BERKSHIRE HATHAWAY INC
Form 10-Q
August 02, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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)**

3555 Farnam Street, 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

Number of shares of common stock outstanding as of July 25, 2013:

Class A	868,448
Class B	1,162,977,534

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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)

	June 30, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 31,216	$ 42,358
Investments:		
Fixed maturity securities	28,756	31,449
Equity securities	101,933	86,467
Other investments	29,484	16,057
Receivables	21,956	21,753
Inventories	9,877	9,675
Property, plant and equipment	19,150	19,188
Goodwill	33,178	33,274
Other	18,982	17,875
	294,532	278,096
Railroad, Utilities and Energy:		
Cash and cash equivalents	2,564	2,570
Property, plant and equipment	89,199	87,684
Goodwill	20,158	20,213
Other	14,696	13,441
	126,617	123,908
Finance and Financial Products:		
Cash and cash equivalents	1,915	2,064
Investments in fixed maturity securities	749	842
Other investments	5,235	4,952
Loans and finance receivables	12,855	12,809
Goodwill	1,036	1,036
Other	3,624	3,745
	25,414	25,448
	$ 446,563	$ 427,452
LIABILITIES AND SHAREHOLDERS EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 64,423	$ 64,160
Unearned premiums	11,360	10,237

Life, annuity and health insurance benefits	10,520	10,943
Accounts payable, accruals and other liabilities	21,278	21,149
Notes payable and other borrowings	13,261	13,535
	120,842	120,024
Railroad, Utilities and Energy:		
Accounts payable, accruals and other liabilities	13,186	13,113
Notes payable and other borrowings	37,861	36,156
	51,047	49,269
Finance and Financial Products:		
Accounts payable, accruals and other liabilities	1,067	1,099
Derivative contract liabilities	6,241	7,933
Notes payable and other borrowings	12,831	13,045
	20,139	22,077
Income taxes, principally deferred	49,547	44,494
Total liabilities	241,575	235,864
Shareholders equity:		
Common stock	8	8
Capital in excess of par value	36,101	37,230
Accumulated other comprehensive income	33,565	27,500
Retained earnings	133,705	124,272
Treasury stock, at cost	(1,363)	(1,363)
Berkshire Hathaway shareholders equity	202,016	187,647
Noncontrolling interests	2,972	3,941
Total shareholders equity	204,988	191,588
	$ 446,563	$ 427,452

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.

and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(dollars in millions except per share amounts)

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
	(Unaudited)		(Unaudited)	
Revenues:				
Insurance and Other:				
Insurance premiums earned	$ 8,815	$ 8,428	$ 18,192	$ 16,493
Sales and service revenues	23,873	20,814	46,291	40,078
Interest, dividend and other investment income	1,610	1,420	2,621	2,487
Investment gains/losses	455	102	889	(5)
	34,753	30,764	67,993	59,053
Railroad, Utilities and Energy:				
Operating revenues	8,310	7,769	16,661	15,618
Other	68	41	117	88
	8,378	7,810	16,778	15,706
Finance and Financial Products:				
Interest, dividend and other investment income	342	372	683	747
Investment gains/losses	37	23	108	24
Derivative gains/losses	461	(1,068)	1,667	(66)
Other	722	645	1,331	1,229
	1,562	(28)	3,789	1,934
	44,693	38,546	88,560	76,693
Costs and expenses:				
Insurance and Other:				
Insurance losses and loss adjustment expenses	5,269	4,586	10,413	9,357
Life, annuity and health insurance benefits	1,063	1,351	2,324	2,443
Insurance underwriting expenses	1,657	1,534	3,240	3,651
Cost of sales and services	19,373	16,821	37,657	32,417
Selling, general and administrative expenses	2,926	2,476	5,780	4,904
Interest expense	107	106	208	209
	30,395	26,874	59,622	52,981
Railroad, Utilities and Energy:				
Cost of sales and operating expenses	6,094	5,767	12,205	11,637
Interest expense	452	439	899	867

		6,546		6,206		13,104		12,504
Finance and Financial Products:								
Interest expense		132		151		270		311
Other		729		700		1,378		1,351
		861		851		1,648		1,662
		37,802		33,931		74,374		67,147
Earnings before income taxes		6,891		4,615		14,186		9,546
Income tax expense		2,279		1,384		4,557		2,949
Net earnings		4,612		3,231		9,629		6,597
Less: Earnings attributable to noncontrolling interests		71		123		196		244
Net earnings attributable to Berkshire Hathaway	$	4,541	$	3,108	$	9,433	$	6,353
Average common shares outstanding *		1,643,599		1,651,511		1,643,391		1,651,228
Net earnings per share attributable to Berkshire Hathaway shareholders *	$	2,763	$	1,882	$	5,740	$	3,847

* *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 common share attributable to Berkshire Hathaway shown above represents net earnings per equivalent Class A common share. Net earnings per Class B common share is equal to one-fifteen-hundredth (1/1,500) of such amount.*

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.

and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in millions)

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Net earnings	$ 4,612	$ 3,231	$ 9,629	$ 6,597
Other comprehensive income:				
Net change in unrealized appreciation of investments	1,411	(1,788)	11,052	9,854
Applicable income taxes	(518)	584	(3,844)	(3,467)
Reclassification of investment appreciation in net earnings	(271)	(107)	(775)	25
Applicable income taxes	95	37	271	(9)
Foreign currency translation	(203)	(537)	(853)	(318)
Applicable income taxes	42	6	93	7
Prior service cost and actuarial gains/losses of defined benefit pension plans	25	37	112	49
Applicable income taxes	(7)	(10)	(30)	(16)
Other, net	4	1	20	(19)
Other comprehensive income, net	578	(1,777)	6,046	6,106
Comprehensive income	5,190	1,454	15,675	12,703
Comprehensive income attributable to noncontrolling interests	64	82	165	223
Comprehensive income attributable to Berkshire Hathaway shareholders	$ 5,126	$ 1,372	$ 15,510	$ 12,480

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(dollars in millions)

	Berkshire Hathaway shareholders equity					
	Common stock and capital in excess of par value	**Accumulated other comprehensive income**	**Retained earnings**	**Treasury stock**	**Non-controlling interests**	**Total**
Balance at December 31, 2011	$ 37,815	$ 17,654	$ 109,448	$ (67)	$ 4,111	$ 168,961
Net earnings			6,353		244	6,597
Other comprehensive income, net		6,127			(21)	6,106
Issuance (repurchase) of common stock	51					51
Changes in noncontrolling interests:						
Interests acquired and other transactions	(2)				2	

Balance at June 30, 2012	$ 37,864	$ 23,781	$ 115,801	$ (67)	$ 4,336	$ 181,715
Balance at December 31, 2012	$ 37,238	$ 27,500	$ 124,272	$ (1,363)	$ 3,941	$ 191,588
Net earnings			9,433		196	9,629
Other comprehensive income, net		6,077			(31)	6,046
Issuance (repurchase) of common stock	70					70
Changes in noncontrolling interests:						
Interests acquired and other transactions	(1,199)	(12)			(1,134)	(2,345)
Balance at June 30, 2013	$ 36,109	$ 33,565	$ 133,705	$ (1,363)	$ 2,972	$ 204,988

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

	First Six Months 2013	2012
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	$ 9,629	$ 6,597
Adjustments to reconcile net earnings to operating cash flows:		
Investment (gains) losses	(997)	(19)
Depreciation	2,682	2,518
Other	450	428
Changes in operating assets and liabilities before business acquisitions:		
Losses and loss adjustment expenses	583	(539)
Deferred charges reinsurance assumed	(309)	176
Unearned premiums	1,154	1,722
Receivables and originated loans	(180)	(1,565)
Derivative contract assets and liabilities	(1,543)	36
Income taxes	1,908	647
Other assets	(435)	(973)
Other liabilities	(31)	481
Net cash flows from operating activities	12,911	9,509
Cash flows from investing activities:		
Purchases of fixed maturity securities	(4,083)	(4,605)
Purchases of equity securities	(6,052)	(5,277)
Purchases of other investments	(12,250)	
Sales of fixed maturity securities	1,719	1,403
Redemptions and maturities of fixed maturity securities	3,827	3,268
Sales of equity securities	1,454	3,828
Purchases of loans and finance receivables	(326)	(471)
Collections of loans and finance receivables	330	425
Acquisitions of businesses, net of cash acquired	(154)	(469)
Purchases of property, plant and equipment	(4,758)	(4,579)
Other	(2,170)	(336)
Net cash flows from investing activities	(22,463)	(6,813)
Cash flows from financing activities:		
Proceeds from borrowings of insurance and other businesses	2,596	1,761
Proceeds from borrowings of railroad, utilities and energy businesses	3,049	2,849
Proceeds from borrowings of finance businesses	1,510	1,586
Repayments of borrowings of insurance and other businesses	(2,775)	(1,915)
Repayments of borrowings of railroad, utilities and energy businesses	(311)	(524)
Repayments of borrowings of finance businesses	(1,725)	(2,167)
Change in short-term borrowings, net	(973)	(912)
Acquisitions of noncontrolling interests and other	(3,076)	(19)
Net cash flows from financing activities	(1,705)	659
Effects of foreign currency exchange rate changes	(40)	7

Increase in cash and cash equivalents	(11,297)	3,362
Cash and cash equivalents at beginning of year *	46,992	37,299
Cash and cash equivalents at end of first six months *	$ 35,695	$ 40,661
** Cash and cash equivalents are comprised of the following:*		
Beginning of year		
Insurance and Other	*$ 42,358*	*$ 33,513*
Railroad, Utilities and Energy	*2,570*	*2,246*
Finance and Financial Products	*2,064*	*1,540*
	$ 46,992	*$ 37,299*
End of first six months		
Insurance and Other	*$ 31,216*	*$ 36,812*
Railroad, Utilities and Energy	*2,564*	*2,598*
Finance and Financial Products	*1,915*	*1,251*
	$ 35,695	*$ 40,661*

See accompanying Notes to Consolidated Financial Statements

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BERKSHIRE HATHAWAY INC.

and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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 controlling financial interests as of the financial statement date. In these notes the terms us, we or our refer to Berkshire and its consolidated subsidiaries. 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. Our significant accounting policies and practices were presented as Note 1 to the Consolidated Financial Statements included in the Annual Report. In this Report, certain immaterial amounts related to 2012 periods have been reclassified to conform to 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 accounting principles generally accepted in the United States (GAAP).

For a number of reasons, our 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. Variations in the amount and timing of investment gains/losses can cause significant variations in periodic net earnings. Investment gains/losses are recorded when investments are disposed or are other-than-temporarily impaired or when investments are carried at fair value and the unrealized gains and losses are included in earnings. In addition, changes in the fair value of derivative assets/liabilities associated with derivative contracts can cause significant variations in periodic net earnings.

Note 2. New accounting pronouncements

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires additional disclosures concerning the amounts reclassified out of each component of accumulated other comprehensive income and into net earnings during the reporting period. We adopted ASU 2013-02 on January 1, 2013 and included the required disclosures in Note 17.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities and in January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU 2011-11, as clarified, enhances disclosures surrounding offsetting (netting) assets and liabilities. The standard applies to derivatives, repurchase agreements and securities lending transactions and requires companies to disclose gross and net information about financial instruments and derivatives eligible for offset and to disclose financial instruments and derivatives subject to master netting arrangements in financial statements. In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. ASU 2012-02 allows an entity to first assess qualitative factors in determining whether events and circumstances indicate that it is more-likely-than not that an indefinite-lived intangible asset is impaired. If an entity determines that it is not more-likely-than not that the indefinite-lived intangible asset is impaired, then the entity is not required to perform a quantitative impairment test. ASU s 2011-11 and 2012-02 were adopted on January 1, 2013 and had an immaterial effect on our Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. ASU 2013-04 requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the amount the reporting entity agreed to pay plus additional amounts the reporting entity expects to pay on behalf of its co-obligors. The guidance further provides for disclosure of the nature and amount of the obligation. ASU 2013-04 is effective for interim and annual reporting periods beginning after December 15, 2013. We are currently evaluating the effect this standard will have on our Consolidated Financial Statements.

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Notes To Consolidated Financial Statements *(Continued)*

Note 3. Significant business acquisitions

Our long-held acquisition strategy is to acquire businesses with consistent earning power, good returns on equity and able and honest management and at sensible prices. During the year ended December 31, 2012, we completed several smaller-sized business acquisitions, most of which were considered as bolt-on acquisitions to several of our existing business operations. Aggregate consideration paid in 2012 for acquisitions was approximately $3.2 billion, which included $438 million for entities that will develop, construct and subsequently operate renewable energy generation facilities. We do not believe that these acquisitions are material, individually or in the aggregate, to our Consolidated Financial Statements.

Note 4. Investments in fixed maturity securities

Investments in securities with fixed maturities as of June 30, 2013 and December 31, 2012 are summarized by type below (in millions).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2013				
U.S. Treasury, U.S. government corporations and agencies	$ 2,799	$ 22	$ (10)	$ 2,811
States, municipalities and political subdivisions	2,600	152	(4)	2,748
Foreign governments	10,222	156	(140)	10,238
Corporate bonds	9,600	1,880	(16)	11,464
Mortgage-backed securities	2,000	252	(8)	2,244
	$ 27,221	$ 2,462	$ (178)	$ 29,505
December 31, 2012				
U.S. Treasury, U.S. government corporations and agencies	$ 2,742	$ 33	$	$ 2,775
States, municipalities and political subdivisions	2,735	178		2,913
Foreign governments	11,098	302	(45)	11,355
Corporate bonds	10,410	2,254	(3)	12,661
Mortgage-backed securities	2,276	318	(7)	2,587
	$ 29,261	$ 3,085	$ (55)	$ 32,291

Investments in fixed maturity securities are reflected in our Consolidated Balance Sheets as follows (in millions).

	June 30, 2013	December 31, 2012
Insurance and other	$ 28,756	$ 31,449
Finance and financial products	749	842
	$ 29,505	$ 32,291

Investments in foreign government securities include securities issued by national and provincial government entities as well as instruments that are unconditionally guaranteed by such entities. As of June 30, 2013, approximately 94% of foreign government holdings were rated AA or higher by at least one of the major rating agencies and securities issued or guaranteed by Germany, the United Kingdom, Australia, Canada and The Netherlands represented approximately 80% of the investments. Unrealized losses on all fixed maturity investments in a continuous unrealized loss position for more than twelve consecutive months were $13 million as of June 30, 2013 and $9 million as of December 31, 2012.

The amortized cost and estimated fair value of securities with fixed maturities at June 30, 2013 are summarized below by contractual maturity dates. Actual maturities will differ from contractual maturities because issuers of certain of the securities retain early call or prepayment rights. Amounts are in millions.

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Mortgage-backed securities	Total
Amortized cost	$ 6,639	$ 11,669	$ 4,495	$ 2,418	$ 2,000	$ 27,221
Fair value	6,781	12,652	5,045	2,783	2,244	29,505

Notes To Consolidated Financial Statements *(Continued)*

Note 5. Investments in equity securities

Investments in equity securities as of June 30, 2013 and December 31, 2012 are summarized based on the primary industry of the investee in the table below (in millions).

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2013				
Banks, insurance and finance	$ 20,259	$ 21,600	$	$ 41,859
Consumer products	7,272	17,178		24,450
Commercial, industrial and other	28,272	9,030	(337)	36,965
	$ 55,803	$ 47,808	$ (337)	$ 103,274
December 31, 2012				
Banks, insurance and finance	$ 18,600	$ 14,753	$ (2)	$ 33,351
Consumer products	7,546	14,917		22,463
Commercial, industrial and other	24,361	7,687	(200)	31,848
	$ 50,507	$ 37,357	$ (202)	$ 87,662

As of June 30, 2013, approximately 58% of the fair value of our equity securities was concentrated within four companies. As of June 30, 2013 and December 31, 2012, we concluded that there were no unrealized losses that were other-than-temporary. Our conclusions were based on: (a) our ability and intent to hold the securities to recovery; (b) our assessment that the underlying business and financial condition of each of these issuers was favorable; (c) our opinion that the relative price declines were not significant; and (d) our belief that it was reasonably possible that market prices will increase to and exceed our cost in a relatively short period of time. As of June 30, 2013 and December 31, 2012, unrealized losses on equity securities in a continuous unrealized loss position for more than twelve consecutive months were $135 million and $45 million, respectively.

Investments in equity securities are reflected in our Consolidated Balance Sheets as follows (in millions).

	June 30, 2013	December 31, 2012
Insurance and other	$ 101,933	$ 86,467
Railroad, utilities and energy *	745	675
Finance and financial products *	596	520
	$ 103,274	$ 87,662

* *Included in other assets.*

Note 6. Other investments

Other investments include fixed maturity and equity securities of The Goldman Sachs Group, Inc. (GS), General Electric Company (GE), Wm. Wrigley Jr. Company (Wrigley), The Dow Chemical Company (Dow) and Bank of America Corporation (BAC). In 2013, other investments also include investments in H.J. Heinz Holding Corporation (Heinz Holding), a newly formed holding company that acquired the H.J. Heinz Company (Heinz) on June 7, 2013. A summary of other investments follows (in millions).

	Cost Basis	Unrealized Gains	Fair Value	Carrying Value
June 30, 2013				
Fixed maturity and equity securities:				
Insurance and other	$ 13,741	$ 4,233	$ 17,974	$ 17,234
Finance and financial products	3,254	1,981	5,235	5,235
Investments in Heinz Holding	12,250		12,250	12,250
	$ 29,245	$ 6,214	$ 35,459	$ 34,719
December 31, 2012				
Fixed maturity and equity securities:				
Insurance and other	$ 13,109	$ 3,823	$ 16,932	$ 16,057
Finance and financial products	3,148	1,804	4,952	4,952
	$ 16,257	$ 5,627	$ 21,884	$ 21,009

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Notes To Consolidated Financial Statements *(Continued)*

Note 6. Other investments *(Continued)*

In 2008, we acquired 50,000 shares of 10% Cumulative Perpetual Preferred Stock of GS (GS Preferred) and warrants to purchase 43,478,260 shares of common stock of GS (GS Warrants) for a combined cost of $5 billion. The GS Preferred was fully redeemed by GS on April 18, 2011. The GS Warrants remain outstanding and expire on October 1, 2013 and when originally issued were exercisable for an aggregate cost of $5 billion ($115/share).

In 2008, we acquired 30,000 shares of 10% Cumulative Perpetual Preferred Stock of GE (GE Preferred) and warrants to purchase 134,831,460 shares of common stock of GE (GE Warrants) for a combined cost of $3 billion. The GE Preferred was fully redeemed by GE on October 17, 2011. The GE Warrants remain outstanding and expire on October 16, 2013 and when originally issued were exercisable for an aggregate cost of $3 billion ($22.25/share).

In the first quarter of 2013, the GE Warrants and GS Warrants agreements were amended to provide solely for cashless exercises. Upon exercise, we will receive shares of GE and GS based on the excess, if any, of the market price, as defined, over the exercise price, without payment of additional consideration. The aggregate net unrealized gains associated with these investments ($728 million) were included in earnings in 2013 and were reflected in the cost figures in the preceding table as of June 30, 2013.

In 2008, we acquired $4.4 billion par amount of 11.45% Wrigley subordinated notes due in 2018 and $2.1 billion of 5% Wrigley preferred stock. The subordinated notes may be called prior to maturity at par plus the prepayment premium applicable on the prepayment date. In 2009, we also acquired $1.0 billion par amount of Wrigley senior notes due in December 2013 and 2014. We currently own $800 million and an unconsolidated joint venture in which we hold a 50% economic interest owns $200 million of the Wrigley senior notes. The Wrigley subordinated and senior notes are classified as held-to-maturity and we carry these investments at cost, adjusted for foreign currency exchange rate changes that apply to certain of the senior notes. The Wrigley preferred stock is classified as available-for-sale and recorded in our financial statements at fair value.

In 2009, we acquired 3,000,000 shares of Series A Cumulative Convertible Perpetual Preferred Stock of Dow (Dow Preferred) for a cost of $3 billion. Under certain conditions, we can convert each share of the Dow Preferred into 24.201 shares of Dow common stock (equivalent to a conversion price of $41.32 per share). Beginning in April 2014, if Dow s common stock price exceeds $53.72 per share for any 20 trading days in a consecutive 30-day window, Dow, at its option, at any time, in whole or in part, may convert the Dow Preferred into Dow common stock at the then applicable conversion rate. The Dow Preferred is entitled to dividends at a rate of 8.5% per annum.

On September 1, 2011, we acquired 50,000 shares of 6% Cumulative Perpetual Preferred Stock of BAC (BAC Preferred) and warrants to purchase 700,000,000 shares of common stock of BAC (BAC Warrants) for a combined cost of $5 billion. The BAC Preferred is redeemable at any time by BAC at a price of $105,000 per share ($5.25 billion in aggregate). The BAC Warrants expire in 2021 and are exercisable for an additional aggregate cost of $5 billion ($7.142857/share).

On February 13, 2013, Berkshire and an affiliate of the global investment firm 3G Capital (such affiliate, 3G), through a newly formed holding company, Heinz Holding, entered into a definitive merger agreement to acquire Heinz. The transaction to acquire Heinz was completed on June 7, 2013. Under the terms of the agreement, Heinz shareholders received $72.50 in cash for each outstanding share of common stock, or approximately $23.25 billion in the aggregate. On June 7, 2013, Berkshire and 3G each made equity investments in Heinz Holding, which, together with debt financing obtained by Heinz Holding, was used to acquire Heinz.

Heinz is one of the world s leading marketers and producers of healthy, convenient and affordable foods specializing in ketchup, sauces, meals, soups, snacks and infant nutrition. Heinz is a global family of leading branded products, including Heinz® Ketchup, sauces, soups, beans, pasta and infant foods (representing over one third of Heinz s total sales), Ore-Ida® potato products, Weight Watchers® Smart Ones® entrées, T.G.I. Friday s® snacks, and Plasmon® infant nutrition.

Berkshire s investments in Heinz Holding consist of 425 million shares of common stock, warrants to acquire additional shares of common stock, and cumulative compounding preferred stock (preferred stock) with a liquidation preference of $8 billion. The aggregate cost of these investments was $12.25 billion. 3G acquired 425 million shares of Heinz Holding common stock for $4.25 billion. In addition, Heinz Holding has reserved 39.6 million shares of common stock for issuance under stock options to management of Heinz.

The preferred stock possesses no voting rights except as required by law or for certain matters specified in the Heinz Holding charter. The preferred stock is entitled to dividends at 9% per annum whether or not declared, is senior in priority to the common stock and is callable after June 7, 2016 at the liquidation value plus an applicable premium and any accrued and unpaid dividends. Under the Heinz Holding charter and a shareholders agreement entered into as of the acquisition date (the shareholders agreement), after June 7, 2021, Berkshire can cause Heinz Holding to sell shares of common stock through public offerings or other issuances (redemption offerings), the proceeds of which would be required to be used to redeem any outstanding shares of preferred stock. The warrants are exercisable into approximately 46 million shares of common stock (subject to certain anti-dilution adjustments) for one cent per share and expire on June 7, 2018.

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Notes To Consolidated Financial Statements *(Continued)*

Note 6. Other investments *(Continued)*

Berkshire and 3G each currently own 50% of the outstanding shares of common stock and possess equal voting interests in Heinz Holding. Under the shareholders agreement, unless and until Heinz Holding engages in a public offering, Berkshire and 3G each must approve all significant transactions and governance matters involving Heinz Holding and Heinz so long as Berkshire and 3G each continue to hold at least 66% of their initial common stock investments, except for (i) the declaration and payment of dividends on the preferred stock, and actions related to a Heinz Holding call of the preferred stock, for which Berkshire does not have a vote or approval right, and (ii) redemption offerings and redemptions resulting therefrom, which may only be triggered by Berkshire. No dividends may be paid on the common stock if there are any unpaid dividends on the preferred stock.

Berkshire is accounting for its investments in common stock and common stock warrants on the equity method. Accordingly, Berkshire will recognize its proportionate share of net earnings and other comprehensive income available to common stockholders in its earnings and other comprehensive income beginning as of June 7, 2013. Berkshire has concluded that its investment in preferred stock currently represents an equity investment. The preferred stock does not have a readily determinable market value. Accordingly, this investment is carried at cost in our Consolidated Balance Sheet.

Note 7. Investment gains/losses

Investment gains/losses, including other-than-temporary impairment (OTTI) losses, are summarized below (in millions).

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Fixed maturity securities				
Gross gains from sales and other disposals	$ 67	$ 58	$ 82	$ 91
Gross losses from sales and other disposals	(38)	(329)	(92)	(345)
Equity securities				
Gross gains from sales and other disposals	261	385	370	573
Gross losses from sales and other disposals	(19)	(7)	(20)	(7)
OTTI losses			(85)	(337)
Other	221	18	742	44
	$ 492	$ 125	$ 997	$ 19

Investment gains/losses are reflected in the Consolidated Statements of Earnings as follows (in millions).

Insurance and other	$ 455	$ 102	$ 889	$ (5)
Finance and financial products	37	23	108	24
	$ 492	$ 125	$ 997	$ 19

We record investments in equity and fixed maturity securities that are classified as available-for-sale at fair value with the difference between fair value and cost recorded in other comprehensive income. OTTI losses recognized in earnings represent reductions in the cost basis of the investment, but not the fair value. Accordingly, the OTTI losses that are included in earnings are generally offset by a corresponding credit to other comprehensive income and therefore have no net effect on shareholders equity as of the balance sheet date. In the first six months of 2013 and 2012, the OTTI losses related to bonds issued by Texas Competitive Electric Holdings. In recognizing these OTTI losses, we concluded that we were unlikely to receive all of the remaining contractual interest and principal amounts when due. Other investment gains/losses in 2013 primarily consisted of net gains related to the GS and GE warrants.

Note 8. Receivables

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

	June 30, 2013	December 31, 2012
Insurance premiums receivable	$ 8,197	$ 7,845
Reinsurance recoverable on unpaid losses	2,951	2,925
Trade and other receivables	11,189	11,369
Allowances for uncollectible accounts	(381)	(386)
	$ 21,956	$ 21,753

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Notes To Consolidated Financial Statements *(Continued)*

Note 8. Receivables *(Continued)*

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

	June 30, 2013	December 31, 2012
Consumer installment loans and finance receivables	$ 12,570	$ 12,701
Commercial loans and finance receivables	623	469
Allowances for uncollectible loans	(338)	(361)
	$ 12,855	$ 12,809

Allowances for uncollectible loans predominantly relate to consumer installment loans. Provisions for consumer loan losses for the first six months of 2013 and 2012 were $128 million and $161 million, respectively. Loan charge-offs, net of recoveries, for the first six months were $151 million in 2013 and $170 million in 2012. Consumer loan amounts are net of unamortized acquisition discounts of $434 million at June 30, 2013 and $459 million at December 31, 2012. At June 30, 2013, approximately 98% of consumer installment loan balances were evaluated collectively for impairment whereas about 71% of commercial loan balances were evaluated individually for impairment. As a part of the evaluation process, credit quality indicators are reviewed and loans are designated as performing or non-performing. At June 30, 2013, approximately 98% of consumer installment and commercial loan balances were determined to be performing and approximately 94% of those balances were current as to payment status.

Note 9. Inventories

Inventories are comprised of the following (in millions).

	June 30, 2013	December 31, 2012
Raw materials	$ 1,719	$ 1,699
Work in process and other	861	883
Finished manufactured goods	3,296	3,187
Goods acquired for resale	4,001	3,906
	$ 9,877	$ 9,675

Note 10. Property, plant and equipment

Property, plant and equipment of our insurance and other businesses is comprised of the following (in millions).

	Ranges of estimated useful life	June 30, 2013	December 31, 2012
Land		$ 1,055	$ 1,048
Buildings and improvements	2 40 years	6,052	6,074
Machinery and equipment	3 20 years	15,677	15,436

Furniture, fixtures and other	2	20 years	2,945	2,736
Assets held for lease	12	30 years	6,956	6,731
			32,685	32,025
Accumulated depreciation			(13,535)	(12,837)
			$ 19,150	$ 19,188

Depreciation expense of insurance and other businesses for the first six months of 2013 and 2012 was $994 million and $955 million, respectively.

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Notes To Consolidated Financial Statements *(Continued)*

Note 10. Property, plant and equipment *(Continued)*

Property, plant and equipment of our railroad, utilities and energy businesses is comprised of the following (in millions).

	Ranges of estimated useful life	June 30, 2013	December 31, 2012
Railroad:			
Land		$ 5,970	$ 5,950
Track structure and other roadway	5 100 years	38,798	38,255
Locomotives, freight cars and other equipment	5 37 years	6,804	6,528
Construction in progress		1,160	963
Utilities and energy:			
Utility generation, distribution and transmission system	5 80 years	43,162	42,682
Interstate pipeline assets	3 80 years	6,357	6,354
Independent power plants and other assets	3 30 years	2,311	1,860
Construction in progress		2,819	2,647
		107,381	105,239
Accumulated depreciation		(18,182)	(17,555)
		$ 89,199	$ 87,684

Railroad property, plant and equipment includes the land, other roadway, track structure and rolling stock (primarily locomotives and freight cars) of BNSF. The utility generation, distribution and transmission system and interstate pipeline assets are the regulated assets of public utility and natural gas pipeline subsidiaries. Depreciation expense of the railroad, utilities and energy businesses for the first six months of 2013 and 2012 was $1,597 million and $1,476 million, respectively.

Note 11. Goodwill and other intangible assets

A reconciliation of the change in the carrying value of goodwill is as follows (in millions).

	June 30, 2013	December 31, 2012
Balance at beginning of year	$ 54,523	$ 53,213
Acquisitions of businesses	15	1,442
Other, including foreign currency translation	(166)	(132)
Balance at end of period	$ 54,372	$ 54,523

Intangible assets other than goodwill are included in other assets in our Consolidated Balance Sheets and are summarized by type as follows (in millions).

	June 30, 2013		December 31, 2012	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Insurance and other	$ 11,715	$ 3,330	$ 11,737	$ 2,994
Railroad, utilities and energy	2,164	1,070	2,163	913
	$ 13,879	$ 4,400	$ 13,900	$ 3,907
Trademarks and trade names	$ 2,801	$ 310	$ 2,819	$ 278
Patents and technology	5,035	2,329	5,014	2,059
Customer relationships	4,538	1,325	4,565	1,155
Other	1,505	436	1,502	415
	$ 13,879	$ 4,400	$ 13,900	$ 3,907

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Notes To Consolidated Financial Statements *(Continued)*

Note 11. Goodwill and other intangible assets *(Continued)*

Amortization expense was $535 million for the first six months of 2013 and $502 million for the first six months of 2012. Intangible assets with indefinite lives as of June 30, 2013 and December 31, 2012 were $2,319 million and $2,328 million, respectively.

Note 12. Derivative contracts

Derivative contracts are used primarily in our finance and financial products and energy businesses. Substantially all of the derivative contracts of our finance and financial products businesses are not designated as hedges for financial reporting purposes. Changes in the fair values of such contracts are reported in earnings as derivative gains/losses. We entered into these contracts with the expectation that the premiums received would exceed the amounts ultimately paid to counterparties. A summary of derivative contracts of our finance and financial products businesses follows (in millions).

	June 30, 2013			December 31, 2012		
	Assets [3]	Liabilities	Notional Value	Assets [3]	Liabilities	Notional Value
Equity index put options	$	$ 5,874	$ 30,936[1]	$	$ 7,502	$ 33,357[1]
Credit default	14	348	10,035[2]	41	429	11,691[2]
Other, principally interest rate and foreign currency	10	19		130	2	
	$ 24	$ 6,241		$ 171	$ 7,933	

(1) Represents the aggregate undiscounted amount payable at the contract expiration dates assuming that the value of each index is zero at the contract expiration date.

(2) Represents the maximum undiscounted future value of losses payable under the contracts, if all underlying issuers default and the residual value of the specified obligations is zero.

(3) Included in other assets of finance and financial products businesses.

Derivative gains/losses of our finance and financial products businesses included in our Consolidated Statements of Earnings were as follows (in millions).

	Second Quarter		First Six Months	
	2013	2012	2013	2012
Equity index put options	$ 390	$ (1,173)	$ 1,636	$ (484)
Credit default	99	171	85	511
Other, principally interest rate and foreign currency	(28)	(66)	(54)	(93)
	$ 461	$ (1,068)	$ 1,667	$ (66)

The equity index put option contracts are European style options written on four major equity indexes. Future payments, if any, under these contracts will be required if the underlying index value is below the strike price at the contract expiration dates. We received the premiums on these contracts in full at the contract inception dates and therefore have no counterparty credit risk. We have written no new contracts since

February 2008.

The aggregate intrinsic value (which is the undiscounted liability assuming the contracts are settled based on the index values and foreign currency exchange rates as of the balance sheet date) of our equity index put option contracts was approximately $3.2 billion at June 30, 2013 and $3.9 billion at December 31, 2012. However, these contracts may not be unilaterally terminated or fully settled before the expiration dates which occur between June 2018 and January 2026. Therefore, the ultimate amount of cash basis gains or losses on these contracts will not be determined for many years. The remaining weighted average life of all contracts was approximately 7.5 years at June 30, 2013.

Our credit default contracts were written on various indexes of non-investment grade (or high yield) corporate issuers, as well as investment grade corporate and state/municipal debt issuers. These contracts cover the loss in value of specified debt obligations of the issuers arising from default events, which are usually from their failure to make payments or bankruptcy. Loss amounts are subject to contract limits. We have written no new contracts since February 2009.

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Notes To Consolidated Financial Statements *(Continued)*

Note 12. Derivative contracts *(Continued)*

State/municipality credit contract exposures currently relate to more than 500 debt issues with maturities ranging from 2019 to 2054 and have an aggregate notional value of approximately $7.8 billion. The underlying debt issues have a weighted average maturity of approximately 18.2 years. Pursuant to the contract terms, future loss payments, if any, cannot be settled before the maturity dates of the underlying obligations.

Individual investment grade and high-yield corporate contracts in-force as of June 30, 2013 had an aggregate notional value of approximately $2.2 billion. All of these contracts will expire in 2013. Premiums under individual corporate credit default contracts are, generally, due from counterparties on a quarterly basis over the terms of the contracts. Otherwise, we have no counterparty credit risk under our credit default contracts because all premiums were received at the inception of the contracts.

With limited exceptions, our equity index put option and credit default contracts contain no collateral posting requirements with respect to changes in the fair value or intrinsic value of the contracts and/or a downgrade of Berkshire s credit ratings. As of June 30, 2013, our collateral posting requirements under contracts with collateral provisions were $5 million compared to $40 million at December 31, 2012. If Berkshire s credit ratings (currently AA from Standard & Poor s and Aa2 from Moody s) are downgraded below either A- by Standard & Poor s or A3 by Moody s, additional collateral of up to $1.1 billion could be required to be posted.

Our regulated utility subsidiaries are exposed to variations in the prices of fuel required to generate electricity, wholesale electricity purchased and sold and natural gas supplied for customers. Derivative instruments, including forward purchases and sales, futures, swaps and options, are used to manage a portion of these price risks. Derivative contract assets are included in other assets of railroad, utilities and energy businesses and were $43 million and $49 million as of June 30, 2013 and December 31, 2012, respectively. Derivative contract liabilities are included in accounts payable, accruals and other liabilities of railroad, utilities and energy businesses and were $178 million and $234 million as of June 30, 2013 and December 31, 2012, respectively. Unrealized gains and losses under the contracts of our regulated utilities that are probable of recovery through rates are recorded as regulatory assets or liabilities. Unrealized gains or losses on contracts accounted for as cash flow or fair value hedges are recorded in accumulated other comprehensive income or in net earnings, as appropriate.

Note 13. Supplemental cash flow information

A summary of supplemental cash flow information for the first six months of 2013 and 2012 is presented in the following table (in millions).

	First Six Months	
	2013	**2012**
Cash paid during the period for:		
Income taxes	$ 2,724	$ 1,378
Interest:		
Insurance and other businesses	178	167
Railroad, utilities and energy businesses	918	890
Finance and financial products businesses	284	317

Notes To Consolidated Financial Statements *(Continued)*

Note 14. Notes payable and other borrowings

Notes payable and other borrowings are summarized below (in millions). The weighted average interest rates and maturity date ranges shown in the following tables are based on borrowings as of June 30, 2013.

	Weighted Average Interest Rate	June 30, 2013	December 31, 2012
Insurance and other:			
Issued by Berkshire parent company due 2013-2047	2.7%	$ 8,312	$ 8,323
Short-term subsidiary borrowings	0.3%	1,281	1,416
Other subsidiary borrowings due 2013-2035	6.0%	3,668	3,796
		$ 13,261	$ 13,535

In January 2013, Berkshire issued $2.6 billion of senior notes with interest rates ranging from 0.8% to 4.5% and maturities that range from 2016 to 2043. In February 2013, Berkshire repaid $2.6 billion of maturing senior notes.

	Weighted Average Interest Rate	June 30, 2013	December 31, 2012
Railroad, utilities and energy:			
Issued by MidAmerican Energy Holdings Company (MidAmerican) and its subsidiaries:			
MidAmerican senior unsecured debt due 2014-2037	6.3%	$ 4,621	$ 4,621
Subsidiary and other debt due 2013-2042	5.1%	17,360	17,002
Issued by BNSF due 2013-2097	5.3%	15,880	14,533
		$ 37,861	$ 36,156

MidAmerican subsidiary debt represents amounts issued pursuant to separate financing agreements. All, or substantially all, of the assets of certain MidAmerican subsidiaries are, or may be, pledged or encumbered to support or otherwise secure the debt. These borrowing arrangements generally contain various covenants including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. During the first six months of 2013, MidAmerican subsidiaries issued term debt of $1.55 billion in the aggregate. MidAmerican and subsidiaries repaid approximately $1.0 billion of debt in 2013. In March 2013, BNSF issued $1.5 billion in new debentures consisting of $700 million of 3.0% debentures due in 2023 and $800 million of 4.45% debentures due in 2043. BNSF s borrowings are primarily unsecured. As of June 30, 2013, BNSF and MidAmerican and their subsidiaries were in compliance with all applicable debt covenants. Berkshire does not guarantee any debt or other borrowings of BNSF, MidAmerican or their subsidiaries.

	Weighted Average Interest Rate	June 30, 2013	December 31, 2012
Finance and financial products:			
Issued by Berkshire Hathaway Finance Corporation (BHFC) due 2013-2043	3.8%	$ 11,185	$ 11,186
Issued by other subsidiaries due 2013-2036	4.6%	1,646	1,859

	$ 12,831	$ 13,045

The borrowings of BHFC, a wholly owned finance subsidiary of Berkshire, are fully and unconditionally guaranteed by Berkshire. In January 2013, BHFC issued $500 million aggregate of new senior notes consisting of $275 million of 1.6% senior notes due in 2017 and $225 million of 3.0% senior notes due in 2022 and repaid $500 million of maturing senior notes. In May 2013, BHFC issued $1 billion aggregate of new senior notes consisting of $500 million of 1.3% senior notes due in 2018 and $500 million of 4.3% senior notes due in 2043 and repaid $1 billion of maturing senior notes.

Our subsidiaries have approximately $4.7 billion in the aggregate of unused lines of credit and commercial paper capacity at June 30, 2013, to support short-term borrowing programs and provide additional liquidity. In addition to borrowings of BHFC, as of June 30, 2013, Berkshire guaranteed approximately $4.3 billion of other subsidiary borrowings. Generally, Berkshire s guarantee of a subsidiary s debt obligation is an absolute, unconditional and irrevocable guarantee for the full and prompt payment when due of all present and future payment obligations.

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Notes To Consolidated Financial Statements *(Continued)*

Note 15. Fair value measurements

Our financial assets and liabilities are summarized below as of June 30, 2013 and December 31, 2012 with fair values shown according to the fair value hierarchy (in millions). The carrying values of cash and cash equivalents, accounts receivable and accounts payable, accruals and other liabilities are considered to be reasonable estimates of their fair values.

	Carrying Value	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,811	$ 2,811	$ 1,128	$ 1,682	$ 1
States, municipalities and political subdivisions	2,748	2,748		2,748	
Foreign governments	10,238	10,238	4,079	6,159	
Corporate bonds	11,464	11,464		10,833	631
Mortgage-backed securities	2,244	2,244		2,244	
Investments in equity securities	103,274	103,274	103,205	62	7
Other investments carried at fair value	17,200	17,200		1,703	15,497
Other investments carried at cost	17,519	18,259			18,259
Loans and finance receivables	12,855	12,032		481	11,551
Derivative contract assets (1)	67	67	1	15	51
Derivative contract liabilities:					
Railroad, utilities and energy (1)	178	178	5	164	9
Finance and financial products:					
Equity index put options	5,874	5,874			5,874
Credit default	348	348			348
Other	19	19		19	
Notes payable and other borrowings:					
Insurance and other	13,261	13,612		13,612	
Railroad, utilities and energy	37,861	41,194		41,194	
Finance and financial products	12,831	13,234		12,509	725
December 31, 2012					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	$ 2,775	$ 2,775	$ 1,225	$ 1,549	$ 1
States, municipalities and political subdivisions	2,913	2,913		2,912	1
Foreign governments	11,355	11,355	4,571	6,784	
Corporate bonds	12,661	12,661		12,011	650
Mortgage-backed securities	2,587	2,587		2,587	
Investments in equity securities	87,662	87,662	87,563	64	35
Other investments carried at fair value	15,750	15,750			15,750
Other investments carried at cost	5,259	6,134			6,134
Loans and finance receivables	12,809	11,991		304	11,687
Derivative contract assets (1)	220	220	1	128	91
Derivative contract liabilities:					
Railroad, utilities and energy (1)	234	234	10	217	7
Finance and financial products:					

Equity index put options	7,502	7,502			7,502
Credit default	429	429			429
Other	2	2		2	
Notes payable and other borrowings:					
Insurance and other	13,535	14,284		14,284	
Railroad, utilities and energy	36,156	42,074		42,074	
Finance and financial products	13,045	14,005		13,194	811

(1) Assets are included in other assets and liabilities are included in accounts payable, accruals and other liabilities.

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Notes To Consolidated Financial Statements *(Continued)*

Note 15. Fair value measurements *(Continued)*

The fair values of substantially all of our financial instruments were measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

Level 1 Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets. Substantially all of our investments in equity securities are traded on an exchange in active markets and fair values are based on the closing prices as of the balance sheet date.

Level 2 Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that may be considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Fair values of investments in fixed maturity securities and notes payable and other borrowings are primarily based on price evaluations which incorporate market prices for identical instruments in inactive markets and market data available for instruments with similar characteristics. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit rating, estimated duration and yields for other instruments of the issuer or entities in the same industry sector.

Level 3 Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and we may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. Fair value measurements of non-exchange traded derivative contracts and certain other investments are based primarily on valuation models, discounted cash flow models or other valuation techniques that are believed to be used by market participants.

Reconciliations of assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for the first six months of 2013 and 2012 follow (in millions).

	Investments in fixed maturity securities	Investments in equity securities	Other investments	Net derivative contract liabilities
Balance at December 31, 2011	$ 784	$ 22	$ 11,669	$ (9,908)
Gains (losses) included in:				
Earnings				23
Other comprehensive income	5	16	1,770	3
Regulatory assets and liabilities				3
Acquisitions, dispositions and settlements	(7)			13
Transfers into (out of) Level 3	(129)			
Balance at June 30, 2012	$ 653	$ 38	$ 13,439	$ (9,866)

Balance at December 31, 2012	$ 652	$ 35	$ 15,750	$ (7,847)
Gains (losses) included in:				
Earnings		3	520	1,715
Other comprehensive income	(12)		722	(5)
Regulatory assets and liabilities				2
Dispositions	(8)			
Settlements, net		(31)		(45)
Transfers into (out of) Level 3			(1,495)	
Balance at June 30, 2013	$ 632	$ 7	$ 15,497	$ (6,180)

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Notes To Consolidated Financial Statements *(Continued)*

Note 15. Fair value measurements *(Continued)*

Gains and losses included in earnings are included as components of investment gains/losses, derivative gains/losses and other revenues, as appropriate and are primarily related to changes in the values of derivative contracts and settlement transactions. Gains and losses included in other comprehensive income are included as components of the net change in unrealized appreciation of investments and the reclassification of investment appreciation in earnings, as appropriate in the Consolidated Statements of Comprehensive Income.

In the second quarter of 2013, we transferred the fair value measurements of the GS Warrants and GE Warrants from Level 3 to Level 2 because we concluded that the unobservable inputs were no longer significant.

Quantitative information as of June 30, 2013, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows (in millions).

	Fair value	Principal valuation techniques	Unobservable Input	Weighted Average
Other investments:				
Preferred stocks	$ 11,696	Discounted cash flow	Expected duration	7 years
			Discount for transferability restrictions and subordination	97 basis points
Common stock warrants	3,801	Warrant pricing model	Discount for transferability and hedging restrictions	22%
Net derivative liabilities:				
Equity index put options	5,874	Option pricing model	Volatility	21%
Credit default-states/municipalities	337	Discounted cash flow	Credit spreads	76 basis points

For certain credit default and other derivative contracts where we could not corroborate that the fair values or the inputs were observable in the market, fair values were based on non-binding price indications obtained from third party sources. Management reviewed these values relative to the terms of the contracts, the current facts, circumstances and market conditions, and concluded they were reasonable. We did not adjust these prices and therefore, they have been excluded from the preceding table.

Our other investments that are carried at fair value consist of a few relatively large private placement transactions and include perpetual preferred stocks and common stock warrants. These investments are subject to contractual restrictions on transferability and/or provisions that prevent us from economically hedging our investments. In applying discounted estimated cash flow techniques in valuing the perpetual preferred stocks, we made assumptions regarding the expected durations of the investments, as the issuers may have the right to redeem or convert these investments. We also made estimates regarding the impact of subordination, as the preferred stocks have a lower priority in liquidation than investment grade debt instruments of the issuers, which affected the discount rates. In valuing the common stock warrants, we used a warrant valuation model. While most of the inputs to the model are observable, we are subject to the aforementioned contractual restrictions. We have applied discounts with respect to the contractual restrictions. Increases or decreases to these inputs would result in decreases or increases to the fair values of the investments.

Our equity index put option and credit default contracts are not exchange traded and certain contract terms are not standard in derivatives markets. For example, we are not required to post collateral under most of our contracts and many contracts have long durations, and therefore are illiquid. For these and other reasons, we classified these contracts as Level 3. The methods we use to value these contracts are those that we believe market participants would use in determining exchange prices with respect to our contracts.

We value equity index put option contracts based on the Black-Scholes option valuation model. Inputs to this model include current index price, contract duration, dividend and interest rate inputs (which include a Berkshire non-performance input) which are observable. However, we believe that the valuation of long-duration options using any model is inherently subjective, given the lack of observable transactions and prices, and acceptable values may be subject to wide ranges. Expected volatility inputs represent our expectations after considering the remaining duration of each contract and that the contracts will remain outstanding until the expiration dates without offsetting transactions occurring in the interim. Increases or decreases in the volatility inputs will produce increases or decreases in the fair values of the liabilities.

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Notes To Consolidated Financial Statements *(Continued)*

Note 15. Fair value measurements *(Continued)*

Our state and municipality credit default contract values reflect credit spreads, contract durations, interest rates, bond prices and other inputs believed to be used by market participants in estimating fair value. We utilize discounted cash flow valuation models, which incorporate the aforementioned inputs as well as our own estimates of credit spreads for states and municipalities where there is no observable input. Increases or decreases to the credit spreads will produce increases or decreases in the fair values of the liabilities.

Note 16. Common stock

Changes in Berkshire s issued and outstanding common stock during the first six months of 2013 are shown in the table below.

	Class A, $5 Par Value (1,650,000 shares authorized)			Class B, $0.0033 Par Value (3,225,000,000 shares authorized)		
	Issued	Treasury	Outstanding	Issued	Treasury	Outstanding
Balance at December 31, 2012	904,528	(9,573)	894,955	1,123,393,956	(1,408,484)	1,121,985,472
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(10,681)		(10,681)	17,218,449		17,218,449
Balance at June 30, 2013	893,847	(9,573)	884,274	1,140,612,405	(1,408,484)	1,139,203,921

Each Class A common share is entitled to one vote per share. Class B common stock possesses dividend and distribution rights equal to one-fifteen-hundredth (1/1,500) of such rights of Class A common stock. Each Class B common share possesses voting rights equivalent to one-ten-thousandth (1/10,000) of the voting rights of a Class A share. Unless otherwise required under Delaware General Corporation Law, Class A and Class B common shares vote as a single class. Each share of Class A common stock is convertible, at the option of the holder, into 1,500 shares of Class B common stock. Class B common stock is not convertible into Class A common stock. On an equivalent Class A common stock basis, there were 1,643,743 shares outstanding as of June 30, 2013 and 1,642,945 shares outstanding as of December 31, 2012. In addition to our common stock, 1,000,000 shares of preferred stock are authorized, but none of which are issued and outstanding.

In 2011, Berkshire s Board of Directors (Berkshire s Board) approved a common stock repurchase program. Under the program, as amended in December 2012, Berkshire may repurchase its Class A and Class B shares at prices no higher than a 20% premium over the book value of the shares. Berkshire may repurchase shares in the open market or through privately negotiated transactions. Berkshire s Board authorization does not specify a maximum number of shares to be repurchased. However, repurchases will not be made if they would reduce Berkshire s consolidated cash equivalent holdings below $20 billion. The repurchase program is expected to continue indefinitely and the amount of repurchases will depend entirely upon the level of cash available, the attractiveness of investment and business opportunities either at hand or on the horizon, and the degree of discount of the market price relative to management s estimate of intrinsic value. The repurchase program does not obligate Berkshire to repurchase any dollar amount or number of Class A or Class B shares.

Notes To Consolidated Financial Statements *(Continued)*

Note 17. Accumulated other comprehensive income

A summary of the net changes in after-tax accumulated other comprehensive income and significant amounts reclassified out of accumulated other comprehensive income attributable to Berkshire Hathaway shareholders for the six-month period ended June 30, 2013 follows (in millions).

	Unrealized appreciation of investments, net	Foreign currency translation	Prior service and actuarial gains/losses of defined benefit pension plans	Other	Accumulated other comprehensive income
Balance at December 31, 2012	$ 29,254	$ (120)	$ (1,601)	$ (33)	$ 27,500
Other comprehensive income (loss) before reclassifications	7,196	(669)	17	4	6,548
Amounts reclassified from accumulated other comprehensive income	(504)	(29)	59	3	(471)
Transactions with noncontrolling interests		(12)			(12)
Net current period other comprehensive income	6,692	(710)	76	7	6,065
Balance at June 30, 2013	$ 35,946	$ (830)	$ (1,525)	$ (26)	$ 33,565
Amounts reclassified from other comprehensive income into net earnings for the first six months of 2013 are included on the following line items:					
Investment gains/losses:					
Insurance and other	$ (707)	$	$	$	$ (707)
Finance and financial products	(68)				(68)
Other [1]		(29)	83	7	61
Reclassifications before income taxes	(775)	(29)	83	7	(714)
Applicable income taxes	(271)		24	4	(243)
	$ (504)	$ (29)	$ 59	$ 3	$ (471)

[1] *Amounts are included on various line items, and are immaterial individually and in the aggregate.*

Note 18. Contingencies and Commitments

We have owned a controlling interest in Marmon Holdings, Inc. (Marmon) since 2008. On June 28, 2013, Berkshire acquired approximately 16% of the then outstanding Marmon noncontrolling interests for approximately $238 million and we currently own about 91.7% of Marmon s outstanding common stock. We are contractually required to acquire substantially all of the remaining noncontrolling interests of Marmon no later than March 31, 2014, for an amount that will be based on Marmon s 2013 operating results. On April 29, 2013, Berkshire acquired the remaining noncontrolling interests of IMC International Metalworking Companies B.V., the parent company of Iscar, for consideration of $2.05 billion. Berkshire now owns 100% of IMC International Metalworking Companies B.V. The differences between the consideration paid and the carrying amounts of these acquired noncontrolling interests were recorded as reductions in Berkshire s shareholders equity of approximately $1.2 billion.

On May 29, 2013, MidAmerican announced that it would acquire NV Energy, Inc. (NV Energy), an energy holding company serving approximately 1.3 million electric and natural gas customers in Nevada. Under the terms of the agreement, MidAmerican will purchase all outstanding shares of NV Energy s common stock for $23.75 per share in cash, or approximately $5.6 billion in the aggregate. The acquisition is subject to customary closing conditions, including the approval of the transaction by NV Energy s shareholders and the receipt of required state and federal approvals. The transaction is expected to be completed in the first quarter of 2014.

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Notes To Consolidated Financial Statements *(Continued)*

Note 19. Business segment data

Revenues by segment for the second quarter and first six months of 2013 and 2012 were as follows (in millions).

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Operating Businesses:				
Insurance group:				
Premiums earned:				
GEICO	$ 4,597	$ 4,132	$ 8,996	$ 8,148
General Re	1,499	1,426	2,968	2,897
Berkshire Hathaway Reinsurance Group	1,903	2,334	4,699	4,405
Berkshire Hathaway Primary Group	816	536	1,529	1,043
Investment income	1,543	1,399	2,544	2,455
Total insurance group	10,358	9,827	20,736	18,948
BNSF	5,322	5,062	10,606	10,064
Finance and financial products	1,064	1,016	2,014	1,975
Marmon	1,816	1,863	3,546	3,656
McLane Company	11,375	9,004	22,160	17,077
MidAmerican	3,056	2,748	6,172	5,642
Other businesses	10,856	9,888	20,801	19,184
	43,847	39,408	86,035	76,546
Reconciliation of segments to consolidated amount:				
Investment and derivative gains/losses	953	(943)	2,664	(47)
Eliminations and other	(107)	81	(139)	194
	$ 44,693	$ 38,546	$ 88,560	$ 76,693

Earnings before income taxes by segment for the second quarter and first six months of 2013 and 2012 were as follows (in millions).

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Operating Businesses:				
Insurance group:				
Underwriting gain (loss):				
GEICO	$ 336	$ 155	$ 602	$ 279
General Re	24	138	119	219
Berkshire Hathaway Reinsurance Group	391	613	1,365	422
Berkshire Hathaway Primary Group	75	51	129	122
Net investment income	1,535	1,393	2,531	2,445
Total insurance group	2,361	2,350	4,746	3,487
BNSF	1,397	1,280	2,686	2,395
Finance and financial products	209	189	378	352
Marmon	314	307	580	576
McLane Company	114	73	246	175
MidAmerican	435	324	988	807
Other businesses	1,383	1,330	2,474	2,399

	6,213	5,853	12,098	10,191
Reconciliation of segments to consolidated amount:				
Investment and derivative gains/losses	953	(943)	2,664	(47)
Interest expense, excluding interest allocated to operating businesses	(74)	(78)	(146)	(144)
Eliminations and other	(201)	(217)	(430)	(454)
	$ 6,891	$ 4,615	$ 14,186	$ 9,546

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

Results of Operations

Net earnings attributable to Berkshire are disaggregated in the table that follows. Amounts are after deducting income taxes and exclude earnings attributable to noncontrolling interests. Amounts are in millions.

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Insurance underwriting	$ 530	$ 619	$ 1,431	$ 673
Insurance investment income	1,144	1,068	1,943	1,859
Railroad	884	802	1,682	1,503
Utilities and energy	279	253	673	591
Manufacturing, service and retailing	1,074	1,025	2,018	1,879
Finance and financial products	135	120	244	224
Other	(127)	(167)	(290)	(344)
Investment and derivative gains/losses	622	(612)	1,732	(32)
Net earnings attributable to Berkshire	$ 4,541	$ 3,108	$ 9,433	$ 6,353

Through our subsidiaries, we engage in a number of diverse business activities. Our 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 our corporate headquarters in the day-to-day business activities of the operating businesses. Our senior corporate management team 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. It also is responsible for coordinating Berkshire s corporate governance efforts, including, but not limited to, communicating the appropriate tone at the top messages to its employees and associates, monitoring governance efforts, including those at the operating businesses, and participating in the resolution of governance-related issues as needed. The business segment data (Note 19 to the Consolidated Financial Statements) should be read in conjunction with this discussion.

Our insurance businesses generated significant underwriting gains in the first six months of 2013 and 2012. Our railroad and utilities and energy businesses continued to generate significant earnings in 2013. Earnings from our manufacturing, service and retailing businesses in 2013 were mixed, but as indicated in the table above earnings from these businesses increased about 4.8% during the second quarter and 7.4% during the first six months.

Investment and derivative gains/losses in the second quarter and first six months of 2013 included after-tax gains from derivative contracts of $300 million and $1,084 million, respectively, which were primarily attributable to changes in fair value estimates of our equity index put option derivative contracts. Investment and derivative gains/losses in the second quarter and first six months of 2012 included after-tax losses from derivative contracts of $693 million and $43 million, respectively. We believe that realized investment gains/losses and other-than-temporary impairment losses are often meaningless in terms of understanding our reported results or evaluating our economic performance. These gains and losses and changes in the equity and credit markets from period to period have caused and will likely continue to cause significant volatility in our periodic earnings.

Insurance Underwriting

We engage in both primary insurance and reinsurance of property/casualty, life and health risks. In primary insurance activities, we assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, we assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Our insurance and reinsurance businesses are: (1) GEICO, (2) General Re, (3) Berkshire Hathaway Reinsurance Group (BHRG) and (4) Berkshire Hathaway Primary Group.

Our management views insurance businesses as possessing two distinct operations underwriting and investing. Underwriting decisions are the responsibility of the unit managers; investing decisions, with limited exceptions, are the responsibility of Berkshire s Chairman and CEO, Warren E. Buffett. Accordingly, we evaluate the performance of underwriting operations without any allocation of investment income. Underwriting results represent insurance premiums earned less insurance losses, benefits and underwriting expenses incurred.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Underwriting *(Continued)*

The timing and amount of catastrophe losses can also produce significant volatility in our periodic underwriting results, particularly with respect to BHRG and General Re. In the second quarter of 2013, we incurred pre-tax losses of $189 million related to floods in Europe. In the first six months of 2012, losses from catastrophes were not significant. For the purposes of this discussion, we consider catastrophe losses significant if the pre-tax losses incurred from a single event (or series of related events) exceed $75 million on a consolidated basis. Our periodic underwriting results may be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. Periodic underwriting results may also include significant foreign currency transaction gains and losses arising from the changes in the valuations of certain non-U.S. Dollar denominated reinsurance liabilities as a result of foreign currency exchange rate fluctuations. BHRG s underwriting results included pre-tax gains of $251 million in the first six months of 2013 and $36 million in the first six months of 2012 from such foreign currency exchange rate changes, which were included in underwriting expenses. In addition, BHRG s results for the first six months of 2013 included a one-time pre-tax gain of $255 million arising from amendments to a life reinsurance contract. In 2012, GEICO s underwriting results reflected unusually high underwriting expenses due to a change in U.S. GAAP.

A key marketing strategy followed by all of our insurance businesses is the maintenance of extraordinary capital strength. Statutory surplus of our insurance businesses was approximately $106 billion at December 31, 2012. This superior capital strength creates opportunities, especially with respect to reinsurance activities, to negotiate and enter into insurance and reinsurance contracts specially designed to meet the unique needs of insurance and reinsurance buyers.

A summary follows of underwriting results from our insurance businesses. Amounts are in millions.

	Second Quarter 2013	Second Quarter 2012	First Six Months 2013	First Six Months 2012
Underwriting gain (loss) attributable to:				
GEICO	$ 336	$ 155	$ 602	$ 279
General Re	24	138	119	219
Berkshire Hathaway Reinsurance Group	391	613	1,365	422
Berkshire Hathaway Primary Group	75	51	129	122
Pre-tax underwriting gain	826	957	2,215	1,042
Income taxes and noncontrolling interests	296	338	784	369
Net underwriting gain	$ 530	$ 619	$ 1,431	$ 673

GEICO

Through GEICO, we primarily write private passenger automobile insurance, offering coverages to insureds in all 50 states and the District of Columbia. GEICO s policies are marketed mainly by direct response methods in which customers apply for coverage directly to the company via the Internet or over the telephone. This is a significant element in our strategy to be a low-cost auto insurer. In addition, we strive to provide excellent service to customers, with the goal of establishing long-term customer relationships. GEICO s underwriting results are summarized below. Dollars are in millions.

	Second Quarter				First Six Months			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%

Premiums earned	$ 4,597	100.0	$ 4,132	100.0	$ 8,996	100.0	$ 8,148	100.0
Losses and loss adjustment expenses	3,515	76.5	3,145	76.1	6,868	76.3	6,078	74.6
Underwriting expenses	746	16.2	832	20.1	1,526	17.0	1,791	22.0
Total losses and expenses	4,261	92.7	3,977	96.2	8,394	93.3	7,869	96.6
Pre-tax underwriting gain	$ 336		$ 155		$ 602		$ 279	

Premiums written in the second quarter and first six months of 2013 were $4,548 million and $9,389 million, respectively, representing increases of 11.7% and 11.5%, respectively, compared to the corresponding 2012 periods. Premiums earned in the second quarter and first six months of 2013 increased $465 million (11.3%) and $848 million (10.4%), respectively, compared to premiums earned in the corresponding 2012 periods. The growth in premiums earned for voluntary auto was 10.4%, reflecting an increase in policies-in-force of 8.2% over the past year, and to a lesser degree, higher average premiums per policy. The increase in policies-in-force reflects a 16.6% increase in voluntary auto new business sales. Voluntary auto policies-in-force at June 30, 2013 were approximately 587,000 greater than at December 31, 2012.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Underwriting *(Continued)*

GEICO *(Continued)*

Losses and loss adjustment expenses incurred in the second quarter and first six months of 2013 increased $370 million (11.8%) and $790 million (13.0%), respectively, from the same periods of 2012. The loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) was 76.3% in the first six months of 2013 compared to 74.6% in 2012. In the first six months of 2013, claims frequencies and severities for property damage and collision coverages generally increased in the two to four percent range compared to the first six months of 2012. In addition, average bodily injury severities increased in the two to three percent range, although severities for personal injury protection coverage declined, primarily in Florida.

Underwriting expenses incurred in the second quarter and first six months of 2013 declined $86 million (10.3%) and $265 million (14.8%), respectively, compared with the second quarter and first six months of 2012. Underwriting expenses in 2012 were impacted by a change in U.S. GAAP concerning deferred policy acquisition costs (DPAC). DPAC represents the underwriting costs that are eligible to be capitalized and expensed as premiums are earned over the policy period. Policy acquisition costs related to policies written and renewed after December 31, 2011 are deferred at lower levels than before that date. The new accounting standard essentially accelerates the timing of when certain underwriting costs are recognized in earnings. The new accounting standard was adopted on a prospective basis on January 1, 2012. Excluding the effects of the accounting change in 2012, the ratio of underwriting expenses to premiums earned in the first six months of 2013 declined by approximately 0.6 percentage points from the first six months of 2012. The new accounting standard for DPAC does not impact the cash basis periodic underwriting costs or our assessment of GEICO s underwriting performance.

General Re

Through General Re, we conduct a reinsurance business offering property and casualty and life and health coverages to clients worldwide. We write property and casualty reinsurance in North America on a direct basis through General Reinsurance Corporation and internationally through Germany-based General Reinsurance AG and other wholly-owned affiliates. Property and casualty reinsurance is also written through brokers with respect to Faraday in London. Life and health reinsurance is written in North America through General Re Life Corporation and internationally through General Reinsurance AG. General Re strives to generate underwriting profits in essentially all of its product lines. Our management does not evaluate underwriting performance based upon market share and our underwriters are instructed to reject inadequately priced risks. General Re s underwriting results are summarized in the following table. Amounts are in millions.

	Premiums earned				**Pre-tax underwriting gain (loss)**			
	Second Quarter		**First Six Months**		**Second Quarter**		**First Six Months**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property/casualty	$ 735	$ 702	$ 1,493	$ 1,437	$ (34)	$ 190	$ 62	$ 236
Life/health	764	724	1,475	1,460	58	(52)	57	(17)
	$ 1,499	$ 1,426	$ 2,968	$ 2,897	$ 24	$ 138	$ 119	$ 219

Property/casualty

Property/casualty premiums earned in the second quarter and first six months of 2013 increased $33 million (4.7%) and $56 million (3.9%), respectively, versus the corresponding 2012 periods. Excluding the effects of foreign currency exchange rate changes, premiums earned in the first six months of 2013 increased $64 million (4.5%), which was primarily due to increases in international treaty business. Price competition in most property and casualty lines persists. Our underwriters continue to exercise discipline by declining offers to write business where prices are deemed inadequate. We remain prepared to increase premium volumes should market conditions improve.

Property/casualty operations produced a net underwriting loss of $34 million in the second quarter and a net underwriting gain of $62 million for the first six months of 2013 compared to net underwriting gains of $190 million and $236 million, respectively, in the corresponding 2012 periods. For the first six months of 2013 and 2012, property business generated net underwriting gains of $74 million and $210 million, respectively. In 2013, property underwriting results included catastrophe losses of $124 million from floods in Europe, which occurred during the second quarter. There were no significant catastrophe events in the first six months of 2012. The timing and magnitude of catastrophe and large individual losses has produced and is expected to continue to produce significant volatility in periodic underwriting results. In the first six months, property underwriting results also included gains from reductions in prior years loss reserves of $114 million in 2013 and $165 million in 2012 as a result of lower than expected losses reported from ceding companies.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Underwriting *(Continued)*

General Re *(Continued)*

Property/casualty (Continued)

Our casualty/workers compensation business produced net underwriting losses of $12 million in the first six months of 2013 compared to a net underwriting gain of $26 million in the corresponding 2012 period. Underwriting results in each year included gains from the reductions of estimated unpaid losses for prior years events and underwriting losses for current year business. The gains associated with prior years events were attributable to lower than anticipated claim reports. However, casualty business tends to have long claim-tails and it should not be assumed that favorable loss experience in a given period means that the loss reserve estimates currently established will continue to develop favorably.

Life/health

Premiums earned in 2013 increased $40 million (5.5%) for the second quarter and $15 million (1.0%) for the first six months over the comparable 2012 periods. Adjusting for the effects of foreign currency exchange rate changes, premiums earned in the first six months of 2013 increased $43 million (2.9%) versus 2012, which was primarily attributable to increased non-U.S. life business.

Life/health operations produced net underwriting gains of $58 million in the second quarter and $57 million during the first six months of 2013. The underwriting gains in 2013 were driven by lower than expected mortality in both the U.S. and international life businesses, offset in part by discount accretion in the long-term care business. The underwriting losses in 2012 were driven by increases in claim liabilities, which were attributable to greater than expected claims frequency and duration in the individual and group disability business in Australia, partially offset by reductions in liability estimates related to the 2011 earthquakes in New Zealand and Japan.

Berkshire Hathaway Reinsurance Group (BHRG)

Through BHRG, we underwrite excess-of-loss reinsurance and quota-share coverages on property and casualty risks for insurers and reinsurers worldwide. BHRG s business includes catastrophe excess-of-loss reinsurance and excess primary insurance and facultative reinsurance for large or otherwise unusual property risks referred to as individual risk. BHRG also writes retroactive reinsurance, which provides indemnification of losses and loss adjustment expenses with respect to past loss events. Multi-line property/casualty refers to various coverages written on both a quota-share and excess basis and includes a 20% quota-share contract with Swiss Reinsurance Company Ltd. (Swiss Re) covering substantially all of Swiss Re s property/casualty risks that incepted from January 1, 2008 and through December 31, 2012. The Swiss Re quota-share contract was not renewed in 2013 and is now in run-off. BHRG s underwriting activities also include life reinsurance and annuity businesses. Amounts are in millions.

	Premiums earned				Pre-tax underwriting gain/loss			
	Second Quarter		First Six Months		Second Quarter		First Six Months	
	2013	2012	2013	2012	2013	2012	2013	2012
Catastrophe and individual risk	$ 200	$ 251	$ 373	$ 385	$ 114	$ 174	$ 292	$ 256
Retroactive reinsurance		73	319	371	(84)	(39)	(152)	(112)
Multi-line property/casualty	1,106	1,268	2,428	2,393	285	526	836	396
Life and annuity	597	742	1,579	1,256	76	(48)	389	(118)

	$ 1,903	$ 2,334	$ 4,699	$ 4,405	$ 391	$ 613	$ 1,365	$ 422

Premiums earned in the first six months of 2013 from catastrophe and individual risk contracts declined 3% compared to the first six months of 2012. The level of business written in a given period will vary significantly due to changes in market conditions and management s assessment of the adequacy of premium rates. We have generally constrained the volume of business written in recent years as premium rates have not been attractive enough to warrant increasing volume. However, we have the capacity and desire to write substantially more business when appropriate pricing can be obtained.

Catastrophe and individual risk contracts may provide exceptionally large limits of indemnification. The timing and magnitude of losses produces extraordinary volatility in periodic underwriting results of this business. Underwriting results for the first six months of 2013 and 2012 were favorable due to the absence of exceptionally large catastrophe events. In the second quarter of 2013, underwriting results included an estimated loss of $40 million from floods in Europe. In the first six months of 2012, there were no significant losses from catastrophe events. The first six months underwriting results also included a gain of $15 million in 2013 and a loss of $45 million in 2012 from changes in estimates of prior years catastrophe loss reserves.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group (BHRG) *(Continued)*

Retroactive reinsurance policies provide indemnification of unpaid losses and loss adjustment expenses with respect to past loss events, and related claims are generally expected to be paid over long periods of time. Premiums and limits of indemnification are often very large in amount. Substantially all of the premiums earned in the first six months of 2013 were attributed to a single contract written in the first quarter covering workers compensation exposures that are expected to have a very long duration.

Underwriting results attributable to retroactive reinsurance include the recurring periodic amortization of deferred charges that are established with respect to these contracts. At the inception of a contract, deferred charges represent the difference between the premium received and the estimated ultimate losses payable. Deferred charges are subsequently amortized over the estimated claims payment period using the interest method, which reflects estimates of the timing and amount of loss payments. The original estimates of the timing and amount of loss payments are periodically analyzed against actual experience and revised based on an actuarial evaluation of the expected remaining losses. Amortization charges and deferred charge adjustments resulting from changes to the estimated timing and amount of future loss payments are included as a component of losses and loss adjustment expenses.

The underwriting losses from retroactive policies for the first six months of 2013 and 2012 primarily represent the amortization of deferred charges. In 2013 and 2012, the amortization charges were partially offset by reductions in unpaid loss estimates related to one large contract. At June 30, 2013 and December 31, 2012, unamortized deferred charges for retroactive contracts were approximately $4.2 billion and $3.9 billion, respectively. Gross unpaid losses and loss adjustment expenses of retroactive reinsurance contracts were approximately $18.2 billion at June 30, 2013 compared to approximately $18.0 billion as of December 31, 2012.

Premiums earned from multi-line property/casualty business in the second quarter and first six months of 2013 included $462 million and $1,018 million, respectively, from the Swiss Re 20% quota-share contract. In 2012, premiums earned from this contract were $814 million in the second quarter and $1,560 million for the first six months. As previously noted, the Swiss Re quota-share contract expired on December 31, 2012. As of June 30, 2013, unearned premiums related to this contract were $579 million, which will be earned as the contract runs off, with a substantial majority of that amount to be earned in the second half of 2013. Premiums earned in the second quarter and first six months of 2013 from multi-line business, other than from the Swiss Re quota-share contract, increased $190 million and $577 million, respectively, over 2012, which was primarily attributable to an increase in property quota-share business.

Multi-line property/casualty underwriting generated pre-tax underwriting gains of $285 million in the second quarter and $836 million in the first six months of 2013 compared to pre-tax gains of $526 million in the second quarter and $396 million in the first six months of 2012. Multi-line property/casualty underwriting results regularly include foreign currency transaction gains or losses associated with the changes in the valuation of certain reinsurance liabilities of U.S. based subsidiaries (including liabilities arising under retroactive reinsurance contracts), which are denominated in foreign currencies.

Multi-line property/casualty underwriting results included foreign currency exchange rate gains of $28 million and $217 million in the second quarter and first six months of 2013 compared to gains of $172 million and $37 million in the second quarter and first six months of 2012. Multi-line property/casualty periodic underwriting results can be significantly impacted by the timing and magnitude of catastrophe losses. Underwriting results in 2013 included estimated losses of $25 million from floods in Europe during the second quarter. There were no significant catastrophe loss events in the first six months of 2012. For the first six months of 2013, the Swiss Re quota-share contract produced underwriting gains of $362 million, an increase of $129 million over 2012. The underwriting results attributable to the Swiss Re quota-share contract included gains of $275 million and $64 million in the first six months of 2013 and 2012, respectively, from reductions in estimated liabilities for prior years losses.

Life and annuity premiums earned in the second quarter of 2013 decreased $145 million (20%) from the second quarter of 2012 and for the first six months of 2013 increased $323 million (26%) over 2012. In the first quarter of 2013, premiums of $1.7 billion were earned in connection with a new reinsurance contract under which BHRG assumed certain guaranteed minimum death benefit coverages on a portfolio of variable annuity reinsurance contracts that have been in run-off for a number of years. Substantially all of the premiums expected under this contract were earned at the inception of the contract. In addition, in the first quarter of 2013 BHRG agreed to amend certain provisions of its reinsurance agreement with Swiss Re Life & Health America Inc. (SRLHA) covering yearly renewable life insurance business. The amendments essentially commuted coverage with respect to a number of the underlying contracts in exchange for payments to SRLHA of $675 million. The amendments resulted in a reversal of previously recorded premiums of approximately $1.3 billion, which was exceeded by the reversal of life benefits incurred, generating a one-time pre-tax gain of $255 million, which partially offset the significant underwriting losses incurred over the previous three years.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group (BHRG) *(Continued)*

In the second quarter and first six months of 2013, the life and annuity business produced pre-tax underwriting gains of $76 million and $389 million, respectively, versus underwriting losses of $48 million for the second quarter and $118 million for the first six months of 2012. The underwriting gain in the first six months of 2013 was primarily due to the impact of the aforementioned amendments to the SRLHA contract as well as foreign currency exchange gains of $34 million. In the first six months of 2012, foreign currency gains and losses were insignificant. These foreign currency gains and losses are associated with the conversion of non-U.S. denominated liabilities into U.S. Dollars. At June 30, 2013 and December 31, 2012, aggregate annuity liabilities were approximately $4.4 billion and $3.8 billion, respectively.

Berkshire Hathaway Primary Group

The Berkshire Hathaway Primary Group (BH Primary) consists of a wide variety of independently managed insurance businesses. These businesses include: Medical Protective Company (MedPro) and Princeton Insurance Company, providers of healthcare malpractice insurance to physicians, dentists and other healthcare providers and healthcare facilities; National Indemnity Company s primary group, writers of commercial motor vehicle and general liability coverages; U.S. Investment Corporation, whose subsidiaries underwrite specialty insurance coverages; a group of companies referred to internally as Berkshire Hathaway Homestate Companies, providers of commercial multi-line insurance, including workers compensation; Central States Indemnity Company, a provider of credit and disability insurance to individuals nationwide through financial institutions; Applied Underwriters, a provider of integrated workers compensation solutions; and BoatU.S., a writer of insurance for owners of boats and small watercraft. In the fourth quarter of 2012, we acquired GUARD Insurance Group (GUARD), a provider of commercial property and casualty insurance coverage to small and mid-sized businesses.

Premiums earned in the second quarter and first six months of 2013 by BH Primary aggregated $816 million and $1,529 million, respectively, representing increases of $280 million (52%) and $486 million (47%), respectively, over 2012. The increases were primarily due to the inclusion of GUARD and increased volume from the Berkshire Hathaway Homestate Companies and National Indemnity Company s primary group. For the first six months, our primary insurers produced underwriting gains of $129 million in 2013 and $122 million in 2012.

Insurance Investment Income

A summary of net investment income of our insurance operations follows. Amounts are in millions.

	Second Quarter		First Six Months	
	2013	**2012**	**2013**	**2012**
Investment income before income taxes and noncontrolling interests	$ 1,535	$ 1,393	$ 2,531	$ 2,445
Income taxes and noncontrolling interests	391	325	588	586
Net investment income	$ 1,144	$ 1,068	$ 1,943	$ 1,859

Investment income consists of interest and dividends earned on cash and investments of our insurance businesses. Pre-tax investment income in the second quarter and first six months of 2013 increased $142 million (10%) and $86 million (4%), respectively, compared to the second quarter and first six months of 2012. The increases in pre-tax investment income in 2013 were primarily attributable to increased dividends earned on equity investments. The increases in dividends earned reflected increased rates for certain of our major equity holdings as well as increased overall investments in equity securities. Our investment income was somewhat greater in the second quarter of 2013 and 2012 than the first quarter of each year, as annual dividends were paid by foreign issuers during the second quarter. We continue to hold significant cash and cash equivalents balances earning near zero yields. However, our management believes that maintaining ample liquidity is paramount and strongly insists on safety over yield with respect to cash and cash equivalents.

Invested assets derive from shareholder capital and reinvested earnings as well as net liabilities under insurance contracts or float. The major components of float are unpaid losses, life, annuity and health benefit liabilities, unearned premiums and other liabilities to policyholders less premiums and reinsurance receivables, deferred charges assumed under retroactive reinsurance contracts and deferred policy acquisition costs. Float approximated $75 billion at June 30, 2013 and $73 billion at December 31, 2012. In the first six months of 2013, the cost of float, as represented by the ratio of our underwriting gain or loss to average float, was negative as our insurance group generated a net underwriting gain.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Insurance Investment Income *(Continued)*

A summary of cash and investments held in our insurance businesses follows. Other investments include our investments in Wrigley, Dow Chemical and Bank of America as well as warrants to acquire common shares of Goldman Sachs, General Electric and Bank of America (See Note 6 to the Consolidated Financial Statements). Amounts are in millions.

	June 30, 2013	Dec. 31, 2012
Cash and cash equivalents	$ 24,458	$ 26,458
Equity securities	101,425	86,080
Fixed maturity securities	27,138	29,984
Other investments	17,234	16,057
	$ 170,255	$ 158,579

Fixed maturity securities as of June 30, 2013 were as follows. Amounts are in millions.

	Amortized cost	Net unrealized gains	Fair value
U.S. Treasury, U.S. government corporations and agencies	$ 2,799	$ 12	$ 2,811
States, municipalities and political subdivisions	2,600	148	2,748
Foreign governments	8,606	15	8,621
Corporate bonds, investment grade	5,835	633	6,468
Corporate bonds, non-investment grade	3,351	1,216	4,567
Mortgage-backed securities	1,711	212	1,923
	$ 24,902	$ 2,236	$ 27,138

All U.S. government obligations are rated AA+ or Aaa by the major rating agencies and approximately 83% of all state, municipal and political subdivisions, foreign government obligations and mortgage-backed securities were rated AA or higher. Non-investment grade securities represent securities that are rated below BBB- or Baa3.

Railroad (BNSF)

Burlington Northern Santa Fe Corporation (BNSF) operates one of the largest railroad systems in North America with approximately 32,500 route miles of track in 28 states and two Canadian provinces. BNSF s major business groups are classified by product/commodity shipped and include consumer products, coal, industrial products and agricultural products. Earnings of BNSF are summarized below (in millions).

	Second Quarter		First Six Months	
	2013	2012	2013	2012
Revenues	$ 5,322	$ 5,062	$ 10,606	$ 10,064

Operating expenses:				
Compensation and benefits	1,128	1,078	2,267	2,195
Fuel	1,076	1,102	2,198	2,197
Purchased services	617	614	1,234	1,183
Depreciation and amortization	489	470	972	933
Equipment rents	205	199	403	401
Materials and other	233	164	491	457
Total operating expenses	3,748	3,627	7,565	7,366
Interest expense	177	155	355	303
	3,925	3,782	7,920	7,669

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an individual who is a citizen or resident of the United States;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or if the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

As used herein, the term Non-U.S. Holder means a beneficial owner of a note (other than an entity treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership considering an investment in the notes and partners in such a partnership are urged to consult their tax advisors about the U.S. federal income tax consequences of the purchase, ownership and disposition of the notes.

Investors considering the purchase of the notes are urged to consult their own tax advisors with respect to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the U.S. federal estate or gift tax rules or under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty.

U.S. Holders

The following discussion is a summary of certain U.S. federal income tax considerations generally applicable to a U.S. Holder.

Stated interest and original issue discount

Qualified stated interest on a note (as defined below) generally will be included in the income of a U.S. Holder as ordinary income at the time such interest is received or accrued, in accordance with the U.S. Holder s regular method of tax accounting.

If the issue price of the notes is less than their stated redemption price at maturity, then the notes will be treated as being issued with original issue discount (OID) for U.S. federal income tax purposes unless the difference between their issue price and their stated redemption price at maturity is less than a statutory de minimis amount. The stated redemption price at maturity of a debt security is the total of all payments to be made under the debt security other than qualified stated interest (generally, stated interest that is unconditionally payable in cash or property at least annually at a single fixed rate or at certain floating rates that properly take into account the length of the interval between stated interest payments); and, generally, is expected to equal the principal amount of the debt security. All stated interest on the notes is expected to be qualified stated interest. The amount of OID on the notes will be de minimis if it is less than 0.0025 multiplied by the product of their stated redemption price at maturity and the number of complete years to maturity.

If the difference between the issue price and the stated redemption price at maturity of the notes is more than the statutory de minimis amount, the notes will be treated as having been issued with OID. The amount of OID on the notes, which is equal to the difference, must be included in income as ordinary interest as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder s regular method of tax accounting.

U.S. Holders purchasing notes with OID should consult their tax advisors regarding computation of OID accruals.

Sale, redemption, exchange or other taxable disposition of notes

Upon the sale, exchange, redemption, repurchase, retirement or other disposition of a note, a U.S. Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash proceeds and the fair market value of any property received on the disposition (except to the extent such amount is attributable

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to accrued but unpaid stated interest, which is taxable as ordinary income if not previously included in such Holder s income) and (ii) such U.S. Holder s adjusted tax basis in the note. A U.S. Holder s adjusted tax basis in a note generally will equal the cost of the note to such Holder increased by the amount of OID (if any) previously included in income by such Holder and decreased by the amount of any prior payments other than qualified stated interest payments.

Capital gain or loss recognized upon the disposition of a note will be a long-term capital gain or loss if the note was held for more than one year. The maximum tax rate on long-term capital gains to non-corporate U.S. Holders is generally 20%. The deductibility of capital losses is subject to limitations.

Information reporting and backup withholding

We will report to our U.S. Holders and to the IRS the amount of interest payments, accruals of OID and payments of the proceeds from the sale, exchange, redemption, repurchase, retirement or other disposition of a note made to a U.S. Holder, and the amount we withhold, if any. Under the backup withholding rules, a U.S. Holder may be subject to backup withholding at a current rate of up to 28% with respect to such amounts unless the Holder:

- comes within certain exempt categories and, when required, demonstrates that fact, or

- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A U.S. Holder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. Holder s income tax liability if the information is furnished to the IRS in a timely manner.

Medicare Tax

Certain U.S. Holders who are individuals, estates or trusts are required to pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale or other disposition of the notes. U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the notes.

Non-U.S. Holders

The rules governing the U.S. federal income taxation of a Non-U.S. Holder are complex and no attempt will be made herein to provide more than a summary of such rules. Non-U.S. Holders should consult their tax advisors to determine the effect of U.S. federal, state, local and foreign tax laws, as well as tax treaties, with regard to an investment in the notes.

Interest and original issue discount

A Non-U.S. Holder holding the notes on its own behalf generally will be exempt from U.S. federal income and withholding taxes on payments of interest (which for purposes of this discussion of Non-U.S. Holders includes any OID) on a note that is not effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder unless such Non-U.S. Holder is (i) a direct or indirect 10% or greater partner (as defined in section 871(h)(3) of the Code) in the Operating Partnership, (ii) a controlled foreign corporation related to the Operating Partnership, or (iii) a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business.

In order for a Non-U.S. Holder to qualify for this exemption from taxation on interest, the withholding agent (generally, the last U.S. payor or a non-U.S. payor who is a qualified intermediary or withholding foreign partnership) must have received a statement (generally made on IRS Form W-8BEN) from the Non-U.S. Holder

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that: (i) is signed under penalties of perjury by the beneficial owner of the note, (ii) certifies that such owner is a Non-U.S. Holder and (iii) provides the beneficial owner s name and address. A Non-U.S. Holder that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding the debt securities on its own behalf may have substantially increased reporting requirements and should consult its tax advisor.

To the extent that interest income with respect to a note is not exempt from U.S. federal withholding tax as described above, a Non-U.S. Holder will be subject to U.S. federal income tax at a 30% rate unless (1) such tax is eliminated or reduced under an applicable income tax treaty or (2) such interest income is effectively connected with the Non-U.S. Holder s conduct of a trade or business in the United States.

Sale, redemption, exchange or other taxable disposition of notes

Any gain realized on the sale, redemption, exchange, retirement, repurchase or other taxable disposition of a note by a Non-U.S. Holder (except to the extent such amount is attributable to accrued interest, which would be taxable as described above) will be exempt from U.S. federal income and withholding taxes so long as: (i) the gain is not effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder (and, if an applicable income tax treaty so provides, is not attributable to a U.S. permanent establishment) and (ii) in the case of a foreign individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year.

Effectively connected income.

A Non-U.S. Holder whose gain or interest income with respect to a note is effectively connected with the conduct of a trade or business in the United States by such Non-U.S. Holder (and, if an applicable income tax treaty so provides, is attributable to a U.S. permanent establishment) will generally be subject to U.S. federal income tax on the gain or interest income at regular U.S. federal income tax rates, as if the Holder were a U.S. person. In addition, if the Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30 percent of its dividend equivalent amount within the meaning of the Code for the taxable year, subject to adjustment, unless it qualifies for a lower rate or an exemption under an applicable tax treaty. The withholding tax discussed above will not apply to effectively connected income, provided the Holder furnishes an IRS form W-8ECI or IRS Form W-8BEN, as applicable.

Information reporting and backup withholding

Information reporting requirements and backup withholding generally will not apply to interest payments on a note to a Non-U.S. Holder if the statement described in Non-U.S. Holders is duly provided by such Holder, provided that the withholding agent does not have actual knowledge that the Holder is a United States person. Information reporting requirements and backup withholding will not apply to any payment of the proceeds of the sale or other disposition (including a redemption) of a note effected outside the United States by a foreign office of a broker (as defined in applicable Treasury regulations), unless such broker (i) is a United States person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a controlled foreign corporation within the meaning of the Code, (iv) is a U.S. branch of a foreign bank or a foreign insurance company, or (v) is a partnership with a U.S. trade or business or a specified percentage of U.S. partners. Payment of the proceeds of any such disposition effected outside the United States by a foreign office of any broker that is described in (ii) through (v) of the preceding sentence will not be subject to backup withholding, but will be subject to the information reporting requirements unless such broker has documentary evidence in its records that the beneficial owner is a Non-U.S. Holder and certain other conditions are met, or the beneficial owner otherwise establishes an exemption. Payment of the proceeds of any such disposition or through the United States office of a broker is subject to information reporting and backup withholding requirements, unless the beneficial owner of the debt security provides the statement described in

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Non-U.S. Holders or otherwise establishes an exemption. Any amount withheld from a payment to a Holder of a note under the backup withholding rules is allowable as a credit against such Holder s U.S. federal income tax liability (which might entitle such Holder to a refund), provided that such Holder timely furnishes the required information to the IRS.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code (which are commonly referred to as FATCA) generally impose withholding taxes on certain types of payments made to foreign financial institutions and certain other non-U.S. entities unless additional certification, information reporting and other specified requirements are satisfied. Failure to comply with the FATCA reporting requirements could result in withholding tax being imposed on payments of interest and sales proceeds to foreign intermediaries and certain Non-U.S. Holders. Pursuant to recently issued final Treasury regulations and administrative guidance, this withholding tax will generally not be imposed on payments pursuant to obligations that are outstanding on July 1, 2014. However, if the debt securities were modified in certain ways after June 30, 2014, they could become subject to these rules. Prospective investors should consult their own tax advisors regarding FATCA.

THE U.S. FEDERAL INCOME TAX SUMMARY SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON YOUR PARTICULAR SITUATION. YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO YOU OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER OTHER FEDERAL TAX LAWS AND STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN TAX LAWS.

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PLAN OF DISTRIBUTION

We may sell the securities in any one or more of the following ways:

- to the public through underwriting syndicates led by one or more managing underwriters;
- directly to investors, including through a specific bidding, auction or other process;
- to investors through agents;
- directly to agents;
- to or through brokers or dealers;
- to one or more underwriters acting alone for resale to investors or to the public; and
- through a combination of any such methods of sale.

If we sell securities to a dealer acting as principal, the dealer may resell such securities at varying prices to be determined by such dealer in its discretion at the time of resale without consulting with us and such resale prices may not be disclosed in the applicable prospectus supplement.

Any underwritten offering may be on a best efforts or a firm commitment basis. We may also offer securities through subscription rights distributed to our stockholders on a pro rata basis, which may or may not be transferable. In any distribution of subscription rights to stockholders, if all of the underlying securities are not subscribed for, we may then sell the unsubscribed securities directly to third parties or may engage the services of one or more underwriters, dealers or agents, including standby underwriters, to sell the unsubscribed securities to third parties.

Sales of the securities may be effected from time to time in one or more transactions, including negotiated transactions:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
- at prices related to prevailing market prices; or
- at negotiated prices.

Any of the prices may represent a discount from the then prevailing market prices.

In the sale of the securities, underwriters or agents may receive compensation from us in the form of underwriting discounts or commissions and may also receive compensation from purchasers of the securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell the securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Discounts, concessions and commissions may be changed from time to time. Dealers and agents that participate in the distribution of the securities may be deemed to be underwriters under the Securities Act, and any discounts, concessions or commissions they receive from us and any profit on the resale of securities they realize may be deemed to be underwriting compensation under applicable federal and state securities laws.

The applicable prospectus supplement will, where applicable:

identify any such underwriter, dealer or agent;

describe any compensation in the form of discounts, concessions, commissions or otherwise received from us by each such underwriter or agent and in the aggregate by all underwriters and agents;

- describe any discounts, concessions or commissions allowed by underwriters to participating dealers;

- identify the amounts underwritten; and

- identify the nature of the underwriter s or underwriters obligation to take the securities.

Unless otherwise specified in the related prospectus supplement, each series of securities will be a new issue with no established trading market. It is possible that one or more underwriters may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of, or the trading market for, any offered securities.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If disclosed in the applicable prospectus supplement, in connection with those derivative transactions third parties may sell securities covered by this prospectus and such prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or from others to settle those short sales or to close out any related open borrowings of securities, and may use securities received from us in settlement of those derivative transactions to close out any related open borrowings of securities. If the third party is or may be deemed to be an underwriter under the Securities Act, it will be identified in the applicable prospectus supplements.

Until the distribution of the securities is completed, rules of the SEC may limit the ability of any underwriters and selling group members to bid for and purchase the securities. As an exception to these rules, underwriters are permitted to engage in some transactions that stabilize the price of the securities. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the securities.

Underwriters may engage in overallotment. If any underwriters create a short position in the securities in an offering in which they sell more securities than are set forth on the cover page of the applicable prospectus supplement, the underwriters may reduce that short position by purchasing the securities in the open market.

The lead underwriters may also impose a penalty bid on other underwriters and selling group members participating in an offering. This means that if the lead underwriters purchase securities in the open market to reduce the underwriters short position or to stabilize the price of the securities, they may reclaim the amount of any selling concession from the underwriters and selling group members who sold those securities as part of the offering.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security before the distribution is completed.

We do not make any representation or prediction as to the direction or magnitude of any effect that the transactions described above might have on the price of the securities. In addition, we do not make any representation that underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of the securities may be entitled to indemnification by us against or contribution towards certain civil liabilities, including liabilities under the applicable securities laws.

Underwriters, dealers and agents may engage in transactions with us, perform services for us or be our tenants in the ordinary course of business.

If indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by particular institutions to purchase securities from us at the public offering price set

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forth in such prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in such prospectus supplement. Each delayed delivery contract will be for an amount no less than, and the aggregate amounts of securities sold under delayed delivery contracts shall be not less nor more than, the respective amounts stated in the applicable prospectus supplement. Institutions with which such contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but will in all cases be subject to our approval. The obligations of any purchaser under any such contract will be subject to the conditions that (a) the purchase of the securities shall not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject, and (b) if the securities are being sold to underwriters, we shall have sold to the underwriters the total amount of the securities less the amount thereof covered by the contracts. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts.

To comply with applicable state securities laws, the securities offered by this prospectus will be sold, if necessary, in such jurisdictions only through registered or licensed brokers or dealers. In addition, securities may not be sold in some states unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Underwriters, dealers or agents that participate in the offer of securities, or their affiliates or associates, may have engaged or engage in transactions with and perform services for, Medical Properties Trust, Inc., MPT Operating Partnership or our affiliates in the ordinary course of business for which they may have received or receive customary fees and reimbursement of expenses.

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LEGAL MATTERS

Certain legal matters with respect to the validity of the debt securities offered hereby will be passed upon by Goodwin Procter LLP, New York, New York. The general summary of certain material U.S. federal income tax considerations contained under the heading Certain material U.S. federal income tax considerations (other than Taxation of Noteholders) has been passed upon for us by Baker, Donelson, Bearman, Caldwell & Berkowitz, P.C.

EXPERTS

The financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K of Medical Properties Trust, Inc. and MPT Operating Partnership, L.P. for the year ended December 31, 2012 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

Prior to the filing of this registration statement, the registrants (other than Medical Properties) were not subject to the periodic reporting and other informational requirements of the Exchange Act. Medical Properties, a potential guarantor of the debt securities issued hereby and the parent company of the issuers, is currently subject to the periodic reporting and other informational requirements of the Exchange Act, and files annual, quarterly and current reports and other information with the SEC. The registration statement of which this prospectus forms a part, such reports and other information will be available on the SEC s Web site at www.sec.gov. You also may read and copy any documents filed at the SEC s public reference rooms in Washington, D.C., New York, New York, and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information about their public reference rooms, including copy charges. The SEC filings of Medical Properties are also available free of charge at its Internet website (http://www.medicalpropertiestrust.com). The foregoing Internet website is an inactive textual reference only, meaning that the information contained on the website is not a part of this prospectus and is not incorporated in this prospectus by reference. Information may also be obtained from us at Medical Properties Trust, Inc., 1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242, Attention: Chief Financial Officer. Medical Properties Trust, Inc. s telephone number is (205) 969-3755.

We have not authorized anyone to give you any information or to make any representations about us or the transactions we discuss in this prospectus other than those contained in this prospectus or any accompanying prospectus supplement or free writing prospectus. If you are given any information or representations about these matters that is not discussed in this prospectus or any accompanying prospectus supplement or free writing prospectus, you must not rely on that information. This prospectus is not an offer to sell or a solicitation of an offer to buy securities anywhere or to anyone where or to whom we are not permitted to offer or sell securities under applicable law.

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INCORPORATION BY REFERENCE

We incorporate by reference into this prospectus the documents listed below and any future filings Medical Properties and MPT Operating Partnership make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, including any filings after the date of this prospectus (other than information furnished pursuant to Item 2.01, Item 7.01 or exhibits furnished pursuant to Item 9.01 of Form 8-K), until the offering of debt securities is terminated. The information incorporated by reference herein is an important part of this prospectus. Any statement in a document incorporated by reference in this prospectus will be deemed to be modified or superseded to the extent a statement contained in (1) this prospectus, or (2) any other subsequently filed document that is incorporated by reference in this prospectus, modifies or supersedes such statement:

the combined Annual Report of Medical Properties and MPT Operating Partnership on Form 10-K for the year ended December 31, 2012;

Medical Properties Definitive Proxy Statement on Schedule 14A, relating to the annual meeting of stockholders held on May 23, 2013, filed on April 26, 2013, and additional definitive materials on Schedule 14A filed on April 26, 2013 and May 15, 2013 (solely to the extent specifically incorporated by reference into Medical Properties Trust, Inc. s Annual Report on Form 10-K for the year ended December 31, 2012)

Medical Properties Quarterly Report on Form 10-Q for the quarter ended March 31, 2013; and

Medical Properties Current Reports on Form 8-K filed on February 28, 2013, May 24, 2013 and July 15, 2013.

We will provide without charge to each person to whom a prospectus is delivered, on written or oral request of that person, a copy of any or all of the documents we are incorporating by reference into this prospectus other than exhibits to those documents unless those exhibits are specifically incorporated by reference into those documents. A written request should be addressed to Investor Relations, Medical Properties Trust, Inc., 1000 Urban Center Drive, Suite 501, Birmingham, Alabama 35242.

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