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# To My Partners:

This letter is to supply you with some published information relating to our two controlled companies (and their four principal operating components), as well as to give you my general views regarding their operations. My comments are not designed to give you loads of detailed information prospectus-style, but only my general "slant" as I see the businesses at this time.

At yearend, BPL will own 800,000 of 1,000,000 shares outstanding of Diversified Retailing Company. First Manhattan Company and Wheeler, Munger & Company will each own 100,000 shares. DRC previously owned 100% of Hochschild, Kohn & Company of Baltimore, and currently owns 100% of Associated Retail Stores (formerly named Associated Cotton Shops). On December 1st, DRC sold its entire interest in H-K to Supermarkets General Corp. for $5,045,205 of cash plus non-interest bearing SGC notes for $2 million due 2-1- 70, and $4,540,000 due 2-1-71. The present value of these notes approximates $6.0 million so, effectively, DRC received about $11 million on the sale. Various warranties were made by DRC in connection with the sale, and, while we expect no claims pursuant to the contract, a remote contingent liability always exists while warranties are in force.

Associated Retail Stores has a net worth of about $7.5 million. It is an excellent business with a strong financial position, good operating margins and a record of increasing sales and earnings in recent years. Last year, sales were about $37.5 million and net income about $1 million. This year should see new records in sales and earnings, with my guess on the latter to be in the area of $1.1 million after full taxes.

DRC has $6.6 million in debentures outstanding (prospectus with full description of the business as of December 18th, 1967 and the debenture terms will be sent you upon request) which have one unusual feature in that if I, or an entity controlled by me, is not the largest shareholder of DRC, the debentureholders have the right to present their debentures for payment by the company at par.

Thus, DRC has tangible net assets of about $11.50 - $12.00 per share, an excellent operating business and substantial funds available for reinvestment in other operating businesses. On an interim basis, such funds will be employed in marketable securities.

Berkshire Hathaway Inc. has 983,582 shares outstanding, of which BPL owns 691,441. B-H has three main operating businesses, the textile operation, the insurance operation (conducted by National Indemnity Company and National Fire & Marine Insurance Company, which will be

collectively called the insurance company) and the Illinois National Bank and Trust Company of Rockford, Illinois. It also owns Sun Newspapers Inc, Blacker Printing Company and 70% of Gateway Underwriters, but these operations are not financially significant relative to the total.

The textile operation presently employs about $16 per share in capital and, while I think it has made some progress relative to the textile industry generally, cannot be judged a satisfactory business. Its return on capital has not been sufficient to support the assets employed in the business and, realistically, an adequate return has less than an even chance of being averaged in the future. It represents the best segments of the business that existed when we purchased control four and one-half years ago. Capital from the other segments has been successfully redeployed - first, on an interim basis into marketable securities and, now on a permanent basis into insurance and banking. I like the textile operating people - they have worked hard to improve the business under difficult conditions - and, despite the poor return, we expect to continue the textile operation as long as it produces near current levels.

The insurance operation (of which B-H owns virtually 100%) and the bank (where B-H owns 97.7%) present a much happier picture. Both are first-class businesses, earning good returns on capital and stacking up well on any absolute or comparative analysis of operating statistics. The bank has about $17 per share of net tangible assets applicable to B-H, and the insurance company approximately $15. I would estimate their normal current earning power to be about $4 per share (compared to about $3.40 from operations pro-forma in 1968), with good prospects for future growth on the combined $32 of tangible net assets in the bank and insurance company. Adding in the textile business and miscellaneous assets, and subtracting parent company bank debt of about $7 million, gives a tangible net asset value of about $43 per share for B-H, or about $45 stated book value, allowing for the premium over tangible assets paid for the bank.

One caveat - when I talk above of tangible net assets. I am valuing the $75 million of bonds held by the insurance company and bank at amortized cost. This is in accord with standard accounting procedures used in those industries and also in accord with the realities of their business operations where it is quite unlikely that bonds will have to be sold before maturity. At today's historically low bond prices, however, our bonds have a market value substantially below carrying value, probably on the order of $10 per share of B-H stock.

Between DRC and B-H, we have four main operating businesses with three of them in my opinion, definitely first class by any of the usual standards of evaluation. The three excellent businesses are all run by men over sixty who are largely responsible for building each operation from scratch. These men are hard working, wealthy, and good – extraordinarily good. Their age is a negative, but it is the only negative applicable to them. One of the reasons I am happy to have a large segment of my capital in B-H and DRC is because we have such excellent men in charge of the operating businesses.

We have various annual reports, audits, interim reports, proxy materials prospectuses, etc… applicable to our control holdings and we will be glad to supply you with any item you request. I

also solicit your written questions and will send to all partners the questions and answers shortly before yearend. Don't hesitate to ask any question at all that comes to mind - if it isn't clear to you, it probably isn't clear to others - and there is no reason for any of you to be wondering about something that I might clear up.

DRC and B-H presently pay no dividends and will probably pay either no dividends or very modest dividends for some years to come. There are a number of reasons for this. Both parent companies have borrowed money - we want to maintain a good level of protection for depositors at the bank and policyholders at the insurance company - some of the operating companies have very satisfactory ways to utilize additional capital - and we are hopeful of finding new businesses to both diversify and augment our earning power.

My personal opinion is that the intrinsic value of DRC and B-H will grow substantially over the years. While no one knows the future, I would be disappointed if such growth wasn't at a rate of approximately 10% per annum. Market prices for stocks fluctuate at great amplitudes around intrinsic value but, over the long term, intrinsic value is virtually always reflected at some point in market price. Thus, I think both securities should be very decent long-term holdings and I am happy to have a substantial portion of my net worth invested in them. You should be unconcerned about short-term price action when you own the securities directly, just as you were unconcerned when you owned them indirectly through BPL. I think about them as businesses, not “stocks”, and if the business does all right over the long term, so will the stock.

I want to stress that I will not be in a managerial or partnership status with you regarding your future holdings of such securities. You will be free to do what you wish with your stock in the future and so, of course, will I. I think that there is a very high probability that I will maintain my investment in DRC and B-H for a very long period, but I want no implied moral commitment to do so nor do so nor do I wish to advise others over an indefinite future period regarding their holdings. The companies, of course, will keep all shareholders advised of their activities and you will receive reports as issued by them, probably on a semi-annual basis. Should I continue to hold the securities, as I fully expect to do, my degree of involvement in their activities may vary depending upon my other interests. The odds are that I will take an important position on matters of policy, but I want no moral obligation to be other than a passive shareholder, should my interests develop elsewhere.

We presently plan to make the initial BPL cash distribution on January 5th, which will now come to at least 64% of January 1, 1969 capital less any distributions (including monthly payments) you have received from us since January 1, 1969. There is now pending a public offering, headed by Merrill, Lynch, Pierce, Fenner & Smith, of our Blue Chip Stamps holdings which, if completed this month as expected, should bring the figure to at least 70%.

If you wish Bill and me to give you our ideas regarding bonds in March, you should purchase U.S. Treasury Bills maturing in late March with the applicable portion of the January 5th distribution. Then advise us in the last week of February of the amount you wish to invest in bonds and we will let you know our thoughts.

About the middle of January (as soon as the exact amounts are figured and shares are received from the Transfer Agent after having been registered in your name) we will distribute the DRC and B-H stock applicable to your partnership interest and subsequently advise you of your tax basis and acquisition date attributable to the stock. Such shares will be "legended" as described in the enclosed letter from Monen, Seidler & Ryan. These stock certificates are valuable and should be kept in a safe place.

In past letters I had expressed the hope that BPL could supply a mechanism whereby you could, if you wished, automatically convert your DRC and B-H to cash. I have had two law firms consider extensively the status of these shares in your hands following the liquidation and the accompanying letters (which should be saved and kept with the shares) give their conclusions. As you can see, it is not an area that produces simple, clear-cut guidelines. I see no prudent way to implement the alternatives I had previously been considering. Therefore, you must follow the guidelines they set forth if you wish to dispose of your shares. As you probably realize, the restrictions on subsequent sale apply more severely to Susie and me (because of my continued "insider" position) than they probably do to you. Substantial quantities of securities often are sold via the "private sale" option described in paragraph (3) of the opinion. If the rules become clearer or more simplified in the future, I will be sure to let you know.

At the time of distribution of DRC and B-H, I will advise you of the values applied to such shares at 1969 yearend. You will receive our audit and tax letter about the end of January. It presently appears that sale of our Blue Chip shares and a substantial increase in value of DRC and B- H will bring our overall gain for the year to slightly over 6%.

My next letter will be in late December, summarizing the questions and answers regarding DRC and B-H. and also supplying a final estimate on the January 5th cash distribution.

Warren E. Buffett