurance subsidiaries is reflected net of income tax effect upon the subsidiaries.

(6) 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, 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. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(7) Treasury Stock

The Company acquired, as of August 1, 1967, 32,065 shares of Treasury stock pursuant to its offering of 7½% subordinated debentures in exchange for common stock. See note 6 for terms of the debenture offering.

(8) Pension Plan

The Company has a noncontributory pension plan for salaried employees. The total pension expense for the year ended September 30, 1967 was $80,000, and for the three months ended December 30, 1967 was $22,500, which amounts include normal cost of the plan plus interest on unfunded prior service costs. The Company's policy is to keep the plan substantially funded and to accrue any unfunded pension cost. There is no unfunded amount of vested benefits.

(9) Prior Period Adjustment

The Company returned $226,000 to retained earnings during the year ended September 30, 1967, which amount represents the difference between Commonwealth of Massachusetts excise taxes accrued in prior years and such taxes as were payable as determined by ruling from the Commonwealth obtained during the year.

(10) Plant Closing

The Company announced in December 1967 plans to close its King Philip D mill located in Warren, Rhode Island, because of the declining market for cotton lawns woven at this mill. The production from this mill represented less than 10% of the sales of the Company during 1967. Management anticipates the run-out loss, if any, to be immaterial in amount, although the length of time required for the run-out will be a determining factor. A loss on sale of the properties may be realized. The amount of any such loss, and the time at which it may be realized, cannot be readily estimated at this time.

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ASSETS

	Dec. 28, 1968	Dec. 30, 1967
CURRENT ASSETS:		
Cash	$ 1,605,600	$ 835,301
Marketable securities, at cost (note 2)	5,421,384	3,825,077
Accounts receivable (less allowance for doubtful accounts — 1968 — $281,418; 1967 — $220,966)	7,563,123	7,571,694
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	12,332,943	11,585,598
Prepaid and deferred charges	199,501	223,554
TOTAL CURRENT ASSETS	27,122,551	24,041,224
PROPERTIES, PLANTS AND EQUIPMENT (note 4):		
Properties comprising land, buildings, machinery and equipment	19,998,693	24,878,601
Less accumulated depreciation and amortization	16,136,069	19,238,314
NET PROPERTIES, PLANTS AND EQUIPMENT	3,862,624	5,640,287
INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES (note 5)	12,754,985	10,259,079
	$43,740,160	$39,940,590

See accompanyin

HATHAWAY INC.

BALANCE SHEET

28, 1968

at December 30, 1967

—— LIABILITIES AND STOCKHOLDERS' EQUITY ——

	Dec. 28, 1968	*Dec. 30, 1967*
CURRENT LIABILITIES:		
Note payable — bank, unsecured	$ 2,000,000	$ 2,000,000
Accounts payable and accrued expenses	4,256,530	5,433,556
Accrued Federal, State, and local taxes (note 6)	637,059	322,799
TOTAL CURRENT LIABILITIES	6,893,589	7,756,355
LONG-TERM DEBT:		
7½% subordinated debentures (note 7)	641,300	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	31,694,706	27,032,370
	36,782,441	32,120,105
Less 32,065 shares of common stock in treasury, at cost	577,170	577,170
TOTAL STOCKHOLDERS' EQUITY	36,205,271	31,542,935
	$43,740,160	$39,940,590

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CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 28, 1968
with comparative figures for the three months ended December 30, 1967
and the year ended September 30, 1967

	Year ended Dec. 28, 1968	*Three months ended Dec. 30, 1967*	*Year ended Sep. 30, 1967*
OPERATING INCOME:			
Net sales of textile products	$46,002,417	$11,599,890	$39,055,671
Equity in earnings of unconsolidated subsidiary insurance companies (notes 5 and 6)	1,789,402	478,761	791,938
Interest and dividends	389,038	46,284	295,687
	$48,180,857	$12,124,935	$40,143,296
OPERATING COSTS:			
Cost of sales, administrative and selling expenses	$44,435,569	$11,034,748	$38,976,007
Interest expense	362,889	66,238	156,777
Federal income taxes (note 6)	728,000	199,127	3,200
	$45,526,458	$11,300,113	$39,135,984
EARNINGS FROM OPERATIONS	$ 2,654,399	$ 824,822	$ 1,007,312
INVESTMENT GAINS, net of taxes on gains (note 6):			
Gains realized by Parent company	$ 1,467,752	$ 46,959	—
Gains realized by unconsolidated insurance subsidiaries (notes 5 and 6)	706,504	311,453	100,147
Total investment gains	2,174,256	358,412	100,147
Earnings before extraordinary items	$ 4,828,655	$ 1,183,234	$ 1,107,459
EXTRAORDINARY ITEMS:			
Loss on liquidation of mill properties, net of $372,000 income tax benefit	(332,319)	—	—
Reduction in Federal income taxes (note 8)	166,000	210,150	—
	(166,319)	210,150	—
NET EARNINGS	$ 4,662,336	$ 1,393,384	$ 1,107,459
DEPRECIATION AND AMORTIZATION DEDUCTED ABOVE	$ 662,061	$ 223,186	$ 979,016
PER SHARE OF OUTSTANDING COMMON STOCK:			
Earnings from operations	$2.69	$ .84	$1.02
Investment gains	2.21	.36	.10
Extraordinary items	(.17)	.21	—
NET EARNINGS	$4.73	$1.41	$1.12

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings, beginning	$27,032,370	$25,638,986	$24,633,282
Net earnings	4,662,336	1,393,384	1,107,459
	$31,694,706	$27,032,370	$25,740,741
Less dividends paid	—	—	$ 101,755
Retained earnings, ending	$31,694,706	$27,032,370	$25,638,986

See accompanying notes to financial statements.

BERKSHIRE HATHAWAY INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 28, 1968

(1) Basis of Consolidation

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned non-insurance Canadian subsidiary. The accounts of National Indemnity Company, over 99% owned by Berkshire Hathaway Inc., and National Fire & Marine Insurance Company, 100% owned, are not consolidated. The statement of earnings reflects equity of Berkshire Hathaway Inc. in earnings, excluding unrealized investment gains, of these functionally independent operations, and the balance sheet valuation is at cost plus equity in such earnings since purchase in March 1967.

(2) Marketable Securities

The market value of the securities portfolio, primarily marketable common stocks, was $11,824,000 at December 28, 1968 and $7,422,000 at December 30, 1967.

(3) Inventories

A comparative summary follows:

	Dec. 28, 1968	*Dec. 30, 1967*
Raw materials and supplies	$ 2,025,230	$ 2,053,503
Stock in process	2,709,075	3,074,160
Cloth	7,598,638	6,457,935
	$12,332,943	$11,585,598

(4) Properties, Plants and Equipment

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plants and equipment is shown below:

	Dec. 28, 1968	*Dec. 30, 1967*
Land	$ 106,555	$ 116,985
Buildings	3,715,838	3,849,278
Machinery and equipment .	15,653,974	20,404,047
Furniture and fixtures and leasehold improvements .	522,326	508,291
	$19,998,693	$24,878,601
Less accumulated depreciation and amortization .	16,136,069	19,238,314
	$ 3,862,624	$ 5,640,287

(5) Unconsolidated Subsidiaries

The combined adjusted equity of unconsolidated insurance subsidiaries at December 31, 1968 was $14,677,000. Such figure includes $1,523,000 of unrealized appreciation of investments, net of applicable income taxes.

(6) Taxes on Income

The Company and its subsidiaries file separate income tax returns. Equity in earnings of unconsolidated subsidiary insurance companies, and investment gains of the parent and subsidiaries are reflected net of income taxes of the following amounts:

	Year ended Dec. 28, 1968	*Three months ended Dec. 30, 1967*	*Year ended Sept. 30, 1967*
Taxes on income, other than investment gains, of unconsolidated subsidiary insurance companies	$384,248	(29,000)	345,000
Taxes on investment gains (parent company) . .	575,000	16,000	—
Taxes on investment gains of unconsolidated subsidiary insurance companies	267,984	103,800	33,400

(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, 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. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(8) Reduction in Federal Income Taxes

For 1968, the reduction in Federal income taxes represents carryover of investment tax credits from prior periods. The reduction in Federal income taxes for the three months ended December 30, 1967 was the effect of net operating loss carryovers to that period. There was no unused operating loss carryover at December 30, 1967.

(9) Pension Plan

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. The current year's pension expense was $47,900 and represents normal costs less amortization of the overfunded position on a ten-year basis.

(10) Comparative Statements of Earnings

The Company adopted the single-step method of presenting the statement of earnings in 1968 and the comparative figures have been classified accordingly. In addition, realized gains of insurance company subsidiaries in the prior periods have been reclassified from extraordinary items to reflect management's opinion that they are a part of the determination of earnings before extraordinary items.

(11) Commitments

Additional subsidiaries were formed in December for the purpose of acquiring certain printing and publishing operations. Commitments for such acquisition were not material in amount at December 28, 1968.

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEET

January 3, 1970
with comparative figures at December 28, 1968

ASSETS

	Jan. 3, 1970	*Dec. 28, 1968*
Current assets:		
Cash	$ 1,792,835	$ 1,605,600
Marketable securities, at cost (note 2)	294,165	5,421,384
Accounts receivable (less allowance for doubtful accounts — 1969 — $189,026; 1968 — $281,418)	6,397,021	7,563,123
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	9,269,578	12,332,943
Prepaid and deferred charges	344,725	199,501
Total current assets	18,098,324	27,122,551
Properties, plants and equipment (note 4):		
Properties comprising land, buildings, machinery and equipment	15,747,970	19,998,693
Less accumulated depreciation and amortization	12,734,126	16,136,069
Net properties, plants and equipment	3,013,844	3,862,624
Investment in unconsolidated subsidiaries (note 1):		
Bank subsidiary	18,868,404	—
Insurance subsidiaries	15,314,965	12,754,985
Other subsidiaries	1,261,000	—
Total investment in unconsolidated subsidiaries	35,444,369	12,754,985
	$56,556,537	$43,740,160

LIABILITIES AND STOCKHOLDERS' EQUITY

	Jan. 3, 1970	*Dec. 28, 1968*
Current liabilities:		
Note payable — Bank, unsecured	$ —	$ 2,000,000
Current installments of long-term debt	1,500,000	—
Accounts payable and accrued expenses	3,804,322	4,256,530
Accrued Federal, State, and local taxes	1,442,855	637,059
Total current liabilities	6,747,177	6,893,589
Long-term debt, excluding current installments:		
Note payable to banks (note 8)	5,250,000	—
7½% subordinated debentures (note 9)	641,300	641,300
Total long-term debt	5,891,300	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	39,647,495	31,694,706
	44,735,230	36,782,441
Less 37,965 shares (1968 — 32,065) of common stock in treasury, at cost	817,170	577,170
Total stockholders' equity	43,918,060	36,205,271
Contingency (note 10)		
	$56,556,537	$43,740,160

See accompanying notes to financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

53 weeks ended January 3, 1970
with comparative figures for the 52 weeks ended December 28, 1968

	53 weeks ended Jan. 3, 1970	*52 weeks ended Dec. 28, 1968*
Textile operations:		
Net sales	$40,427,037	$46,002,417
Cost of sales, administrative and selling expense	38,988,213	44,435,569
Earnings from textile operations before Federal income taxes	1,438,824	1,566,848
Applicable Federal income taxes	662,000	810,000
Earnings from textile operations	776,824	756,848
Investment gains:		
Gain on disposition of marketable securities	5,333,488	2,042,752
Applicable income taxes	1,525,736	575,000
Net investment gains	3,807,752	1,467,752
Interest and dividends:		
Interest (expense), less interest and dividend income	(536,890)	26,149
Applicable Federal income tax benefit	294,547	82,000
Net interest	(242,343)	108,149
Equity in after-tax earnings and investment gains or losses of unconsolidated subsidiaries (notes 1 and 5)	3,724,991	2,495,906
Earnings before extraordinary items	8,067,224	4,828,655
Extraordinary items:		
Loss on liquidation or retirement of textile properties	(228,788)	(704,319)
Applicable Federal income tax benefit	114,353	372,000
Reduction in Federal income taxes (note 6)	—	166,000
Net extraordinary items	(114,435)	(166,319)
Net earnings	$ 7,952,789	$ 4,662,336
Depreciation and amortization deducted above	$ 643,143	$ 662,061
Net earnings per share of outstanding common stock:		
Textile operations	$ .79	$ .77
Investment gains	3.87	1.49
Interest and dividends	(.25)	.11
Unconsolidated subsidiaries	3.78	2.53
Extraordinary items	(.12)	(.17)
Net earnings	$8.07	$4.73

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Jan. 3, 1970	*Dec. 28, 1968*
Retained earnings, beginning	$31,694,706	$27,032,370
Net earnings	7,952,789	4,662,336
Retained earnings, ending	$39,647,495	$31,694,706

See accompanying notes to financial statements.

Berkshire Hathaway Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 3, 1970

(1) Principles of Consolidation

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned Canadian subsidiary. The accounts of two insurance subsidiaries, substantially 100% owned by Berkshire Hathaway, and the accounts of the Illinois National Bank and Trust Co. of Rockford and subsidiaries, approximately 98% of which was acquired for cash by Berkshire Hathaway in March 1969, are not consolidated. The accompanying statement of earnings reflects the equity of Berkshire Hathaway Inc. in earnings of these functionally independent operations, and the investments in these subsidiaries are carried at cost plus the equity in undistributed earnings since acquisition. Three immaterial subsidiaries (an insurance agency and two printing and publishing operations) have not been consolidated, and the investments therein are carried at cost.

The carrying value of all unconsolidated subsidiaries at January 3, 1970 was approximately $3,432,000 in excess of the Company's equity in book values reflected in the accounts of the subsidiaries. No part of this excess has been allocated between tangible and intangible assets as the effect on income of such allocation would not be material and the excess is not being amortized as management believes its value is not declining.

Detailed financial statements of the two insurance subsidiaries and the bank subsidiary are presented elsewhere in this report.

(2) Marketable Securities

The market value of the securities portfolio, consisting of U. S. Treasury bills, was $297,120 at January 3, 1970. At December 28, 1968 the portfolio consisted primarily of marketable common stocks with a market value of $11,824,000.

(3) Inventories

A comparative summary follows:

	Jan. 3, 1970	*Dec. 28, 1968*
Raw materials and supplies	$1,168,967	$2,025,230
Stock in process	1,798,224	2,709,075
Cloth	6,302,387	7,598,638
	$9,269,578	$12,332,943

(4) Property, plants and equipment

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plants and equipment is shown below:

	Jan. 3, 1970	*Dec. 28, 1968*
Land	$ 106,555	$ 106,555
Buildings	3,726,310	3,715,838
Machinery and equipment	11,402,218	15,653,974
Furniture and fixtures and leasehold improvements	512,887	522,326
	15,747,970	19,998,693
Less accumulated depreciation and amortization	12,734,126	16,136,069
	$ 3,013,844	$ 3,862,624

(5) Equity in Earnings of Unconsolidated Subsidiaries

The Company and its subsidiaries plan to file consolidated tax returns. A summary of the equity of Berkshire Hathaway Inc. in the earnings of its unconsolidated subsidiaries, together with the related taxes, follows:

	Earnings (loss) before Federal income taxes	*Applicable Federal income tax (benefit)*	*Net earnings (loss)*
Earnings, excluding investment gains of insurance subsidiaries:			
1969	$2,774,186	$495,957	$2,278,229
1968	2,173,650	384,248	1,789,402
Realized investment gains of insurance subsidiaries:			
1969	388,622	106,871	281,751
1968	974,488	267,984	706,504
Earnings, excluding investment losses of banking subsidiary:			
1969	2,364,306	827,500	1,536,806
Realized investment losses of banking subsidiary:			
1969	(781,758)	(409,963)	(371,795)

(6) Reduction in Federal Income Taxes

For 1968, the reduction in Federal income taxes represents carryover of investment tax credits from prior periods.

(7) Pension Plan

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. The current year's pension expense was $53,000 and represents normal costs less amortization of the overfunded position at August 1, 1968 on a ten-year basis.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1969
with comparative figures for 1968

ASSETS

	1969	*1968*
Bonds, at admitted value (note 3)	$27,894,117	$27,208,728
Stocks, at market value (note 3):		
Preferred (cost, 1969, $1,460,700; 1968, $26,963)	1,393,190	19,490
Common (cost, 1969, $7,649,755; 1968, $6,302,724)	7,376,925	8,067,196
	8,770,115	8,086,686
Real estate, at cost less allowance for depreciation of $228,606 (1968, $194,539) (note 4)	1,005,061	1,026,105
Cash and bank deposits	686,818	509,778
Agents' balances and premiums in course of collection, less ceded reinsurance balances payable of $87,581 (1968, $128,904)	3,513,854	2,205,360
Reinsurance recoverable on loss payments	533,531	292,549
Investment income due and accrued	470,174	431,820
Amounts due from sales of securities	655,430	3,170
Federal income taxes recoverable (note 7)	297,500	—
Other	62,180	33,356
	$43,888,780	$39,797,552

LIABILITIES AND CAPITAL STOCK

Mortgage and contract payable on rental property	$ 28,182	$ 37,351
Unearned premiums (note 5)	10,091,999	6,817,002
Losses and loss adjustment expenses (note 6)	19,079,307	17,324,317
Funds held under reinsurance treaties	776,791	734,010
Contingent commissions	417,000	510,300
Other expenses	87,512	81,208
Taxes, licenses and fees	553,266	525,786
Federal income taxes (note 7)	—	231,500
Agents' and policyholders' deposits	473,178	405,581
Statutory reserve for bodily injury and compensation losses	97,707	344,078
Amounts due for purchases of securities	856,052	1,231,012
Other liabilities	13,392	46,487
	32,474,386	28,288,632
Capital stock and surplus:		
Common stock of $10 par value per share. Authorized 250,000 shares; issued 200,000 shares (note 8)	2,000,000	2,000,000
Paid-in surplus	301,250	301,250
Unassigned surplus	9,113,144	9,207,670
	11,414,394	11,508,920
	$43,888,780	$39,797,552

See accompanying notes to financial statements.

National Indemnity Company

Subsidiary of Berkshire Hathaway Inc.

STATEMENT OF INCOME

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Underwriting income:		
Net premiums written	$24,824,366	$19,999,000
(Increase) decrease in unearned premiums	(3,274,997)	342,137
Premiums earned	21,549,369	20,341,137
Losses and loss expenses incurred	13,933,982	13,343,028
	7,615,387	6,998,109
Underwriting expenses:		
Commissions and brokerage	5,750,605	4,540,886
Salaries and other compensation	765,067	699,168
Taxes, licenses and fees	669,872	571,711
Other underwriting expenses	559,201	615,233
	7,744,745	6,426,998
Net underwriting gain (loss)	(129,358)	571,111
Investment income:		
Interest on bonds	1,421,542	1,130,307
Dividends on stock	350,386	304,153
Real estate income	198,966	168,969
	1,970,894	1,603,429
Investment expenses	183,892	167,843
	1,787,002	1,435,586
Profit from underwriting and investments	1,657,644	2,006,697
Other expense	18,552	6,049
Income before Federal income taxes and realized gains on investments	1,639,092	2,000,648
Federal income taxes	20,809	378,053
Income before realized gains on investments	1,618,283	1,622,595
Realized gains on investments	297,058	796,242
Less Federal income taxes on gains	81,691	218,967
	215,367	577,275
Net income	$ 1,833,650	$ 2,199,870
Depreciation	$ 61,730	$ 59,913

See accompanying notes to financial statements.

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF CONDITION

December 31, 1969
with comparative figures for 1968

ASSETS

	1969	*1968*
Cash and due from banks	$ 19,917,661	$ 23,244,160
Investment securities (note 2):		
United States Government obligations	11,227,704	26,922,462
Obligations of states and political subdivisions	36,005,053	17,803,334
Other securities	210,000	210,000
Loans (note 3)	47,962,992	46,995,450
Bank premises and equipment (note 4)	1,825,164	1,236,936
Accrued interest receivable and other assets	1,040,477	895,831
	$118,189,051	$117,308,173

LIABILITIES AND CAPITAL ACCOUNTS

	1969	1968
Demand deposits	$ 58,237,471	$ 57,676,992
Time deposits	41,317,347	41,408,448
Total deposits	99,554,818	99,085,440
Accrued taxes and other expenses	638,453	783,194
Total liabilities	100,193,271	99,868,634
Reserve for loan losses (note 5)	800,271	599,008
Capital accounts:		
Common stock, $20.00 par		
Authorized and issued 100,000 shares	2,000,000	2,000,000
Surplus	5,027,442	5,027,442
Undivided profits	9,092,067	8,737,089
Reserve for contingencies	1,001,000	1,001,000
Reserve for asset re-evaluation	75,000	75,000
Total capital accounts	17,195,509	16,840,531
	$118,189,051	$117,308,173

See accompanying notes to consolidated financial statements.

The Illinois National Bank & Trust Co. of Rockford

AND SUBSIDIARIES

Subsidiary of Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

Year ended December 31, 1969
with comparative figures for 1968

	1969	*1968*
Operating income:		
Interest and fees on loans	$3,820,358	$3,431,019
Income on federal funds sold	392,335	319,556
Interest and dividends on:		
United States Government obligations	1,003,301	1,419,708
Obligations of states and political subdivisions	1,154,524	531,755
Trust department	342,976	339,039
Service charges on deposit accounts	219,891	199,012
Other	247,796	250,463
Total operating income	7,181,181	6,490,552
Operating expenses:		
Salaries	1,159,126	1,073,054
Pensions, profit sharing, and other employee benefits	113,551	137,037
Interest on deposits	1,694,877	1,493,180
Interest on federal funds purchased	12,538	2,517
Net occupancy expense of bank premises	301,557	325,147
Equipment rentals, depreciation, and maintenance	260,087	234,865
Provision for loan losses	61,600	65,800
Other	558,132	497,270
Total operating expenses	4,161,468	3,828,870
Income before income taxes and securities gains or (losses)	3,019,713	2,661,682
Applicable income taxes:		
Current	1,060,974	1,003,312
Deferred	(21,884)	107,010
Total applicable income taxes	1,039,090	1,110,322
Income before securities gains or (losses)	1,980,623	1,551,360
Securities gains or (losses)	(788,879)	150,985
Applicable income taxes	416,528	(41,434)
Securities gains or (losses) — net of applicable income taxes	(372,351)	109,551
Net income	$1,608,272	$1,660,911
Earnings per share (based on 100,000 shares during 1968 and 1969):		
Income before securities gains or (losses)	$19.81	$15.51
Net income	16.08	16.61

See accompanying notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS, *Continued*

(2) Investment Securities:

Investment securities are stated at cost, adjusted for amortization of premium. The approximate market value of investment securities at December 31, 1969 and 1968 were $44,023,000 and $43,720,000, respectively.

Investment securities stated at $8,069,083 on December 31, 1969 and $11,614,592 on December 31, 1968 were pledged to secure public deposits and other purposes as required or permitted by law.

(3) Loans:

Loans, previously carried at face value, have been reduced by unearned discount, which was previously included among other liabilities, and Consumer Credit loan payments, which were previously included in time deposits. Unearned discount was $2,206,028 on December 31, 1969 and $2,126,499 on December 31, 1968. Consumer Credit loan payments totaled $11,031,809 on December 31, 1969 and $10,328,663 on December 31, 1968.

(4) Bank Premises and Equipment:

Bank premises and equipment are stated at cost less accumulated depreciation of $1,061,740 and $913,072 for 1969 and 1968, respectively. Depreciation charged to expense totaled $189,728 in 1969 and $143,325 in 1968. Depreciation, for both book and tax purposes, is provided on the straight-line method for buildings and automobiles and on an accelerated method for building improvements, equipment, and drive-in and parking facility.

(5) Reserve for Loan Losses:

The Bank has adopted the policy of including in operating expense a provision for loan losses based on a five-year moving average ratio of losses computed on the basis of net charge-offs to total loans over the past five years. The ratio of losses has been determined based on the aggregate of total net charge-offs and total average loans for the five most recent years, including the current year. This ratio has been applied to the average of outstanding loans during the current year to determine the loan loss provision charged to operating expense.

The consolidated statement of earnings for 1968 has been restated in accordance with this policy. Additional provisions allowable under the current Treasury Tax formula are charged to undivided profits — net of deferred taxes.

The balance in the reserve for loan losses represents the maximum allowable under the Treasury Tax formula for the period since the adoption of the reserve method of accounting for loan losses in 1965.

A summary of the reserve for loan losses for the years 1969 and 1968 is as follows:

	1969	*1968*
Balance beginning of year	$599,008	$498,377
Provisions charged to:		
Operating expenses	61,600	65,800
Undivided profits	165,877	125,375
Recoveries	57,897	44,766
Losses	(84,111)	(135,310)
Balance end of year	$800,271	$599,008

(6) Pension and Profit Sharing Plan:

The Bank has a noncontributory pension plan and a profit sharing plan for all officers and employees with two full years of service. No pension contribution was required for 1969; the profit sharing expense was $97,138 for 1969. The total pension and profit sharing expense was $117,574 for 1968.

As of January 1, 1969, the book value of the pension trust assets exceeded the actuarial values of the vested benefits of the participants.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
111 WEST MONROE STREET
CHICAGO, ILLINOIS 60603

The Board of Directors
The Illinois National Bank & Trust
Co. of Rockford
Rockford, Illinois:

We have examined the consolidated statement of condition of The Illinois National Bank & Trust Co. of Rockford and subsidiaries as of December 31, 1969, and the related consolidated statements of earnings and changes in capital accounts for the year 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. Financial statements of the preceding year, included for comparative purposes, have not been examined by independent public accountants.

In our opinion, such financial statements present fairly the financial position of The Illinois National Bank & Trust Co. of Rockford and subsidiaries at December 31, 1969, and the results of its operations and changes in capital accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated. (See note 1 to consolidated financial statements.)

Peat, Marwick, Mitchell & Co.

January 15, 1970

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF EARNINGS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	52 weeks ended January 2, 1971			
	Revenues (expenses) before Federal income taxes		*Tax effect of Federal income taxes (expense) benefit (See Note 5)*	*Net earnings*
Textile operations				
Net sales	$24,568,567			
Cost of sales, administrative and selling expense	(24,461,279)			
Earnings from textile operations		$ 107,288	(62,541)	44,747
Interest and dividends				
Interest and dividend income	60,285			
Interest (expense)	(580,835)			
Net interest expense		(520,550)	144,910	(375,640)
Corporate administrative costs		(63,443)	17,557	(45,886)
Equity in earnings (excluding realized investment (losses) gains) of unconsolidated subsidiaries				
Insurance subsidiaries		2,638,710	(586,837)	2,051,873
Banking subsidiary		2,643,039	(28,915)	2,614,124
Earnings before investment gains (losses) and extraordinary item		4,805,044	(515,826)	4,289,218
Investment gains (losses)				
Parent company		—	—	—
Insurance subsidiaries		(301,047)	—	(301,047)
Banking subsidiary		358,819	—	358,819
Net investment gains		57,772	—	57,772
Earnings before extraordinary item		4,862,816	(515,826)	4,346,990
Extraordinary item — gain (loss) on liquidation or retirement of textile properties		281,839	(63,351)	218,488
Net earnings		$ 5,144,655	(579,177)	4,565,478
Net earnings per share of outstanding common stock				
Earnings before investment gains (losses) and extraordinary item				$4.38
Investment gains				.06
Extraordinary item				.22
Net earnings				$4.66

See accompanying notes to consolidated financial statements.

53 weeks ended January 3, 1970

Revenues (expenses) before Federal income taxes		*Tax effect of Federal income taxes (expense) benefit*	*Net earnings*	
				Textile operations
$40,427,037				Net sales
(38,971,802)				Cost of sales, administrative and selling expense
	$ 1,455,235	(667,000)	788,235	*Earnings from textile operations*
				Interest and dividends
96,449				Interest and dividend income
(643,443)				Interest (expense)
	(546,994)	296,393	(250,601)	*Net interest expense*
	(6,307)	3,154	(3,153)	**Corporate administrative costs**
				Equity in earnings (excluding realized investment (losses) gains) of unconsolidated subsidiaries
	2,774,186	(495,957)	2,278,229	Insurance subsidiaries
	2,364,306	(827,500)	1,536,806	Banking subsidiary
	6,040,426	(1,690,910)	4,349,516	*Earnings before investment gains (losses) and extraordinary item*
				Investment gains (losses)
	5,333,488	(1,525,736)	3,807,752	Parent company
	388,622	(106,871)	281,751	Insurance subsidiaries
	(781,758)	409,963	(371,795)	Banking subsidiary
	4,940,352	(1,222,644)	3,717,708	*Net investment gains*
	10,980,778	(2,913,554)	8,067,224	**Earnings before extraordinary item**
	(228,788)	114,353	(114,435)	**Extraordinary item — gain (loss) on liquidation or retirement of textile properties**
	10,751,990	(2,799,201)	7,952,789	*Net earnings*
				Net earnings per share of outstanding common stock
			$4.41	Earnings before investment gains (losses) and extraordinary item
			3.78	Investment gains
			(.12)	Extraordinary item
			$8.07	*Net earnings*

Berkshire Hathaway Inc.

CONSOLIDATED BALANCE SHEET

January 2, 1971

with comparative figures at January 3, 1970

	Jan. 2, 1971	*Jan. 3, 1970*
ASSETS		
Current assets:		
Cash	$ 1,351,567	$ 1,792,835
Marketable securities, at cost	—	294,165
Accounts receivable (less allowance for doubtful accounts — January 2, 1971 — $215,191; January 3, 1970 — $189,026)	3,916,332	6,397,021
Inventories, at the lower of cost (first-in, first-out) or market (note 3)	8,471,798	9,269,578
Prepaid and deferred charges	200,341	344,725
Total current assets	13,940,038	18,098,324
Property, plant and equipment (note 4):		
Property comprising land, buildings, machinery and equipment	14,919,300	15,747,970
Less accumulated depreciation and amortization	12,425,525	12,734,126
Net property, plant and equipment	2,493,775	3,013,844
Investment in unconsolidated subsidiaries (notes 1 and 2):		
Bank subsidiary	19,877,908	18,868,404
Insurance subsidiaries	19,064,663	15,314,965
Other subsidiaries	1,261,000	1,261,000
Total investment in unconsolidated subsidiaries	40,203,571	35,444,369
	$56,637,384	$56,556,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	$ 1,500,000	$ 1,500,000
Accounts payable and accrued expenses	2,014,843	3,804,322
Accrued Federal, State, and local taxes	247,908	1,442,855
Total current liabilities	3,762,751	6,747,177
Long-term debt, excluding current installments:		
Note payable to banks (note 7)	3,750,000	5,250,000
7½% subordinated debentures (note 8)	641,300	641,300
Total long-term debt	4,391,300	5,891,300
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	44,212,973	39,647,495
	49,300,708	44,735,230
Less 37,970 shares (January 3, 1970 — 37,965) of common stock in treasury, at cost	817,375	817,170
Total stockholders' equity	48,483,333	43,918,060
	$56,637,384	$56,556,537

See accompanying notes to consolidated financial statements.

Berkshire Hathaway Inc.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	Jan. 2, 1971	*Jan. 3, 1970*
Retained earnings, beginning	$39,647,495	$31,694,706
Net earnings	4,565,478	7,952,789
Retained earnings, ending	$44,212,973	$39,647,495

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

52 weeks ended January 2, 1971

with comparative figures for the 53 weeks ended January 3, 1970

	52 weeks ended Jan. 2, 1971	*53 weeks ended Jan. 3, 1970*
Funds provided:		
Net earnings	$ 4,565,478	$ 7,952,789
Nonfund items:		
Add depreciation and amortization	520,235	643,143
(Deduct gain) Add — loss on liquidation or retirement of textile properties	(281,839)	228,788
Deduct equity in undistributed earnings of unconsolidated subsidiaries	(2,769,929)	(2,649,829)
Total nonfund items	(2,531,533)	(1,777,898)
Funds derived from operations	2,033,945	6,174,891
Long-term debt financing	—	6,000,000
Proceeds from sale of textile properties	532,477	240,865
Decrease in working capital	1,173,860	8,877,815
	$ 3,740,282	$21,293,571
Funds used:		
Investment in unconsolidated subsidiaries	1,989,271	20,039,555
Repayment of long-term debt	1,500,000	750,000
Additions to property and equipment	250,806	264,016
Purchase of treasury stock	205	240,000
	$ 3,740,282	$21,293,571

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 2, 1971

(1) Principles of Consolidation:

The accompanying financial statements consolidate the accounts of Berkshire Hathaway Inc. with its wholly-owned Canadian subsidiary. The accounts of insurance subsidiaries, substantially 100% owned by Berkshire Hathaway, and the accounts of the Illinois National Bank and Trust Co. of Rockford and subsidiaries, approximately 98% of which was acquired by Berkshire Hathaway in March 1969, are not consolidated. The accompanying statement of earnings reflects, based on current certified audit reports of these companies, the equity of Berkshire Hathaway Inc. in earnings of these functionally independent operations. The investments in these subsidiaries are carried at cost plus the equity in undistributed earnings since acquisition. Three immaterial subsidiaries (an insurance agency, a printing and a publishing operation) have not been consolidated, and the investments therein are carried at cost.

(2) Investment in Unconsolidated Subsidiaries

The carrying value of $40,203,571 for all unconsolidated subsidiaries at January 2, 1971 was approximately $2,124,000 in excess of the Company's equity in book values reflected in the accounts of the subsidiaries. No part of this excess has been allocated between tangible and intangible assets as the effect on income of such allocation would not be material and the excess is not being amortized as management believes its value is not declining.

Detailed financial statements of the two insurance subsidiaries and the bank subsidiary are presented elsewhere in this report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, *Continued*

(3) Inventories:

A comparative summary follows:

	Jan. 2, 1971	*Jan. 3, 1970*
Raw materials and supplies	$ 543,660	$ 1,168,967
Stock in process	1,425,216	1,798,224
Cloth	6,502,922	6,302,387
	$ 8,471,798	$ 9,269,578

(4) Property, Plant and Equipment:

The Company's general policy is to provide for depreciation over the estimated useful lives as allowed by taxing authorities. Except for new additions subsequent to 1965 which are depreciated on the double-declining balance method, depreciation is provided on the straight-line basis. The composition of property, plant and equipment is shown below:

	Jan. 2, 1971	*Jan. 3, 1970*
Land	$ 87,116	$ 106,555
Buildings	2,345,977	3,726,310
Machinery and equipment	11,891,239	11,402,218
Furniture and fixtures and leasehold improvements	594,968	512,887
	14,919,300	15,747,970
Less accumulated depreciation and amortization	12,425,525	12,734,126
	$ 2,493,775	$ 3,013,844

Depreciation expense recorded in 1970 was $520,235 ($643,143 in 1969).

(5) Income Taxes:

The Company and all of its subsidiaries eligible for inclusion in a consolidated Federal income tax return joined in the filing of such a consolidated return for both 1970 and 1969.

For 1970, the consolidation for U. S. tax purposes resulted in a reporting of a U. S. net consolidated operating loss. The result of filing a consolidated return was to offset ordinary tax losses of the Parent and insurance subsidiaries against ordinary taxable income of the bank subsidiary and to offset capital losses of the insurance subsidiaries against capital gains of the Parent and bank subsidiary. For this reason, the tax effects in 1970 are not proportionate to the pretax income items reflected in the statement of earnings.

The total income tax expense for 1970 of $579,177 consists of the following:

Parent company's recoverable income taxes arising from carryback of its share of consolidated net operating loss reportable for U. S. Federal tax purposes		$115,000
Current foreign income tax expense of consolidated Canadian subsidiary		(78,425)
Net recoverable taxes of Parent and consolidated subsidiary		36,575
Equity in tax benefit (expense) of subsidiaries not consolidated in these statements:		
Deferred tax expense	($871,850)	
Recoverable income taxes arising from carryback by insurance subsidiaries of their share of consolidated net operating loss reportable for U. S. Federal tax purposes	256,098	
Equity in net tax (expense) of subsidiaries not consolidated in these statements		(615,752)
Net income tax (expense)		($579,177)

The deferred taxes of subsidiaries not consolidated relate primarily to the increased equity of insurance subsidiaries in unearned premiums, which increased equity is not currently includable in Federal taxable income.

(6) Pension Plan:

The Company has a noncontributory pension plan for salaried employees. Benefits are funded through the medium of an independently trusteed fund, the assets of which exceed the actuarially computed vested and nonvested benefits. The current year's pension expense was $26,000 and represents normal costs less amortization of the overfunded position at August 1, 1968 on a ten-year basis.

(7) Long-term Debt:

Under the terms of a loan agreement, the Company was liable to certain banks at January 2, 1971 for $5,250,000, of which $1,500,000 is due within one year. Interest, payable quarterly in arrears, is computed at ½% over the prime rate for 90-day commercial loans of The First National Bank of Boston, which serves as the agent bank. Principal is payable quarterly in the amount of $375,000 with a final installment of $3,375,000 due on June 30, 1972.

The agreement contains provisions, among others, that: the banks may at any time require the debt to become secured; the Company will maintain working capital of at least $8,000,000; net worth shall be at least $35,000,000; and each subsidiary will maintain net worth at least as follows:

National Fire & Marine Insurance Co.	$ 1,300,000
National Indemnity Company	8,000,000
Illinois National Bank & Trust Co.	11,500,000

The agreement also limits the Company's ability, without consent of the banks, to dispose of any substantial portion of its assets; to incur additional indebtedness for borrowed money; or enter into business combinations. Additionally, the agreement contains restrictions regarding the issuance by subsidiaries of additional shares of their capital stock, options therefore or securities convertible thereto.

(8) 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, 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. Redemption through the sinking fund shall be at principal amount plus accrued interest.

(9) "One-Bank Holding Company" Status:

Because of its controlling ownership of the Illinois National Bank & Trust Co. of Rockford, the Company is a "one-bank holding company" and as a result of recently enacted Federal legislation is required prior to January 1, 1981 to divest itself either of its controlling interest in the bank or its activities unrelated to banking. So long as the Company controls the bank, it is subject to the restrictions on its activities imposed by this legislation.