

BERKSHIRE HATHAWAY INC

Form 10-Q

May 04, 2007

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

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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 NO

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 Accelerated filer Non-accelerated filer

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

Number of shares of common stock outstanding as of April 27, 2007:

Class A 1,087,256

Class B 13,674,167

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Part I Financial Information
Item 1. Financial Statements

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

	March 31, 2007	December 31, 2006
	(Unaudited)	
ASSETS		
<i>Insurance and Other:</i>		
Cash and cash equivalents	\$ 39,580	\$ 37,977
Investments:		
Fixed maturity securities	21,606	25,300
Equity securities	65,065	61,533
Other	834	905
Receivables	20,336	12,881
Inventories	5,437	5,257
Property, plant and equipment	9,514	9,303
Goodwill	26,042	25,678
Deferred charges reinsurance assumed	4,163	1,964
Other	6,703	6,538
	199,280	187,336
 <i>Utilities and Energy:</i>		
Cash and cash equivalents	950	343
Property, plant and equipment	24,574	24,039
Goodwill	5,554	5,548
Other	6,531	6,560
	37,609	36,490
 <i>Finance and Financial Products:</i>		
Cash and cash equivalents	5,497	5,423
Investments in fixed maturity securities	2,959	3,012
Loans and finance receivables	11,675	11,498
Goodwill	1,014	1,012
Other	3,644	3,666
	24,789	24,611
	\$ 261,678	\$ 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)

Q/E 3/31/07

	March 31, 2007	December 31, 2006
	(Unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Insurance and Other:</i>		
Losses and loss adjustment expenses	\$ 56,886	\$ 47,612
Unearned premiums	7,755	7,058
Life and health insurance benefits	3,707	3,600
Other policyholder liabilities	3,819	3,938
Accounts payable, accruals and other liabilities	9,487	9,654
Income taxes, principally deferred	19,665	19,170
Notes payable and other borrowings	3,154	3,698
	104,473	94,730
<i>Utilities and Energy:</i>		
Accounts payable, accruals and other liabilities	6,680	6,693
Notes payable and other borrowings	17,581	16,946
	24,261	23,639
<i>Finance and Financial Products:</i>		
Derivative contract liabilities	4,929	3,883
Accounts payable, accruals and other liabilities	3,473	3,543
Notes payable and other borrowings	12,288	11,961
	20,690	19,387
Total liabilities	149,424	137,756
Minority shareholders' interests	2,363	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	26,549	26,522
Accumulated other comprehensive income	21,799	22,977
Retained earnings	61,535	58,912
Total shareholders' equity	109,891	108,419

\$ 261,678 \$ 248,437

See accompanying Notes to Interim Consolidated Financial Statements

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FORM 10-Q
BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED STATEMENTS OF EARNINGS
(dollars in millions except per share amounts)

Q/E 3/31/07

	2007	First Quarter (Unaudited)	2006
Revenues:			
<i>Insurance and Other:</i>			
Insurance premiums earned	\$ 13,514		\$ 5,522
Sales and service revenues	13,223		11,992
Interest, dividend and other investment income	1,120		1,031
Investment gains/losses	442		442
	28,299		18,987
<i>Utilities and Energy:</i>			
Operating revenues	3,224		2,055
Other	49		138
	3,273		2,193
<i>Finance and Financial Products:</i>			
Interest income	421		398
Investment gains/losses	1		7
Derivative gains/losses	143		354
Other	781		824
	1,346		1,583
	32,918		22,763
Costs and expenses:			
<i>Insurance and Other:</i>			
Insurance losses and loss adjustment expenses	10,859		3,350
Life and health insurance benefits	435		415
Insurance underwriting expenses	1,293		1,246
Cost of sales and services	10,865		9,983
Selling, general and administrative expenses	1,641		1,378
Interest expense	43		44
	25,136		16,416

Utilities and Energy:

Cost of sales and operating expenses	2,488	1,594
Interest expense	272	181
	2,760	1,775

Finance and Financial Products:

Interest expense	148	137
Other	802	822
	950	959
	28,846	19,150

Earnings before income taxes and minority interests

Income taxes	4,072	3,613
Minority shareholders' interests	1,388	1,242
	89	58

Net earnings	\$ 2,595	\$ 2,313
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Average common shares outstanding *	1,542,809	1,540,935
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Net earnings per common share *	\$ 1,682	\$ 1,501
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* 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

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BERKSHIRE HATHAWAY INC.
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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

Q/E 3/31/07

	First Quarter	
	2007	2006
	(Unaudited)	
Net cash flows from operating activities	\$ 4,625	\$ 2,359
Cash flows from investing activities:		
Purchases of fixed maturity securities	(1,476)	(2,942)
Purchases of equity securities	(5,310)	(1,529)
Sales of fixed maturity securities	891	792
Redemptions and maturities of fixed maturity securities	4,713	2,725
Sales of equity securities	401	826
Purchases of loans and finance receivables	(157)	(105)
Principal collections on loans and finance receivables	190	222
Acquisitions of businesses, net of cash acquired	(870)	(5,463)
Purchases of property, plant and equipment	(1,228)	(747)
Other	98	83
Net cash flows from investing activities	(2,748)	(6,138)
Cash flows from financing activities:		
Proceeds from borrowings of finance businesses	400	18
Proceeds from borrowings of utilities and energy businesses	751	1,702
Proceeds from other borrowings	29	68
Repayments of borrowings of finance businesses	(66)	(165)
Repayments of borrowings of utilities and energy businesses	(38)	(34)
Repayments of other borrowings	(512)	(108)
Change in short term borrowings	(178)	44
Other	21	94
Net cash flows from financing activities	407	1,619
Increase (decrease) in cash and cash equivalents	2,284	(2,160)
Cash and cash equivalents at beginning of year *	43,743	45,018
Cash and cash equivalents at end of first quarter *	\$ 46,027	\$ 42,858

Supplemental cash flow information:

Cash paid during the period for:

Income taxes	\$	258	\$	289
Interest of finance and financial products businesses		147		139
Interest of utilities and energy businesses		243		175
Interest of insurance and other businesses		52		55

* Cash and cash equivalents are comprised of the following:

Beginning of year

<i>Insurance and Other</i>	\$	37,977	\$	40,471
<i>Utilities and Energy</i>		343		358
<i>Finance and Financial Products</i>		5,423		4,189
	\$	43,743	\$	45,018

End of first quarter

<i>Insurance and Other</i>	\$	39,580	\$	37,675
<i>Utilities and Energy</i>		950		709
<i>Finance and Financial Products</i>		5,497		4,474
	\$	46,027	\$	42,858

See accompanying Notes to Interim Consolidated Financial Statements

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FORM 10-Q
BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007

Q/E 3/31/07

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. 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, headquartered in Israel, 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 the full scope of 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 for these three businesses was approximately \$1.4 billion. On March 30, 2007, Berkshire completed the acquisition of TTI, Inc., a privately held electronic component distributor headquartered in Fort Worth, Texas. TTI, Inc. is a leading distributor specialist of passive, interconnect electromechanical components.

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 three 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 quarter of 2007 were not materially different from the amounts reported. Amounts are in millions, except earnings per share.

	2006
Total revenues	\$24,747

Net earnings		2,368
Earnings per equivalent Class A common share		1,537
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Data with respect to investments in fixed maturity securities follows (in millions).

	Insurance and other		Finance and financial products	
	Mar. 31, 2007	Dec. 31, 2006	Mar. 31, 2007	Dec. 31, 2006
Amortized cost	\$ 20,231	\$ 23,796	\$ 1,368	\$ 1,439
Gross unrealized gains	1,496	1,636	110	102
Gross unrealized losses	(121)	(132)	(3)	(4)
Fair value	\$ 21,606	\$ 25,300	\$ 1,475	\$ 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 \$1,484 million and \$1,652 million at March 31, 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 March 31, 2007 and December 31, 2006 included \$84 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).

	March 31, 2007	December 31, 2006
Total cost	\$ 33,632	\$ 28,353
Gross unrealized gains	31,582	33,217
Gross unrealized losses	(149)	(37)
Total fair value	\$ 65,065	\$ 61,533

Unrealized losses at March 31, 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).

	March 31, 2007	December 31, 2006
Insurance premiums receivable	\$ 11,641*	\$ 4,418
Reinsurance recoverables	3,038	2,961
Trade and other receivables	6,060	5,884
Allowances for uncollectible accounts	(403)	(382)
	\$ 20,336	\$ 12,881

* *Includes \$6.9 billion received from Equitas in April 2007. See Note 11 for additional information.*

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

	March 31, 2007	December 31, 2006
Consumer installment loans and finance receivables	\$ 10,509	\$ 10,325
Commercial loans and finance receivables	1,324	1,336
Allowances for uncollectible loans	(158)	(163)
	\$ 11,675	\$ 11,498

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

	Ranges of estimated useful life	March 31, 2007	December 31, 2006
Cost:			
Utility generation and distribution system	5-85 years	\$ 27,970	\$ 27,687
Interstate pipeline assets	3-67 years	5,312	5,329
Independent power plants and other assets	3-30 years	1,797	1,770
Construction in progress		2,431	1,969
		37,510	36,755

Accumulated depreciation and amortization