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To My Partners:

Our plans regarding the initial cash distribution have been finalized and we expect to mail to you on January 3rd a check dated January 5th, 1970 for approximately 64% of your January 1st. 1969 capital, less any distributions made to you (including monthly payments) since January 1st. 1969. If you have taken no monthly payments during 1969, there will be a small interest adjustment in your favor; if you have had loans from BPL, there will be an interest charge. I couldn't be more delighted about the action of the bond and stock markets from the standpoint of the timing of our liquidation. I believe practically all partners - whether they would have invested in bonds or stocks - will be far better off receiving the cash now than if we had liquidated at the end of last year. Those seeking income will receive about 40% more after tax on the same principal investment than they would have achieved only a year ago at what then seemed like generous yields.

Our tax picture is virtually complete and it appears that you will have ordinary income (dividends plus interest income less ordinary loss) for Federal tax purposes of about 3 –3/4% of your January 1st. 1969 capital (item 1 in enclosed letter), no significant long-term capital gain or loss, and a short-term capital loss of about 8-1/2% of your January 1st, 1969 unrealized appreciation (item 3). These estimates are just rough approximations - definitive figures will reach you in early February.

The sale of our 371,400 shares of Blue Chip Stamps was not completed in 1969. When the stock went into registration, it was selling at about $24 per share. The underwriters indicated a range where they expected to offer our shares (along with others) with heavy weight placed on a comparison with Sperry & Hutchinson. Shortly before the stock was to be offered, with the Dow-Jones Industrials much lower but S & H virtually unchanged, they indicated a price below their former range. We reluctantly agreed and felt we had a deal but, on the next business day, they stated that our agreed price was not feasible. We then withdrew and a much smaller offering was done.

I intend to hold our block of Blue Chip Stamps in BPL for a more advantageous disposal or eventual distribution to our partners. The odds are decent that we will do better in this manner -even if it takes a year or two - than if we had participated in a very large sale into a somewhat distressed market. Unless there is a material change in the market in the next few days, I plan to value our Blue Chip holdings at yearend at the price received by selling shareholders on the public offering after underwriting discount and expenses.

Various questions have been asked pursuant to the last letter:

1. If we are not getting a good return on the textile business of Berkshire Hathaway Inc., why do we continue to operate it?

Pretty much for the reasons outlined in my letter. I don't want to liquidate a business employing 1100 people when the Management has worked hard to improve their relative industry position, with reasonable results, and as long as the business does not require substantial additional capital investment. I have no desire to trade severe human dislocations for a few percentage points additional return per annum. Obviously, if we faced material compulsory additional investment or sustained operating losses, the decision might have to be different, but I don't anticipate such alternatives.

2. How large is our investment in Sun Newspapers, etc., and do we intend to expand in the newspaper, radio and TV business?

The combined investment in Sun, Blacker Printing and Gateway Underwriters is a little over $1 per share of Berkshire Hathaway, and earns something less than 10 cent per share. We have no particular plans to expand in the communication field.

3. What does Gateway Underwriters do?

Gateway Underwriters serves primarily as a General Agent for National Indemnity Company in the State of Missouri.

4. Are there good "second men" to take over from the men running the three excellent operating businesses?

In any company where the founder and chief driving force behind the enterprise is still active, it is very difficult to evaluate "second men". The only real way to see how someone is going to do when running a company is to let him run it. Some of our businesses have certainly been more "one-man shows" than the typical corporation. Subject to the foregoing caveat, I think that we do have some good “second men” coming along.

5. In what area do you plan to invest the cash in Diversified Retailing Company and do you intend to stick primarily to the retailing field?

While we prefer the retailing field, we do not preclude anything that will make sense. We have been looking without success for two years for an intelligent acquisition for DRC, so we are not about to rule out any industry, if the business looks good. Pending such time as we find one or more operating businesses to buy, the money will be invested in marketable securities.

6. Why didn't DRC payout the money it received on the sale of Hochschild, Kohn & Company?

In addition to the fact that such a payment would constitute a dividend, taxable in significant part as ordinary income, there are restrictions in the bond indenture which prevent such a pay-out without turning over control of the company to the bondholders.

7. Will distribution of the DRC stock cause the DRC debentures to be called?

After distribution of the stock, I will be the largest stockholder in DRC and, hence, the call provision will not apply.

8. How would we know if the DRC debentures were called?

All stockholders and debenture holders would find out directly from the company through regular or special reports that the company issues to its security holders. There is no intention at all of calling the debentures.

9. Why did you not register our Berkshire Hathaway and Diversified Retailing shares so that the stock, when received by the partners, would be freely marketable?

We considered this possibility but rejected it for both practical and legal considerations. I will just discuss the practicalities, since they would independently dictate the decision we made.

There is presently no existing market for Diversified Retailing, and our holdings of Berkshire Hathaway are probably four or five times the present floating supply of this stock. An attempt to quickly buy or sell a few thousand shares can easily move BH stock several points or more. We own 691,441 shares. Were we to distribute these stocks to you via a registration without an underwriting, and with the possibility that a substantial portion would be offered for sale by many sellers operating individually but virtually simultaneously, there is a real likelihood, particularly in a stock market environment such as we have seen recently, that the market for these two stocks would be little short of chaotic. It has not seemed to me that this was the kind of situation with which I should leave you, both from the standpoint of the price level which might prevail, as well as for the reason that different partners might well have to liquidate at widely varying price levels. The more sophisticated partners might have an important edge on the less sophisticated ones, and I believe many partner's might have no chance to realize the prices I anticipate using for yearend valuation. This would rightly seem most unfair to you, since I would have received some allocation of 1969 BPL profits based upon these yearend valuations. If the markets were to become distressed, I would probably come in for criticism, whether I personally bought at lower prices or, perhaps more so, if I refrained from buying.

Were we to attempt to sponsor an underwriting in connection with a registration for those partners who might wish to sell, there would be, in my opinion, the likelihood that the result would still be far less than satisfactory. We have just been around this track with our holdings of Blue Chip Stamps, where we watched the price of our stock go from 24 to 16-1/2 after announcement of the underwriting, of which we originally were to be a part. I did not want this sort of result for the partners with respect to their holdings of Berkshire and Diversified.

It is my belief that, by confining sales to private placements, those partners who wish to sell will realize more for their stock (with the sophisticated partners having no marketing edge on the less knowledgeable) than would be achieved, through an underwriting at this time. Also, the stock should be more likely to find its way into the hands of long-term investment-minded holders, which should mean less volatile markets in the future. We have had several phone calls from persons indicating that they wish to make private sales - we anticipate there will be no difficulty in effectuating such sales at prices related to our yearend valuations.

Those partners who would prefer an underwritten distribution always have the option of having a registration of their own. I will be glad to facilitate this by placing all partners in touch with each other who indicate to me their desire to sell via a registered underwriting, at their expense and through an underwriter of their choice. In this way the expense of an underwriting, which can be considerable, would be borne by the selling partners and not by the partners as a whole.

I have also had partners ask if they could participate in a registered offering in the future if I should sell shares in this manner. I think it is almost certain I will never sell stock via public offering but, should it ever happen, I will be glad to let any of you participate in any underwritten offering in which I might be involved. In all probability, if it ever did happen, your stock would already be “free”, although mine would still be restricted. I cannot make the same commitment to you regarding any private sale I might make in the future, just as I can't expect you to restrict any sale options you might have in order to include me.

10. Will you let us know if you sell your holdings of BH or DRC?

You would undoubtedly know from corporate communications, reports in the press and reports to Government agencies if I disposed of my holdings. I have no intention at all of doing so in the foreseeable future - I merely make no commitment not to. However, former BPL partners will have no priority over other BH or DRC security holders in obtaining information relating to their corporate activities.

11. Should I hold my BH or DRC stock?

I can’t give you the answer on this one. All I can say is that I’m going to do so and I plan to buy more. I am very happy to have a material portion of my net worth invested in these companies on a long term basis. Obviously, I think they will be worth significantly more money five or ten years hence. Compared to most stocks, I think there is a low risk of loss. I hope their price patterns follow a rather moderate range related to business results rather than behaving in a volatile manner related to speculative enthusiasm or depression. Obviously, I cannot control the latter phenomena, but there is no intent to "promote" the stocks a la much of the distasteful general financial market activity of recent years.

12. Can I give either BH or DRC shares to my wife or children?

We are advised by counsel that this is permissible but, of course the same restrictions on transfer that applied to you would apply to the donee of the gift.

13. Why are you waiting until March to give us your suggestions regarding bonds?

January and February promise to be very busy months. Many partners may want to talk to me about their questions and objectives regarding bonds. I want to have all important BPL matters out of the way before I talk with any of them on an individual basis. I make no forecasts regarding the bond market (or stock market) - it may be higher or lower in March than now. After my October letter, several partners became very eager to buy bonds immediately - to date they are much better off by waiting. The excellent quality taxfree bonds I talked about at that time with yields of 6 -1/2% can now be bought to yield about 7%.

Cordially,
Warren E. Buffett