

BERKSHIRE HATHAWAY INC
Form 10-Q
May 06, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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
(State or other jurisdiction of
incorporation or organization)

47-0813844
(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 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 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 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

Number of shares of common stock outstanding as of April 28, 2016:

Class A	806,658
Class B	1,255,598,753

Table of Contents**BERKSHIRE HATHAWAY INC.**

	Page No.
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets March 31, 2016 and December 31, 2015</u>	2
<u>Consolidated Statements of Earnings First Quarter 2016 and 2015</u>	4
<u>Consolidated Statements of Comprehensive Income First Quarter 2016 and 2015</u>	5
<u>Consolidated Statements of Changes in Shareholders Equity First Quarter 2016 and 2015</u>	5
<u>Consolidated Statements of Cash Flows First Quarter 2016 and 2015</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-24
<u>Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	25-42
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	44
<u>Item 1A. Risk Factors</u>	44
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities</u>	44
<u>Item 3. Defaults Upon Senior Securities</u>	44
<u>Item 4. Mine Safety Disclosures</u>	44
<u>Item 5. Other Information</u>	44
<u>Item 6. Exhibits</u>	45
<u>Signature</u>	45

Table of Contents**Part I Financial Information****Item 1. Financial Statements****BERKSHIRE HATHAWAY INC.****and Subsidiaries****CONSOLIDATED BALANCE SHEETS***(dollars in millions)*

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
<i>Insurance and Other:</i>		
Cash and cash equivalents	\$ 53,587	\$ 61,181
Investments:		
Fixed maturity securities	24,519	25,988
Equity securities	104,798	110,212
Other	14,418	15,998
Investments in The Kraft Heinz Company	23,520	23,424
Receivables	27,190	23,303
Inventories	15,837	11,916
Property, plant and equipment	18,958	15,540
Goodwill	53,523	37,188
Other intangible assets	35,267	9,148
Deferred charges reinsurance assumed	7,799	7,687
Other	7,522	6,697
	386,938	348,282
<i>Railroad, Utilities and Energy:</i>		
Cash and cash equivalents	2,692	3,437
Property, plant and equipment	121,052	120,279
Goodwill	24,246	24,178
Regulatory assets	4,303	4,285
Other	13,070	12,833
	165,363	165,012
<i>Finance and Financial Products:</i>		
Cash and cash equivalents	2,063	7,112
Investments in equity and fixed maturity securities	369	411
Other investments	5,392	5,719

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Loans and finance receivables	12,925	12,772
Property, plant and equipment and assets held for lease	9,525	9,347
Goodwill	1,345	1,342
Other	2,395	2,260
	34,014	38,963
	\$ 586,315	\$ 552,257

See accompanying Notes to Consolidated Financial Statements

Table of Contents

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

	March 31, 2016 (Unaudited)	December 31, 2015
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Insurance and Other:</i>		
Losses and loss adjustment expenses	\$ 74,562	\$ 73,144
Unearned premiums	14,832	13,311
Life, annuity and health insurance benefits	14,737	14,497
Other policyholder liabilities	7,280	7,123
Accounts payable, accruals and other liabilities	20,028	17,879
Notes payable and other borrowings	28,073	14,599
	159,512	140,553
<i>Railroad, Utilities and Energy:</i>		
Accounts payable, accruals and other liabilities	11,205	11,994
Regulatory liabilities	3,110	3,033
Notes payable and other borrowings	58,110	57,739
	72,425	72,766
<i>Finance and Financial Products:</i>		
Accounts payable, accruals and other liabilities	1,576	1,398
Derivative contract liabilities	4,646	3,836
Notes payable and other borrowings	15,356	11,951
	21,578	17,185
Income taxes, principally deferred	70,963	63,126
Total liabilities	324,478	293,630
Shareholders' equity:		
Common stock	8	8
Capital in excess of par value	35,670	35,620
Accumulated other comprehensive income	31,454	33,982
Retained earnings	193,292	187,703
Treasury stock, at cost	(1,763)	(1,763)

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Berkshire Hathaway shareholders' equity	258,661	255,550
Noncontrolling interests	3,176	3,077
Total shareholders' equity	261,837	258,627
	\$ 586,315	\$ 552,257

See accompanying Notes to Consolidated Financial Statements

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

	First Quarter	
	2016	2015
	(Unaudited)	
Revenues:		
<i>Insurance and Other:</i>		
Insurance premiums earned	\$ 11,124	\$ 9,540
Sales and service revenues	28,279	24,941
Interest, dividend and other investment income	1,391	1,303
Investment gains/losses	1,846	96
	42,640	35,880
<i>Railroad, Utilities and Energy:</i>		
Revenues	8,845	9,891
<i>Finance and Financial Products:</i>		
Sales and service revenues	1,392	1,222
Interest, dividend and other investment income	332	332
Investment gains/losses	4	1
Derivative gains/losses	(810)	1,318
	918	2,873
	52,403	48,644
Costs and expenses:		
<i>Insurance and Other:</i>		
Insurance losses and loss adjustment expenses	7,532	6,001
Life, annuity and health insurance benefits	1,167	1,180
Insurance underwriting expenses	2,077	1,612
Cost of sales and services	22,796	20,259
Selling, general and administrative expenses	3,722	3,078
Interest expense	387	144
	37,681	32,274
<i>Railroad, Utilities and Energy:</i>		
Cost of sales and operating expenses	6,319	6,968

Interest expense	685	632
	7,004	7,600
Finance and Financial Products:		
Cost of sales and services	768	659
Selling, general and administrative expenses	393	365
Interest expense	101	99
	1,262	1,123
	45,947	40,997
Earnings before income taxes	6,456	7,647
Income tax expense	799	2,414
Net earnings	5,657	5,233
Less: Earnings attributable to noncontrolling interests	68	69
Net earnings attributable to Berkshire Hathaway shareholders	\$ 5,589	\$ 5,164
Net earnings per share attributable to Berkshire Hathaway shareholders *	\$ 3,401	\$ 3,143
Average equivalent Class A Shares outstanding *	1,643,487	1,642,951

* Average shares outstanding and net earnings per share are shown on an equivalent Class A common stock basis. Equivalent Class B shares outstanding are 1,500 times the equivalent Class A amount. Net earnings per equivalent Class B share outstanding are one-fifteen-hundredth (1/1,500) of the equivalent Class A amount.

See accompanying Notes to Consolidated Financial Statements

Table of Contents**BERKSHIRE HATHAWAY INC.****and Subsidiaries****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***(dollars in millions)*

	First Quarter	
	2016	2015
	(Unaudited)	
Net earnings	\$ 5,657	\$ 5,233
Other comprehensive income:		
Net change in unrealized appreciation of investments	(2,691)	(3,796)
Applicable income taxes	899	1,431
Reclassification of investment appreciation in net earnings	(1,807)	(91)
Applicable income taxes	632	32
Foreign currency translation	493	(1,360)
Applicable income taxes	(30)	(23)
Prior service cost and actuarial gains/losses of defined benefit pension plans	4	49
Applicable income taxes		(15)
Other, net	(22)	(125)
Other comprehensive income, net	(2,522)	(3,898)
Comprehensive income	3,135	1,335
Comprehensive income attributable to noncontrolling interests	74	39
Comprehensive income attributable to Berkshire Hathaway shareholders	\$ 3,061	\$ 1,296

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**(Unaudited)***(dollars in millions)*

	Berkshire Hathaway shareholders equity					
	Common stock	Accumulated		Treasury	Non-	
	and capital in	other	Retained	stock	controlling	Total
	excess of par	comprehensive	earnings		interests	
	value	income				
	\$ 35,581	\$ 42,732	\$ 163,620	\$ (1,763)	\$ 2,857	\$ 243,027

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Balance at December 31, 2014							
Net earnings			5,164		69		5,233
Other comprehensive income, net		(3,868)			(30)		(3,898)
Issuance of common stock	9						9
Transactions with noncontrolling interests	(17)				485		468
Balance at March 31, 2015	\$ 35,573	\$ 38,864	\$ 168,784	\$ (1,763)	\$ 3,381		\$ 244,839
Balance at December 31, 2015	\$ 35,628	\$ 33,982	\$ 187,703	\$ (1,763)	\$ 3,077		\$ 258,627
Net earnings			5,589		68		5,657
Other comprehensive income, net		(2,528)			6		(2,522)
Issuance of common stock	34						34
Transactions with noncontrolling interests	16				25		41
Balance at March 31, 2016	\$ 35,678	\$ 31,454	\$ 193,292	\$ (1,763)	\$ 3,176		\$ 261,837

See accompanying Notes to Consolidated Financial Statements

Table of Contents**BERKSHIRE HATHAWAY INC.****and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS***(dollars in millions)*

	First Quarter	
	2016	2015
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 5,657	\$ 5,233
Adjustments to reconcile net earnings to operating cash flows:		
Investment gains/losses	(1,850)	(97)
Depreciation and amortization	2,125	1,871
Other	255	(66)
Changes in operating assets and liabilities:		
Losses and loss adjustment expenses	1,454	(114)
Deferred charges reinsurance assumed	(111)	139
Unearned premiums	1,476	1,667
Receivables and originated loans	(1,987)	(2,064)
Derivative contract assets and liabilities	810	(1,307)
Income taxes	497	1,612
Other	(845)	(911)
Net cash flows from operating activities	7,481	5,963
Cash flows from investing activities:		
Purchases of fixed maturity securities	(1,496)	(2,164)
Purchases of equity securities	(3,059)	(1,624)
Sales of fixed maturity securities	539	227
Redemptions and maturities of fixed maturity securities	2,782	1,662
Sales and redemptions of equity securities	2,258	1,112
Purchases of loans and finance receivables	(175)	(39)
Collections of loans and finance receivables	80	129
Acquisitions of businesses, net of cash acquired	(30,185)	(3,995)
Purchases of property, plant and equipment	(2,843)	(3,447)
Other	(390)	7
Net cash flows from investing activities	(32,489)	(8,132)
Cash flows from financing activities:		
Proceeds from borrowings of insurance and other businesses	8,539	3,241
Proceeds from borrowings of railroad, utilities and energy businesses		1,984

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Proceeds from borrowings of finance businesses	3,493	998
Repayments of borrowings of insurance and other businesses	(381)	(1,722)
Repayments of borrowings of railroad, utilities and energy businesses	(522)	(636)
Repayments of borrowings of finance businesses	(88)	(1,073)
Changes in short term borrowings, net	547	136
Acquisitions of noncontrolling interests	(1)	(43)
Other	26	(67)
Net cash flows from financing activities	11,613	2,818
Effects of foreign currency exchange rate changes	7	(207)
Increase (decrease) in cash and cash equivalents	(13,388)	442
Cash and cash equivalents at beginning of year	71,730	63,269
Cash and cash equivalents at end of first quarter *	\$ 58,342	\$ 63,711
<i>* Cash and cash equivalents are comprised of the following:</i>		
<i>Beginning of year</i>		
<i>Insurance and Other</i>	<i>\$ 61,181</i>	<i>\$ 57,974</i>
<i>Railroad, Utilities and Energy</i>	<i>3,437</i>	<i>3,001</i>
<i>Finance and Financial Products</i>	<i>7,112</i>	<i>2,294</i>
	<i>\$ 71,730</i>	<i>\$ 63,269</i>
<i>End of first quarter</i>		
<i>Insurance and Other</i>	<i>\$ 53,587</i>	<i>\$ 58,198</i>
<i>Railroad, Utilities and Energy</i>	<i>2,692</i>	<i>3,522</i>
<i>Finance and Financial Products</i>	<i>2,063</i>	<i>1,991</i>
	<i>\$ 58,342</i>	<i>\$ 63,711</i>

See accompanying Notes to Consolidated Financial Statements

Table of Contents

BERKSHIRE HATHAWAY INC.

and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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) which includes 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.

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 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. In addition, changes in the fair values of liabilities associated with derivative contracts can cause significant variations in periodic net earnings.

Note 2. New accounting pronouncements

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 applies to contracts with customers, excluding, most notably, insurance and leasing contracts. ASU 2014-09 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identifying the performance obligations under the contract, (c) determining the transaction price, (d) allocating the transaction price to the identified performance obligations and (e) recognizing revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional disclosures and financial statement presentations. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017, with early adoption permitted for reporting periods beginning after December 15, 2016. ASU 2014-09 may be adopted retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. Our evaluation of ASU 2014-09 is ongoing and not complete. Further, the FASB may issue interpretative guidance in the future, which may cause our evaluation to change. While we currently anticipate some relatively minor changes to revenue recognition for certain aspects of customer contracts, we do not anticipate ASU 2014-09 will have a material effect on our Consolidated Financial Statements.

In May 2015, the FASB issued ASU 2015-09 Financial Services Insurance Disclosures about Short-Duration Contracts, which requires additional disclosures in annual and interim reporting periods by insurance entities regarding liabilities for unpaid claims and claim adjustment expenses, and changes in assumptions or methodologies for calculating such

liabilities. ASU 2015-09 is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. We continue to evaluate the effect adopting this standard will have on the disclosures in our Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 generally requires that equity investments (excluding equity method investments) be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 also modifies certain disclosure requirements related to financial assets and liabilities. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. Given the current magnitude of our equity investments, the adoption of ASU 2016-01 will likely have a significant impact on the periodic net earnings reported in our Consolidated Statement of Earnings. However, the adoption of ASU 2016-01 will likely not significantly impact our comprehensive income or shareholders' equity. ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017, with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Thus, the adoption will result in a reclassification of the related accumulated unrealized appreciation, net of applicable deferred income taxes, currently included in accumulated other comprehensive income to retained earnings, resulting in no impact on Berkshire shareholders' equity.

In February 2016, the FASB issued ASU 2016-02 Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect this standard will have on our Consolidated Financial Statements.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 3. Significant business acquisitions**

Our long-held acquisition strategy is to acquire businesses at sensible prices that have consistent earning power, good returns on equity and able and honest management. On August 8, 2015, Berkshire entered into a definitive agreement with Precision Castparts Corp. (PCC) to acquire all outstanding PCC shares of common stock for \$235 per share in cash. The acquisition was completed on January 29, 2016. The aggregate consideration paid was approximately \$32.7 billion, which included the value of PCC shares we already owned. We funded the acquisition with a combination of existing cash balances and proceeds from a short-term credit facility.

PCC is a worldwide, diversified manufacturer of complex metal components and products. It serves the aerospace, power and general industrial markets. PCC is a market leader in manufacturing complex structural investment castings and forged components for aerospace markets, machined airframe components and highly engineered critical fasteners for aerospace applications, and in manufacturing airfoil castings for the aerospace and industrial gas turbine markets. PCC also is a leading producer of titanium and nickel superalloy melted and mill products for the aerospace, chemical processing, oil and gas and pollution control industries, and manufactures extruded seamless pipe, fittings and forgings for power generation and oil and gas applications.

In November 2014, Berkshire entered into a definitive agreement with The Procter & Gamble Company (P&G) to acquire the Duracell business from P&G. The transaction closed on February 29, 2016. Duracell is a leading manufacturer of high-performance alkaline batteries and is an innovator in renewable power and wireless charging technologies. Pursuant to the agreement, we received a recapitalized Duracell Company in exchange for shares of P&G common stock held by Berkshire subsidiaries which had a fair value of approximately \$4.2 billion.

Preliminary values of identified assets acquired and liabilities assumed and residual goodwill of PCC and Duracell at their respective acquisition dates are summarized in the table that follows (in millions). Financial results attributable to business acquisitions are included in our Consolidated Financial Statements beginning on their respective acquisition dates. The fair values of certain assets and liabilities, particularly property, plant and equipment and intangible assets, are provisional and are subject to revision as the related valuations are completed. Goodwill from these acquisitions is not amortizable for income tax purposes.

	PCC	Duracell
Cash and cash equivalents	\$ 250	\$ 1,807
Inventories	3,459	326
Property, plant and equipment	2,865	364
Goodwill	15,833	614
Other intangible assets	23,988	2,024
Other assets	1,914	256
Assets acquired	\$ 48,309	\$ 5,391
Accounts payable, accruals and other liabilities	\$ 2,362	\$ 392
Notes payable and other borrowings	5,251	

Income taxes, principally deferred	8,038	760
Liabilities assumed	\$ 15,651	\$ 1,152
Net assets	\$ 32,658	\$ 4,239

The following table sets forth certain unaudited pro forma consolidated earnings data for the first three months of 2015 as if the acquisitions discussed previously were consummated on the same terms at the beginning of the year preceding their respective acquisition dates (in millions, except per share amount). Pro forma data for the first three months of 2016 was not materially different from the amounts reflected in the accompanying Consolidated Financial Statements.

	2015
Revenues	\$ 51,587
Net earnings attributable to Berkshire Hathaway shareholders	5,152
Net earnings per equivalent Class A common share attributable to Berkshire Hathaway shareholders	3,136

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 4. Investments in fixed maturity securities**

Investments in securities with fixed maturities as of March 31, 2016 and December 31, 2015 are summarized by type below (in millions).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>March 31, 2016</i>				
U.S. Treasury, U.S. government corporations and agencies	\$ 3,315	\$ 19	\$ (1)	\$ 3,333
States, municipalities and political subdivisions	1,497	69	(1)	1,565
Foreign governments	10,195	309	(46)	10,458
Corporate bonds	7,150	699	(21)	7,828
Mortgage-backed securities	1,206	172	(5)	1,373
	\$ 23,363	\$ 1,268	\$ (74)	\$ 24,557
<i>December 31, 2015</i>				
U.S. Treasury, U.S. government corporations and agencies	\$ 3,425	\$ 10	\$ (8)	\$ 3,427
States, municipalities and political subdivisions	1,695	71	(2)	1,764
Foreign governments	11,327	226	(85)	11,468
Corporate bonds	7,323	632	(29)	7,926
Mortgage-backed securities	1,279	168	(5)	1,442
	\$ 25,049	\$ 1,107	\$ (129)	\$ 26,027

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

	March 31, 2016	December 31, 2015
Insurance and other	\$ 24,519	\$ 25,988
Finance and financial products	38	39
	\$ 24,557	\$ 26,027

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 March 31, 2016, approximately 94% of foreign government holdings were rated AA or higher by at least one of the major rating agencies. Approximately 78% of foreign government holdings were issued or guaranteed by the United Kingdom, Germany, Australia or Canada.

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The amortized cost and estimated fair value of securities with fixed maturities at March 31, 2016 are summarized below by contractual maturity dates. Actual maturities may differ from contractual maturities due to early call or prepayment rights held by issuers. 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	\$ 6,561	\$ 11,602	\$ 1,484	\$ 2,510	\$ 1,206	\$ 23,363
Fair value	6,605	12,040	1,590	2,949	1,373	24,557

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 5. Investments in equity securities**

Investments in equity securities as of March 31, 2016 and December 31, 2015 are summarized based on the primary industry of the investee in the table below (in millions).

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<i>March 31, 2016 *</i>				
Banks, insurance and finance	\$ 19,852	\$ 22,806	\$ (150)	\$ 42,508
Consumer products	4,709	18,323		23,032
Commercial, industrial and other	35,153	7,696	(1,969)	40,880
	\$ 59,714	\$ 48,825	\$ (2,119)	\$ 106,420

* *Approximately 60% of the aggregate fair value was concentrated in the equity securities of four companies (American Express Company \$9.3 billion; Wells Fargo & Company \$24.2 billion; International Business Machines Corporation (IBM) \$12.3 billion; and The Coca-Cola Company \$18.6 billion).*

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<i>December 31, 2015 *</i>				
Banks, insurance and finance	\$ 20,026	\$ 27,965	\$ (21)	\$ 47,970
Consumer products	6,867			