BERKSHIRE HATHAWAY INC
Form 10-Q
November 02, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-14905

BERKSHIRE HATHAWAY INC.

(Exact name of registrant as specified in its charter)

Delaware	47-0813844
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1440 Kiewit Plaza, Omaha, Nebraska 68131
(Address of principal executive office)(Zip Code)
(402) 346-1400
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Number of shares of common stock outstanding as of October 26, 2007:

Class A	1,085,703
Class B	13,855,629

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BERKSHIRE HATHAWAY INC.

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Part I Financial Information

Item 1. Financial Statements

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 38,606	$ 37,977
Investments:		
Fixed maturity securities	26,669	25,300
Equity securities	77,866	61,533
Other	691	905
Receivables	14,171	12,881
Inventories	5,928	5,257
Property, plant and equipment	9,863	9,303
Goodwill	26,125	25,678
Deferred charges reinsurance assumed	3,921	1,964
Other	7,200	6,538
	211,040	187,336
Utilities and Energy:		
Cash and cash equivalents	1,978	343
Property, plant and equipment	25,544	24,039
Goodwill	5,591	5,548
Other	6,395	6,560
	39,508	36,490
Finance and Financial Products:		
Cash and cash equivalents	6,499	5,423
Investments in fixed maturity securities	2,888	3,012
Loans and finance receivables	11,876	11,498
Goodwill	1,013	1,012
Other	3,692	3,666
	25,968	24,611
	$ 276,516	$ 248,437

See accompanying Notes to Interim Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(dollars in millions except per share amounts)

	September 30, 2007 (Unaudited)	December 31, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 56,337	$ 47,612
Unearned premiums	7,567	7,058
Life and health insurance benefits	3,733	3,600
Other policyholder liabilities	4,125	3,938
Accounts payable, accruals and other liabilities	10,825	9,654
Income taxes, principally deferred	21,517	19,170
Notes payable and other borrowings	3,087	3,698
	107,191	94,730
Utilities and Energy:		
Accounts payable, accruals and other liabilities	6,260	6,693
Notes payable and other borrowings	19,393	16,946
	25,653	23,639
Finance and Financial Products:		
Accounts payable, accruals and other liabilities	2,889	3,543
Notes payable and other borrowings	12,244	11,961
Derivative contract liabilities	6,074	3,883
	21,207	19,387
Total liabilities	154,051	137,756
Minority shareholders interests	2,562	2,262
Shareholders equity:		
Common stock:		
Class A, $5 par value; Class B, $0.1667 par value	8	8
Capital in excess of par value	26,946	26,522
Accumulated other comprehensive income	23,743	22,977
Retained earnings	69,206	58,912
Total shareholders equity	119,903	108,419

	$	276,516	$	248,437

See accompanying Notes to Interim Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions except per share amounts)

	Third Quarter		First Nine Months	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Revenues:				
Insurance and Other:				
Insurance premiums earned	$ 6,020	$ 6,359	$ 25,484	$ 17,717
Sales and service revenues	15,092	13,514	43,073	38,242
Interest, dividend and other investment income	1,274	1,117	3,678	3,272
Investment gains/losses	3,001	278	4,048	887
	25,387	21,268	76,283	60,118
Utilities and Energy:				
Operating revenues	3,067	2,780	9,294	7,452
Other revenues	83	69	189	278
	3,150	2,849	9,483	7,730
Finance and Financial Products:				
Interest income	433	400	1,283	1,200
Investment gains/losses	186		191	108
Derivative gains/losses	(122)	(11)	340	534
Other	903	854	2,622	2,618
	1,400	1,243	4,436	4,460
	29,937	25,360	90,202	72,308
Costs and expenses:				
Insurance and Other:				
Insurance losses and loss adjustment expenses	3,337	3,204	17,372	10,071
Life and health insurance benefits	432	356	1,247	1,152
Insurance underwriting expenses	1,499	1,372	4,212	3,979
Cost of sales and services	12,319	11,110	35,169	31,530
Selling, general and administrative expenses	1,732	1,560	5,134	4,378
Interest expense	42	60	122	150
	19,361	17,662	63,256	51,260

Utilities and Energy:				
Cost of sales and operating expenses	2,373	2,167	7,269	5,908
Interest expense	296	266	848	710
	2,669	2,433	8,117	6,618
Finance and Financial Products:				
Interest expense	143	137	443	411
Other	917	827	2,651	2,503
	1,060	964	3,094	2,914
	23,090	21,059	74,467	60,792
Earnings before income taxes and minority interests	6,847	4,301	15,735	11,516
Income taxes	2,197	1,451	5,202	3,901
Minority shareholders interests	97	78	267	183
Net earnings	$ 4,553	$ 2,772	$ 10,266	$ 7,432
Average common shares outstanding *	1,547,368	1,542,173	1,545,128	1,541,581
Net earnings per common share *	$ 2,942	$ 1,797	$ 6,644	$ 4,821

* *Average shares outstanding include average Class A common shares and average Class B common shares determined on an equivalent Class A common stock basis. Net earnings per share shown above represents net earnings per equivalent Class A common share. Net earnings*

per Class B common share is equal to one-thirtieth (1/30) of such amount.

See accompanying Notes to Interim Consolidated Financial Statements

FORM 10-Q **Q/E 9/30/07**

BERKSHIRE HATHAWAY INC.

and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	First Nine Months	
	2007	2006
	(Unaudited)	
Net cash flows from operating activities	$ 11,351	$ 7,882
Cash flows from investing activities:		
Purchases of securities with fixed maturities	(9,057)	(6,341)
Purchases of equity securities	(16,850)	(6,430)
Sales of securities with fixed maturities	6,781	1,886
Redemptions and maturities of securities with fixed maturities	7,408	8,577
Sales of equity securities	5,791	2,527
Purchases of loans and finance receivables	(448)	(246)
Principal collections on loans and finance receivables	1,039	801
Acquisitions of businesses, net of cash acquired	(1,628)	(10,137)
Purchases of property, plant and equipment	(3,917)	(3,141)
Other	482	742
Net cash flows from investing activities	(10,399)	(11,762)
Cash flows from financing activities:		
Proceeds from borrowings of finance businesses	1,149	65
Proceeds from borrowings of utilities and energy businesses	2,939	2,065
Proceeds from other borrowings	91	203
Repayments of borrowings of finance businesses	(1,021)	(268)
Repayments of borrowings of utilities and energy businesses	(250)	(257)
Repayments of other borrowings	(616)	(954)
Change in short term borrowings	(414)	245
Other	510	12
Net cash flows from financing activities	2,388	1,111
Increase (decrease) in cash and cash equivalents	3,340	(2,769)
Cash and cash equivalents at beginning of year *	43,743	45,018
Cash and cash equivalents at end of first nine months *	$ 47,083	$ 42,249

Supplemental cash flow information:

Cash paid during the period for:		
Income taxes	$ 3,096	$ 3,600
Interest of finance and financial products businesses	441	397
Interest of utilities and energy businesses	795	633
Interest of insurance and other businesses	148	162
Non-cash investing activity:		
Investments received in connection with the Equitas reinsurance transaction	6,529	
Liabilities assumed in connection with acquisitions of businesses	448	10,954

** Cash and cash equivalents are comprised of the following:*		
Beginning of year		
Insurance and Other	*$ 37,977*	*$ 40,471*
Utilities and Energy	*343*	*358*
Finance and Financial Products	*5,423*	*4,189*
	$ 43,743	*$ 45,018*
End of first nine months		
Insurance and Other	*$ 38,606*	*$ 36,905*
Utilities and Energy	*1,978*	*433*
Finance and Financial Products	*6,499*	*4,911*
	$ 47,083	*$ 42,249*

See accompanying Notes to Interim Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2007

Note 1. General

The accompanying unaudited Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (Berkshire or Company) consolidated with the accounts of all its subsidiaries and affiliates in which Berkshire holds a controlling financial interest as of the financial statement date. Reference is made to Berkshire s most recently issued Annual Report on Form 10-K (Annual Report) that included information necessary or useful to understanding Berkshire s businesses and financial statement presentations. In particular, Berkshire s significant accounting policies and practices were presented as Note 1 to the Consolidated Financial Statements included in the Annual Report. Certain amounts in 2006 have been reclassified to conform with the current year presentation. Financial information in this Report reflects any adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with generally accepted accounting principles (GAAP).

For a number of reasons, Berkshire s results for interim periods are not normally indicative of results to be expected for the year. The timing and magnitude of catastrophe losses incurred by insurance subsidiaries and the estimation error inherent to the process of determining liabilities for unpaid losses of insurance subsidiaries can be relatively more significant to results of interim periods than to results for a full year. Investment gains/losses are recorded when investments are sold, other-than-temporarily impaired or in instances as required under GAAP, when investments are marked-to-market. Variations in the amounts and timing of investment gains/losses can cause significant variations in periodic net earnings.

Note 2. Business acquisitions

Berkshire s long-held acquisition strategy is to purchase businesses with consistent earnings, good returns on equity, able and honest management and at sensible prices. In 2006, Berkshire completed several business acquisitions. On March 21, 2006, the acquisition of PacifiCorp, a regulated electric utility providing service to customers in six Western states, was completed for approximately $5.1 billion in cash through 88%-owned MidAmerican Energy Holdings Company (MidAmerican). On July 5, 2006, Berkshire acquired 80% of the Iscar Metalworking Companies (IMC) for cash in a transaction that valued IMC at $5 billion. IMC is an industry leader in the metal cutting tools business through its Iscar, TaeguTec, Ingersoll and other IMC companies. IMC provides a comprehensive range of tools for metalworking applications.

In 2006, Berkshire also acquired three relatively smaller businesses. On February 28, 2006, the acquisition of Business Wire, a leading global distributor of corporate news, multimedia and regulatory filings, was completed. On May 19, 2006, the acquisition of 85% of Applied Underwriters (Applied), an industry leader in integrated workers compensation solutions, was completed. Under certain conditions, existing minority shareholders of Applied may acquire up to an additional 4% interest in Applied from Berkshire. On August 2, 2006, the acquisition of Russell Corporation, a leading branded athletic apparel and sporting goods business, was completed. The aggregate consideration paid for these three businesses was approximately $1.4 billion.

On March 30, 2007, Berkshire completed the acquisition of TTI, Inc., a privately held electronic components distributor headquartered in Fort Worth, Texas. TTI, Inc. is a leading distributor specialist of passive, interconnect and electromechanical components. Effective April 1, 2007, Berkshire acquired the intimate apparel business of VF Corporation. During 2007, Berkshire also acquired several other relatively smaller businesses. Aggregate consideration paid for all businesses acquired in 2007 was approximately $1.7 billion.

The results of operations for each of these businesses are included in Berkshire s consolidated results from the effective date of each acquisition. The following table sets forth certain unaudited pro forma consolidated earnings data for the first nine months of 2006, as if each acquisition was consummated on the same terms at the beginning of that year. Pro forma consolidated revenues and net earnings for the first nine months of 2007 were not materially different from the amounts reported. Amounts are in millions, except earnings per share.

	2006
Total revenues	$76,790
Net earnings	7,552
Earnings per equivalent Class A common share	4,899

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Notes to Interim Consolidated Financial Statements (Continued)

Note 3. Investments in fixed maturity securities

Data with respect to investments in fixed maturity securities follows (in millions).

	Insurance and other		Finance and financial products	
	Sept. 30, 2007	Dec. 31, 2006	Sept. 30, 2007	Dec. 31, 2006
Amortized cost	$ 25,506	$ 23,796	$ 1,222	$ 1,439
Gross unrealized gains	1,284	1,636	100	102
Gross unrealized losses	(121)	(132)	(3)	(4)
Fair value	$ 26,669	$ 25,300	$ 1,319	$ 1,537

Certain other fixed maturity investments of finance businesses are classified as held-to-maturity, which are carried at amortized cost. The carrying value and fair value of these investments totaled $1,569 million and $1,691 million at September 30, 2007, respectively. At December 31, 2006, the carrying value and fair value of held-to-maturity securities totaled $1,475 million and $1,627 million, respectively. Unrealized losses at September 30, 2007 and December 31, 2006 included $66 million and $69 million, respectively, related to securities that have been in an unrealized loss position for 12 months or more. Berkshire has the ability and intent to hold these securities until fair value recovers.

Note 4. Investments in equity securities

Data with respect to investments in equity securities are shown in the tabulation below (in millions).

	September 30, 2007	December 31, 2006
Total cost	$ 43,813	$ 28,353
Gross unrealized gains	34,344	33,217
Gross unrealized losses	(291)	(37)
Total fair value	$ 77,866	$ 61,533

Unrealized losses at September 30, 2007 and December 31, 2006 consisted primarily of securities whose cost exceeded fair value for less than twelve months.

Note 5. Loans and receivables

Receivables of insurance and other businesses are comprised of the following (in millions).

	September 30, 2007	December 31, 2006
Insurance premiums receivable	$ 4,457	$ 4,418
Reinsurance recoverables	3,157	2,961
Trade and other receivables	6,967	5,884
Allowances for uncollectible accounts	(410)	(382)

	$	14,171	$	12,881

Loans and finance receivables of finance and financial products businesses are comprised of the following (in millions).

		September 30, 2007		December 31, 2006
Consumer installment loans and finance receivables	$	11,014	$	10,325
Commercial loans and finance receivables		1,007		1,336
Allowances for uncollectible loans		(145)		(163)
	$	11,876	$	11,498

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Notes to Interim Consolidated Financial Statements (Continued)

Note 6. Property, plant and equipment of utilities and energy businesses

Property, plant and equipment of utilities and energy businesses follow (in millions).

	Ranges of estimated useful life	September 30, 2007	December 31, 2006
Cost:			
Utility generation and distribution system	5-85 years	$ 29,679	$ 27,687
Interstate pipeline assets	3-67 years	5,375	5,329
Independent power plants and other assets	3-30 years	1,326	1,770
Construction in progress		1,810	1,969
		38,190	36,755
Accumulated depreciation and amortization		(12,646)	(12,716)
		$ 25,544	$ 24,039

The utility generation and distribution system and interstate pipeline assets are the regulated assets of public utility and natural gas pipeline subsidiaries. At September 30, 2007 and December 31, 2006, accumulated depreciation and amortization related to regulated assets totaled $12.2 billion and $11.9 billion, respectively. Substantially all of the construction in progress at September 30, 2007 and December 31, 2006 relates to the construction of regulated assets.

Note 7. Inventories

Inventories are comprised of the following (in millions).

	September 30, 2007	December 31, 2006
Raw materials	$ 892	$ 700
Work in process and other	486	402
Finished manufactured goods	1,766	1,817
Purchased goods	2,784	2,338
	$ 5,928	$ 5,257

Note 8. Income taxes, principally deferred

A summary of income tax liabilities follows (in millions).

	September 30, 2007	December 31, 2006
Payable currently	$ 1,247	$ 189
Deferred	19,352	18,271
Other	918	710

	$	21,517	$	19,170

Berkshire and its subsidiaries income tax returns are continuously under audit by Federal and various state, local and foreign taxing authorities. Berkshire s consolidated Federal income tax return liabilities have been settled with the Internal Revenue Service (IRS) through 1998. The IRS has completed its audits of the 1999 through 2004 tax returns and has proposed adjustments to increase Berkshire s tax liabilities which Berkshire has protested. The examinations are in the IRS appeals process. The unsettled issues primarily relate to the timing of deductions for unpaid losses and loss adjustment expenses and other liabilities of property and casualty insurance subsidiaries. Berkshire does not currently believe that the potential audit adjustments will have a material effect on its Consolidated Financial Statements. See Note 14 for additional information regarding Berkshire s estimated liabilities for uncertainties/unrecognized tax benefits which are shown as other in the preceding table above.

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Notes to Interim Consolidated Financial Statements (Continued)

Note 9. Notes payable and other borrowings

Notes payable and other borrowings of Berkshire and its subsidiaries are summarized below (in millions).

	September 30, 2007	December 31, 2006
Insurance and other:		
Issued by parent company due 2007-2033	$ 591	$ 894
Issued by subsidiaries and guaranteed by Berkshire:		
Commercial paper and other short-term borrowings	1,254	1,355
Other debt due 2009-2035	240	240
Issued by subsidiaries and not guaranteed by Berkshire due 2007-2041	1,002	1,209
	$ 3,087	$ 3,698
Utilities and energy:		
Issued by MidAmerican and not guaranteed by Berkshire:		
MidAmerican senior unsecured debt due 2007-2037	$ 6,020	$ 4,479
Operating subsidiary and project debt due 2007-2037	13,069	12,014
Other	304	453
	$ 19,393	$ 16,946
Finance and financial products:		
Issued by Berkshire Hathaway Finance Corporation (BHFC) and guaranteed by Berkshire:		
Notes due 2007	$	$ 700
Notes due 2008	3,099	3,098
Notes due 2010	1,995	1,994
Notes due 2012-2015	3,790	3,039
Issued by other subsidiaries and guaranteed by Berkshire due 2007-2027	852	398
Issued by other subsidiaries and not guaranteed by Berkshire due 2007-2030	2,508	2,732
	$ 12,244	$ 11,961

During the first nine months of 2007, MidAmerican issued $2.95 billion par amount of bonds and senior notes with maturities ranging from 2012 to 2037. The proceeds were used to repay existing debt or otherwise are intended to be used to repay debt maturing subsequent to September 30, 2007, to finance planned capital expenditures or for general corporate purposes. During the third quarter of 2007, BHFC issued $750 million of senior notes due in 2012. The proceeds will be used to provide financing for installment loans issued or acquired by a subsidiary of Clayton Homes.

Note 10. Common stock

The following table summarizes Berkshire s common stock activity during the first nine months of 2007.

	Class A common stock (1,650,000 shares authorized) Issued and Outstanding	Class B common stock (55,000,000 shares authorized) Issued and Outstanding
Balance at December 31, 2006	1,117,568	12,752,431
Issuance of shares on exercise of SQUARZ warrants	2,325	41,706
Conversions of Class A common stock to Class B common stock and other	(31,353)	974,219
Balance at September 30, 2007	1,088,540	13,768,356

Each share of Class A common stock is convertible, at the option of the holder, into thirty shares of Class B common stock. Class B common stock is not convertible into Class A common stock. Class B common stock has economic rights equal to one-thirtieth (1/30) of the economic rights of Class A common stock. Accordingly, on an equivalent Class A common stock basis, there are 1,547,485 shares outstanding at September 30, 2007 and 1,542,649 shares outstanding at December 31, 2006. Each Class A common share is entitled to one vote per share. Each Class B common share possesses the voting rights of one-two-hundredth (1/200) of the voting rights of a Class A share. Class A and Class B common shares vote together as a single class.

During 2007, holders of all outstanding SQUARZ securities exercised the warrant component of the securities and received Class A and Class B shares. In connection with these exercises, Berkshire received $333 million.

Notes to Interim Consolidated Financial Statements (Continued)

Note 11. Comprehensive income

Berkshire s comprehensive income for the third quarter and first nine months of 2007 and 2006 is shown in the table below (in millions).

	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Net earnings	$ 4,553	$ 2,772	$ 10,266	$ 7,432
Other comprehensive income:				
Increase (decrease) in unrealized appreciation of investments	(236)	2,740	535	4,106
Applicable income taxes and minority interests	71	(973)	(199)	(1,451)
Other	269	93	534	478
Applicable income taxes and minority interests	(45)	(23)	(104)	(84)
	59	1,837	766	3,049
Comprehensive income	$ 4,612	$ 4,609	$ 11,032	$ 10,481

Note 12. Equitas reinsurance agreement

In November 2006, the Berkshire Hathaway Reinsurance Group s lead insurance entity, National Indemnity Company (NICO) and Equitas, a London based entity established to reinsure and manage the 1992 and prior years non-life insurance and reinsurance liabilities of the Names or Underwriters at Lloyd s of London, entered into an agreement for NICO to initially provide up to $5.7 billion and potentially provide up to an additional $1.3 billion of reinsurance to Equitas in excess of its undiscounted loss and allocated loss adjustment expense reserves as of March 31, 2006. The transaction became effective on March 30, 2007.

NICO received substantially all of Equitas assets as consideration under the arrangement. The fair value of such consideration was $7.1 billion and included approximately $540 million in cash and miscellaneous receivables plus a combination of fixed maturity and equity securities which were delivered in April 2007. The cash and miscellaneous receivables received are included in the accompanying Condensed Consolidated Statement of Cash Flows for 2007 as components of operating cash flows. The investment securities received are reported as a non-cash investing activity.

Under the transaction, NICO has agreed to pay all claims and related costs that arise from the underlying insurance and reinsurance contracts of Equitas, subject to the aforementioned aggregate limit of indemnification. On the effective date, the aggregate limit of indemnification, which does not include unallocated loss adjustment expenses, was $13.8 billion.

The Equitas agreement was accounted for as reinsurance in accordance with SFAS No. 113 Accounting for short duration and long duration reinsurance contracts. Accordingly, premiums earned of $7.1 billion and losses incurred of $7.1 billion were reflected in the Consolidated Statement of Earnings for the first quarter of 2007. Losses incurred consisted of an estimated liability for unpaid losses and loss adjustment expenses of $9.3 billion less an asset for unamortized deferred charges on reinsurance assumed of $2.2 billion. The deferred charge asset is being amortized over the expected remaining loss settlement period using the interest method and the periodic amortization is being charged to earnings as a component of losses and loss adjustment expenses incurred.

Note 13. Pension plans

The components of net periodic pension expense for the third quarter and first nine months of 2007 and 2006 are as follows (in millions).

	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Service cost	$ 49	$ 65	$ 150	$ 151
Interest cost	110	105	329	281
Expected return on plan assets	(114)	(102)	(332)	(286)
Amortization of prior service costs and gains/losses	16	20	50	54
	$ 61	$ 88	$ 197	$ 200

Notes to Interim Consolidated Financial Statements (Continued)

Note 14. Accounting pronouncements adopted during 2007

Berkshire adopted FASB Interpretation No.48 Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48) as of January 1, 2007. Under FIN 48, a tax position taken is recognized if it is determined that the position will more-likely-than-not be sustained upon examination. FIN 48 also establishes measurement guidance with respect to positions that have met the recognition threshold. Upon adoption of FIN 48, Berkshire increased its aggregate income tax liability by $12 million. The cumulative net effect of adopting FIN 48 was recorded as a reduction to retained earnings of $24 million, partially offset by adjustments to items that are not recognized in net earnings. As of January 1, 2007, the income tax liability for uncertainties/unrecognized tax benefits was $857 million, which included interest and penalties of $124 million. As of the adoption date, the liability included $672 million which if recognized would have an impact on Berkshire s effective tax rate. Berkshire classifies interest and penalties associated with income tax liabilities as a component of income tax expense.

Berkshire adopted FASB Staff Position No. AUG AIR-1, Accounting for Planned Major Maintenance Activities (AUG AIR-1) in the first quarter of 2007. AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in which such maintenance costs are ratably recognized by accruing a liability in periods before the maintenance is performed. Upon the adoption of AUG AIR-1, Berkshire elected to use the direct expense method where maintenance costs are expensed as incurred. Previously, certain maintenance costs related to the fractional aircraft ownership business were accrued in advance. As of January 1, 2007, accrued liabilities of $83 million were reduced to zero and the cumulative net after-tax effect of $52 million was recorded as a credit to retained earnings. AUG AIR-1 is to be applied retrospectively. However, the net impact of retrospectively adopting AUG AIR-1 was not significant in each of the past three years and in the aggregate. Accordingly, Berkshire s Consolidated Financial Statements for prior periods have not been restated.

Note 15. Accounting pronouncements to be adopted in the future

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions. SFAS 157 further expands disclosures about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and may be adopted earlier but only if the adoption is in the first quarter of the fiscal year.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and may be adopted earlier but only if the adoption is in the first quarter of the fiscal year.

Berkshire is continuing to evaluate the impact that the adoption of SFAS 157 and SFAS 159 will have on its consolidated financial statements but currently does not anticipate that the adoption of these accounting pronouncements will have a material effect on its consolidated financial position.

Note 16. Contingencies

Berkshire and its subsidiaries are parties in a variety of legal actions arising out of the normal course of business. In particular, such legal actions affect Berkshire s insurance and reinsurance businesses. Such litigation generally seeks to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. Berkshire does not believe that such normal and routine litigation will have a material effect on its financial condition or results of operations. Berkshire and certain of its subsidiaries are also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties in substantial amounts.

a) <u>Governmental Investigations</u>

Berkshire, General Re Corporation (General Re) and certain of Berkshire s insurance subsidiaries, including General Reinsurance Corporation (General Reinsurance) and National Indemnity Company (NICO) have been continuing to cooperate fully with the U.S. Securities and Exchange Commission (SEC), the U.S. Department of Justice, the U.S.

Notes to Interim Consolidated Financial Statements (Continued)

Note 16. Contingencies (Continued)

Attorney for the Eastern District of Virginia and the New York State Attorney General (NYAG) in their ongoing investigations of non-traditional products. General Re originally received subpoenas from the SEC and NYAG in January 2005. Berkshire, General Re, General Reinsurance and NICO have been providing information to the government relating to transactions between General Reinsurance or NICO (or their respective subsidiaries or affiliates) and other insurers in response to the January 2005 subpoenas and related requests and, in the case of General Reinsurance (or its subsidiaries or affiliates), in response to subpoenas from other U.S. Attorneys conducting investigations relating to certain of these transactions. In particular, Berkshire and General Re have been responding to requests from the government for information relating to certain transactions that may have been accounted for incorrectly by counterparties of General Reinsurance (or its subsidiaries or affiliates). Berkshire understands that the government is evaluating the actions of General Re and its subsidiaries, as well as those of their counterparties, to determine whether General Re or its subsidiaries conspired with others to misstate counterparty financial statements or aided and abetted such misstatements by the counterparties. The government has interviewed a number of current and former officers and employees of General Re and General Reinsurance as well as Berkshire s Chairman and CEO, Warren E. Buffett, in connection with these investigations.

In one case, a transaction initially effected with American International Group (AIG) in late 2000 (the AIG Transaction), AIG has corrected its prior accounting for the transaction on the grounds, as stated in AIG s 2004 10-K, that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer to support reinsurance accounting. General Reinsurance has been named in related civil actions brought against AIG. As part of their ongoing investigations, governmental authorities have also inquired about the accounting by certain of Berkshire s insurance subsidiaries for certain assumed and ceded finite reinsurance transactions.

In June 2005, John Houldsworth, the former Chief Executive Officer of Cologne Reinsurance Company (Dublin) Limited (CRD), a subsidiary of General Re, and Richard Napier, a former Senior Vice President of General Re who had served as an account representative for the AIG account, each pleaded guilty to a federal criminal charge of conspiring with others to misstate certain AIG financial statements in connection with the AIG Transaction and entered into a partial settlement agreement with the SEC with respect to such matters. In addition, Ronald Ferguson, General Re s former Chief Executive Officer, Elizabeth Monrad, General Re s former Chief Financial Officer, Christopher Garand, a former General Reinsurance Senior Vice President and Robert Graham, a former General Reinsurance Senior Vice President and Assistant General Counsel are awaiting trial in the U.S. District Court for the District of Connecticut on charges of conspiracy to violate securities laws and to commit mail fraud, securities fraud, making false statements to the SEC and mail fraud in connection with the AIG Transaction. The trial is currently set to begin on January 7, 2008. Each has pleaded not guilty to all charges. Each of these individuals, who had previously received a Wells notice in 2005 from the SEC, is also the subject of an SEC enforcement action for allegedly aiding and abetting AIG s violations of the antifraud provisions and other provisions of the federal securities laws in connection with the AIG Transaction. The SEC case is presently stayed. Joseph Brandon, the Chief Executive Officer of General Re, also received a Wells notice from the SEC in 2005.

Various state insurance departments have issued subpoenas or otherwise requested that General Reinsurance, NICO and their affiliates provide documents and information relating to non-traditional products. The Office of the Connecticut Attorney General has also issued a subpoena to General Reinsurance for information relating to non-traditional products. General Reinsurance, NICO and their affiliates have been cooperating fully with these subpoenas and requests.

Kolnische Ruckversicherungs-Gesellschaft AG (Cologne Re) is cooperating fully with requests for information and orders to produce documents from the German Federal Financial Supervisory Authority regarding the activities of Cologne Re relating to finite reinsurance and regarding transactions between Cologne Re or its subsidiaries, including CRD, and certain counterparties.

In April 2005, the Australian Prudential Regulation Authority (APRA) announced an investigation involving financial or finite reinsurance transactions by General Reinsurance Australia Limited (GRA), a subsidiary of General

Reinsurance. An inspector was appointed by APRA under section 52 of the Insurance Act 1973 to conduct an investigation of GRA s financial or finite reinsurance business. GRA and General Reinsurance cooperated fully with this investigation. On June 28, 2007, APRA announced that it had concluded its investigation and imposed a condition on GRA s license that requires it to maintain a majority of independent directors on its local board.

CRD is also providing information to and cooperating fully with the Irish Financial Services Regulatory Authority in its inquiries regarding the activities of CRD. The Office of the Director of Corporate Enforcement in Ireland is conducting a preliminary evaluation in relation to CRD concerning, in particular, transactions between CRD and AIG. CRD is cooperating fully with this preliminary evaluation.

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Notes to Interim Consolidated Financial Statements (Continued)

Note 16. Contingencies (Continued)

Berkshire cannot at this time predict the outcome of these matters and is unable to estimate a range of possible loss and cannot predict whether or not the outcomes will have a material adverse effect on Berkshire s business or results of operations for at least the quarterly period when these matters are completed or otherwise resolved.

b) Civil Litigation

Reference is made to Note 21 to the Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2006 for detailed discussion of such actions. Material developments related to such actions since December 31, 2006 are discussed below.

Insurance Brokerage Antitrust Litigation Berkshire, General Re and General Reinsurance were named as defendants in this multidistrict litigation (In Re: Insurance Brokerage Antitrust Litigation, MDL No. 1663 (D.N.J.)) in which plaintiffs alleged an industry-wide scheme on the part of commercial insurance brokers and insurance companies to defraud a purported class of insurance purchasers through bid-rigging and contingent commission arrangements. On April 5, 2007, the Court dismissed all federal antitrust and RICO claims against Berkshire, General Re and General Reinsurance. On May 21, 2007, the plaintiffs concluded a settlement agreement with Berkshire, General Re and General Reinsurance that fully and finally resolved this litigation, as between these settling parties, without payment or admission of any liability on the part of these settling defendants.

Note 17. Business segment data

Berkshire s consolidated segment data for the third quarter and first nine months of 2007 and 2006 is as follows (in millions).

	Revenues			
	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Operating Businesses:				
Insurance group:				
Premiums earned:				
GEICO	$ 2,999	$ 2,816	$ 8,796	$ 8,191
General Re	1,491	1,493	4,587	4,414
Berkshire Hathaway Reinsurance Group	1,033	1,570	10,635	3,735
Berkshire Hathaway Primary Group	497	480	1,466	1,377
Investment income	1,220	1,107	3,554	3,240
Total insurance group	7,240	7,466	29,038	20,957
Finance and financial products	1,343	1,256	3,917	3,823
McLane Company	7,293	6,671	20,849	19,069
MidAmerican	3,150	2,849	9,483	7,730
Shaw Industries	1,392	1,515	4,084	4,493
Other businesses	6,515	5,531	18,681	15,208
	26,933	25,288	86,052	71,280
Reconciliation of segments to consolidated amount:				
Investment and derivative gains/losses	3,063	267	4,579	1,531
Eliminations and other	(59)	(195)	(429)	(503)
	$ 29,937	$ 25,360	$ 90,202	$ 72,308

Notes to Interim Consolidated Financial Statements (Continued)

Note 17. Business segment data (Continued)

	Earnings before taxes and minority interests			
	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Operating Businesses:				
Insurance group:				
Underwriting:				
GEICO	$ 335	$ 407	$ 955	$ 1,006
General Re	157	177	417	357
Berkshire Hathaway Reinsurance Group	183	735	1,092	966
Berkshire Hathaway Primary Group	77	108	189	186
Net investment income	1,217	1,103	3,531	3,223
Total insurance group	1,969	2,530	6,184	5,738
Finance and financial products	273	282	792	876
McLane Company	50	50	180	161
MidAmerican	481	416	1,366	1,112
Shaw Industries	125	138	327	462
Other businesses	895	686	2,431	1,787
	3,793	4,102	11,280	10,136
Reconciliation of segments to consolidated amount:				
Investment and derivative gains/losses	3,063	267	4,579	1,531
Interest expense, excluding interest allocated to business segments	(14)	(21)	(41)	(60)
Eliminations and other	5	(47)	(83)	(91)
	$ 6,847	$ 4,301	$ 15,735	$ 11,516

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net earnings for the third quarter and first nine months of 2007 and 2006 are disaggregated in the table that follows. Amounts are after deducting minority interests and income taxes. Amounts are in millions.

	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Insurance underwriting	$ 486	$ 917	$ 1,719	$ 1,618
Insurance investment income	922	759	2,532	2,244
Utilities and energy	354	261	878	652
Manufacturing, service and retailing	647	534	1,738	1,466
Finance and financial products	171	183	499	555
Other	(19)	(56)	(82)	(97)
Investment and derivative gains/losses	1,992	174	2,982	994
Net earnings	$ 4,553	$ 2,772	$ 10,266	$ 7,432

Berkshire s operating businesses are managed on an unusually decentralized basis. There are essentially no centralized or integrated business functions (such as sales, marketing, purchasing, legal or human resources) and there is minimal involvement by Berkshire s corporate headquarters in the day-to-day business activities of the operating businesses. Berkshire s corporate office management participates in and is ultimately responsible for significant capital allocation decisions, investment activities and the selection of the Chief Executive to head each of the operating businesses. The business segment data (Note 17 to the Interim Consolidated Financial Statements) should be read in conjunction with this discussion.

Insurance Underwriting

Underwriting results from Berkshire s insurance businesses for the third quarter and first nine months of 2007 and 2006 are summarized below. Amounts are in millions.

	Third Quarter		First Nine Months	
	2007	2006	2007	2006
Underwriting gain/loss attributable to:				
GEICO	$ 335	$ 407	$ 955	$ 1,006
General Re	157	177	417	357
Berkshire Hathaway Reinsurance Group	183	735	1,092	966
Berkshire Hathaway Primary Group	77	108	189	186
Underwriting gain/loss pre-tax	752	1,427	2,653	2,515
Income taxes and minority interests	266	510	934	