

BERKSHIRE HATHAWAY INC

Form 10-Q

May 05, 2006

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

(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, 2006

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). 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 28, 2006:

Class A 1,259,258

Class B 8,464,000

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FORM 10-Q **Q/E 3/31/06**
Part I Financial Information
Item 1. Financial Statements
BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in millions)

	March 31, 2006	December 31, 2005	December 31, 2005
	(Unaudited)	(Audited)	(Pro Forma)*
ASSETS			
<i>Insurance and Other:</i>			
Cash and cash equivalents	\$ 37,675	\$ 40,471	\$ 40,471
Investments:			
Fixed maturity securities	27,002	27,420	27,420
Equity securities	49,788	46,721	46,721
Other	1,012	1,003	1,003
Receivables	13,097	12,397	12,372
Inventories	4,227	4,143	4,143
Property, plant and equipment	7,705	7,500	7,500
Goodwill	23,101	22,693	22,693
Deferred charges reinsurance assumed	2,297	2,388	2,388
Other	5,045	4,937	4,937
	170,949	169,673	169,648
<i>Utilities and Energy:</i>			
Cash and cash equivalents	709		358
Property, plant and equipment	22,057		11,915
Goodwill	5,449		4,156
Other	6,680		3,764
Investments in MidAmerican Energy Holdings Company		4,125	
	34,895	4,125	20,193
<i>Finance and Financial Products:</i>			
Cash and cash equivalents	4,474	4,189	4,189
Investments in fixed maturity securities	3,255	3,435	3,435
Loans and finance receivables	11,237	11,087	11,087
Goodwill	951	951	951
Other	4,445	4,865	4,865
	24,362	24,527	24,527
	\$ 230,206	\$ 198,325	\$ 214,368

* *The Pro Forma Balance Sheet gives effect to the conversion on February 9, 2006 of MidAmerican Energy Holdings Company (MidAmerican) non-voting cumulative convertible preferred stock into MidAmerican voting common stock as if such conversion had occurred on December 31, 2005. See Note 2 to the Interim Consolidated Financial Statements for additional information.*

See accompanying Notes to Interim Consolidated Financial Statements

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

Q/E 3/31/06

	March 31, 2006	December 31, 2005	December 31, 2005
	(Unaudited)	(Audited)	(Pro Forma)*
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Insurance and Other:</i>			
Losses and loss adjustment expenses	\$ 47,590	\$ 48,034	\$ 48,034
Unearned premiums	7,496	6,206	6,206
Life and health insurance benefits	3,288	3,202	3,202
Other policyholder liabilities	3,840	3,769	3,769
Accounts payable, accruals and other liabilities	8,048	8,699	8,699
Income taxes, principally deferred	17,084	12,252	13,649
Notes payable and other borrowings	3,564	3,583	3,583
	90,910	85,745	87,142
 <i>Utilities and Energy:</i>			
Accounts payable, accruals and other liabilities	6,916		3,780
Notes payable and other borrowings	16,094		10,296
	23,010		14,076
 <i>Finance and Financial Products:</i>			
Derivative contract liabilities	4,360	5,061	5,061
Notes payable and other borrowings	10,821	10,868	10,868
Other	4,017	4,351	4,351
	19,198	20,280	20,280
Total liabilities	133,118	106,025	121,498
Minority shareholders' interests	1,739	816	1,386
 Shareholders' equity:			
Common stock - Class A, \$5 par value; Class B, \$0.1667 par value	8	8	8
Capital in excess of par value	26,424	26,399	26,399
Accumulated other comprehensive income	18,707	17,360	17,360
Retained earnings	50,210	47,717	47,717
Total shareholders' equity	95,349	91,484	91,484

\$ 230,206 \$ 198,325 \$ 214,368

* *The Pro Forma Balance Sheet gives effect to the conversion on February 9, 2006 of MidAmerican Energy Holdings Company (MidAmerican) non-voting cumulative convertible preferred stock into MidAmerican voting common stock as if such conversion had occurred on December 31, 2005. See Note 2 to the Interim Consolidated Financial Statements for additional information.*

See accompanying Notes to Interim Consolidated Financial Statements

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

Q/E 3/31/06

	First Quarter	
	2006	2005
	(Unaudited)	
Revenues:		
<i>Insurance and Other:</i>		
Insurance premiums earned	\$ 5,522	\$ 5,331
Sales and service revenues	11,992	10,607
Interest, dividend and other investment income	1,031	786
Investment gains	442	278
	18,987	17,002
<i>Utilities and Energy:</i>		
Operating revenue	2,055	
Other revenue	138	
	2,193	
<i>Finance and Financial Products:</i>		
Interest income	398	368
Investment gains/losses	7	(18)
Derivative gains/losses	354	(377)
Other	824	659
	1,583	632
	22,763	17,634
Costs and expenses:		
<i>Insurance and Other:</i>		
Insurance losses and loss adjustment expenses	3,765	3,544
Insurance underwriting expenses	1,246	1,295
Cost of sales and services	9,983	8,834
Selling, general and administrative expenses	1,378	1,291
Interest expense	44	30
	16,416	14,994
<i>Utilities and Energy:</i>		
Cost of sales and operating expenses	1,594	

Interest expense	181	
	1,775	
Finance and Financial Products:		
Interest expense	137	136
Other	822	672
	959	808
	19,150	15,802
Earnings before income taxes and equity in earnings of MidAmerican Energy Holdings Company	3,613	1,832
Equity in earnings of MidAmerican Energy Holdings Company		141
Earnings before income taxes and minority interests	3,613	1,973
Income taxes	1,242	600
Minority shareholders' interests	58	10
Net earnings	\$ 2,313	\$ 1,363
Average common shares outstanding *	1,540,935	1,539,100
Net earnings per common share *	\$ 1,501	\$ 886

* *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.
and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

Q/E 3/31/06

	First Quarter	
	2006	2005
	(Unaudited)	
Net cash flows from operating activities	\$ 2,359	\$ 1,359
Cash flows from investing activities:		
Purchases of securities with fixed maturities	(2,942)	(1,491)
Purchases of equity securities	(1,529)	(1,720)
Sales of securities with fixed maturities	792	890
Redemptions and maturities of securities with fixed maturities	2,725	954
Sales of equity securities	826	301
Purchases of loans and finance receivables	(105)	(444)
Principal collections on loans and finance receivables	222	231
Acquisitions of businesses, net of cash acquired	(5,463)	(191)
Purchases of property, plant and equipment	(747)	(303)
Other	83	117
Net cash flows from investing activities	(6,138)	(1,656)
Cash flows from financing activities:		
Proceeds from borrowings of finance businesses	18	3,733
Proceeds from borrowings of utilities and energy businesses	1,702	
Proceeds from other borrowings	68	71
Repayments of borrowings of finance businesses	(165)	(36)
Repayments of borrowings of utilities and energy businesses	(34)	
Repayments of other borrowings	(108)	(223)
Change in short term borrowings	44	3
Other	94	31
Net cash flows from financing activities	1,619	3,579
Increase (decrease) in cash and cash equivalents	(2,160)	3,282
Cash and cash equivalents at beginning of year *	45,018	43,427
Cash and cash equivalents at end of first quarter *	\$ 42,858	\$ 46,709

Supplemental cash flow information:

Cash paid during the period for:

Income taxes	\$ 289	\$ 1,062
Interest of finance and financial products businesses	139	68
Interest of utilities and energy businesses	175	
Interest of insurance and other businesses	55	37

* Cash and cash equivalents are comprised of the following:

Beginning of year

<i>Insurance and Other</i>	\$ 40,471	\$ 40,020
<i>Finance and Financial Products</i>	4,189	3,407
<i>Utilities and Energy</i>	358	
	\$ 45,018	\$ 43,427

End of first quarter

<i>Insurance and Other</i>	\$ 37,675	\$ 44,058
<i>Finance and Financial Products</i>	4,474	2,651
<i>Utilities and Energy</i>	709	
	\$ 42,858	\$ 46,709

See accompanying Notes to Interim Consolidated Financial Statements

FORM 10-Q
BERKSHIRE HATHAWAY INC.
and Subsidiaries
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2006

Q/E 3/31/06

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 2005 have been reclassified to conform with 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 certain instances, as required by 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.

On February 9, 2006, Berkshire Hathaway converted its investment in MidAmerican Energy Holdings Company (MidAmerican) non-voting convertible preferred stock into MidAmerican common stock and upon conversion, owned approximately 83.4% (80.5% diluted) of the voting and economic interest of MidAmerican. Although Berkshire s total economic interests in MidAmerican were unaffected by the conversion, Berkshire now controls MidAmerican for financial reporting purposes. Accordingly, the Condensed Consolidated Balance Sheet as of March 31, 2006 and the Condensed Consolidated Statements of Earnings and Cash Flows for the first three months of 2006 reflect the consolidation of MidAmerican. For periods prior to 2006, Berkshire accounted for its investments in MidAmerican pursuant to the equity method. See Note 2 to these Interim Consolidated Financial Statements. The Condensed Consolidated Statements of Earnings and Cash Flows reflect the consolidation of MidAmerican as of January 1, 2006. Berkshire s share of net earnings of MidAmerican under consolidated financial reporting does not differ from earnings under the equity method.

Due to the significance of this change on Berkshire s Consolidated Financial Statement presentations, an unaudited pro forma balance sheet as of December 31, 2005 has been included on the face of the accompanying Condensed Consolidated Balance Sheets reflecting the consolidation of MidAmerican. Berkshire management believes that such unaudited pro forma information is meaningful and relevant to investors, creditors and other financial statement users.

Note 2. Investments in MidAmerican Energy Holdings Company

MidAmerican owns a combined regulated electric and natural gas utility company in the United States (MidAmerican Energy Company), a regulated electric utility company in the United States (PacifiCorp which was acquired March 21, 2006 see Note 3 to these Interim Consolidated Financial Statements), two interstate natural gas pipeline companies in the United States (Kern River and Northern Natural Gas), two electricity distribution companies in the United Kingdom, a diversified portfolio of domestic and international electric power projects and the second largest residential real estate brokerage firm in the United States (HomeServices). Collectively this group of businesses is referred to as Berkshire s utilities and energy businesses.

During 2005, Berkshire possessed the ability to exercise significant influence on the operations of MidAmerican through its investments in common and convertible preferred stock of MidAmerican. The convertible preferred stock,

although generally non-voting, was substantially an identical subordinate interest to a share of common stock and economically equivalent to common stock. Therefore, during this period, Berkshire accounted for its investments in MidAmerican pursuant to the equity method. Reference is made to Note 2 to the Consolidated Financial Statements for the year ending December 31, 2005 included in Berkshire's most recent Annual Report on Form 10-K for additional information regarding this investment.

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Notes To Interim Consolidated Financial Statements (Continued)**Note 2. Investments in MidAmerican Energy Holdings Company (Continued)**

As indicated in Note 1 to these Interim Consolidated Financial Statements, Berkshire commenced consolidation of MidAmerican in 2006 as a result of converting its non-voting preferred stock of MidAmerican into voting common stock of MidAmerican on February 9, 2006. However, no changes in MidAmerican's operations, management or capital structure occurred as a result of the conversion. MidAmerican's debt is currently not guaranteed by Berkshire. However, Berkshire has made a commitment that would allow MidAmerican to request up to \$3.5 billion of capital from Berkshire to pay its debt obligations or make investments in its regulated subsidiaries. The commitment expires in 2011. In addition, Berkshire purchased newly issued common shares of MidAmerican for \$3.4 billion in March 2006 and increased its voting and economic interests in MidAmerican to 88.2% (86.6% on a diluted basis).

A condensed consolidated balance sheet of MidAmerican as of December 31, 2005 follows (in millions).

Assets		Liabilities and shareholders' equity	
Properties, plants, and equipment, net	\$ 11,915	Debt, except debt owed to Berkshire	\$ 10,296
Goodwill	4,156	Debt owed to Berkshire	1,289
Other assets	4,300	Other liabilities and minority interests	5,401
	\$ 20,371		16,986
		Shareholders' equity	3,385
			\$ 20,371

A condensed consolidated statement of earnings of MidAmerican for the first quarter of 2005 follows (in millions).

	2005
Operating revenue and other income	\$ 1,837
Costs and expenses:	
Cost of sales and operating expenses	1,380
Interest expense—debt held by Berkshire	41
Other interest expense	187
	1,608
Earnings before taxes	229
Income taxes and minority interests	77
Net earnings	\$ 152

Note 3. 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. During the first quarter of 2006, Berkshire completed two business acquisitions. In May 2005, MidAmerican reached a definitive agreement to acquire PacifiCorp, a regulated electric utility providing service to customers in six Western states for approximately \$5.1 billion in cash. The

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acquisition was completed on March 21, 2006. On February 28, 2006, Berkshire completed the acquisition of Business Wire, a leading global distributor of corporate news, multimedia and regulatory filings.

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 quarter of 2006 and 2005, as if each acquisition was consummated on the same terms at the beginning of each year. Amounts are in millions, except per share amounts. The earnings data for the first quarter of 2005 also reflects the pro forma consolidation of MidAmerican.

	2006	2005
Total revenues	\$23,850	\$20,491