BUFFETT PARTNERSHIP, LTD.
810 KIEWIT PLAZA
OMAHA 31, NEBRASKA

November 1, 1965

To My Partners for 1966:

Enclosed are:

(1) Two copies or the commitment letter for 1966, one to be kept by you and one returned to us. You may amend the commitment letter right up to midnight, December 31st. So get it back to us early, and if it needs to be changed, just let us know by letter or phone. Commitment letters become final on December 31st. Every year I get a number or calls in the first week in January expressing a desire to add to the January 1st capital. THIS CAN'T BE DONE.

(2) A copy of our ever-popular "The Ground Rules." It is essential that we see eye-to-eye on the matters covered therein. If you have different views - fine, yours may be better - but you shouldn't be in the partnership. Please particularly note Ground Rule 7. This has been added this year reflecting a moderate shift in my attitude over a period of time. It represents a decidedly unconventional (but logical in my opinion when applied to our operation) approach and is therefore specifically called to your attention.

Any withdrawals will be paid January 5th. You may withdraw any amount you desire from $100 up to your entire equity. Similarly, additions can be for any amount and should reach us by January 10th. In the event you are disposing of anything, this will give you a chance to have the transaction in 1966 if that appears to be advantageous for tax reasons. If additions reach us in November, they take on the status of advance payments and draw 6% interest until yearend. This is not true of additions reaching us in December.

The partnership owns a controlling interest in Berkshire Hathaway Inc., a publicly-traded security. As mentioned in my midyear letter, asset values and earning power are the dominant factors affecting the valuation of a controlling interest in a business. Market price, which governs valuation of minority interest positions, is of little or no importance in valuing a controlling interest. We will value our position in Berkshire Hathaway at yearend at a price halfway between net current asset value and book value. Because of the nature of our receivables and inventory this, in effect, amounts to valuation of our current assets at 100 cents on the dollar and our fixed assets at 50 cents on the dollar. Such a value in my opinion is fair to both adding and withdrawing partners. It may be either of lower than market value at the time.

As I write this, we are orbiting in quite satisfactory fashion. Our margin over the Dow is well above average, and even those Neanderthal partners who utilize such crude yardsticks as net profit would find performance satisfactory. This is all, of course, subject to substantial change by yearend.

If anything needs clarification, call or write John Harding who is in charge of "de-confusing" partners. The tax situation is about as reported in the August letter, but if you would like John to make the calculation for you, he will be glad to do it.

Cordially,
Warren E. Buffett

P/S: We are continuing our "no prize" policy for the last ones to get their commitment letters back to us. It will make things easier for us if you get it back pronto. If you want to make changes later (before January lst), just give us a call, and we'll amend it for you.