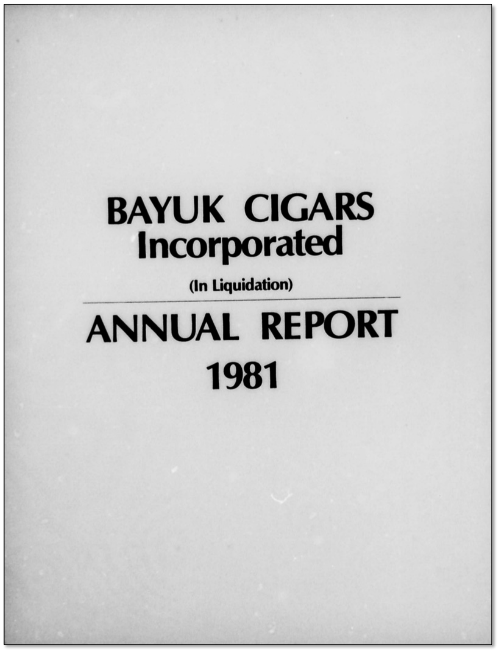
Bayuk Cigars

How Warren Buffett Earns 50% on Small Sums



BAYUK CIGARS
Incorporated
(In Liquidation)
ANNUAL REPORT
1981

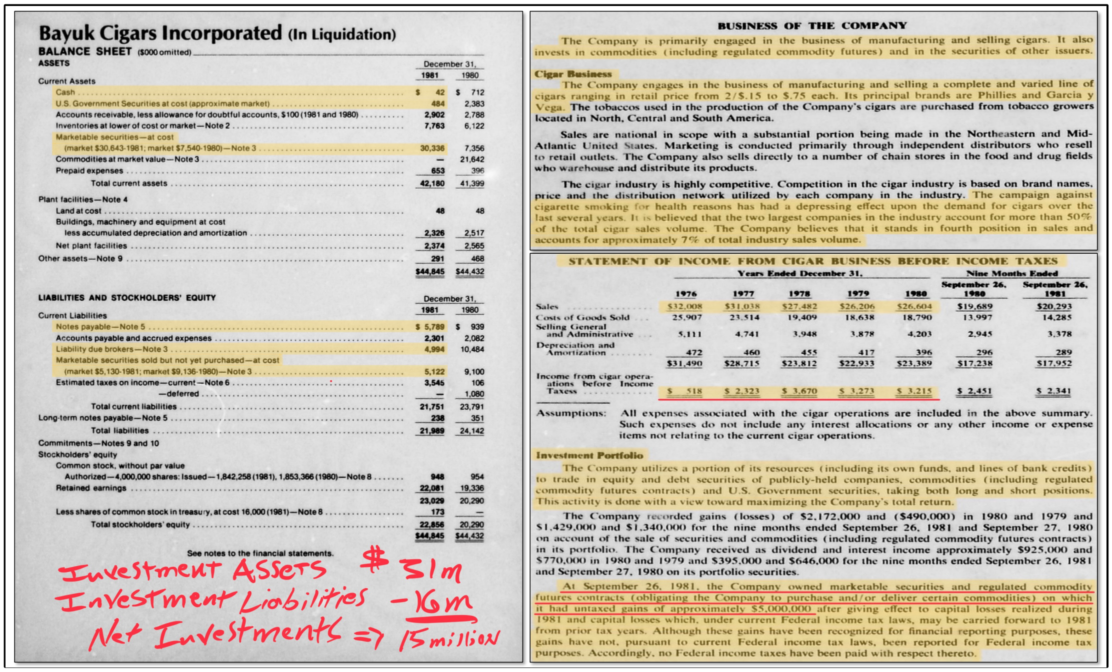
Bayuk Cigars Stake
Is Bought by Buffett

"If I was running $1 million today, or $10 million for that matter, I'd be fully invested. Anyone who says that size does not hurt investment performance is selling. The highest rates of return I've ever achieved were in the 1950s. I killed the Dow. You ought to see the numbers. But I was investing peanuts then. It's a huge structural advantage not to have a lot of money. **I think I could make you 50% a year on $1 million. No, I know I could. I guarantee that.**" — *WARREN BUFFETT*

How Warren Buffett earns 50% on small sums: Bayuk Cigars

In 1982, Buffett bought 6% of Bayuk for his private account. His $572,907 investment produced a 50% IRR with "virtually no risk."

Here's the story…



Bayuk Cigars Incorporated (In Liquidation)

BALANCE SHEET ($000 omitted)

ASSETS

	December 31, 1981	1980
Current Assets		
Cash	$ 42	$ 712
U.S. Government Securities at cost (approximate market)	484	2,383
Accounts receivable, less allowance for doubtful accounts, $100 (1981 and 1980)	2,902	2,788
Inventories at lower of cost or market—Note 2	7,763	6,122
Marketable securities—at cost (market $30,643-1981; market $7,540-1980)—Note 3	30,336	7,356
Commodities at market value—Note 3	—	21,642
Prepaid expenses	653	396
Total current assets	42,180	41,399
Plant facilities—Note 4		
Land at cost	48	48
Buildings, machinery and equipment at cost less accumulated depreciation and amortization	2,326	2,517
Net plant facilities	2,374	2,565
Other assets—Note 9	291	468
	$44,845	$44,432

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 1981	1980
Current Liabilities		
Notes payable—Note 5	$ 5,789	$ 939
Accounts payable and accrued expenses	2,301	2,082
Liability due brokers—Note 3	4,994	10,484
Marketable securities sold but not yet purchased—at cost (market $5,130-1981; market $9,136-1980)—Note 3	5,122	9,100
Estimated taxes on income—current—Note 6	3,545	106
—deferred	—	1,080
Total current liabilities	21,751	23,791
Long-term notes payable—Note 5	238	351
Total liabilities	21,989	24,142
Commitments—Notes 9 and 10		
Stockholders' equity		
Common stock, without par value Authorized—4,000,000 shares: Issued—1,842,258 (1981), 1,853,366 (1980)—Note 8	948	954
Retained earnings	22,081	19,336
	23,029	20,290
Less shares of common stock in treasury, at cost 16,000 (1981)—Note 8	173	—
Total stockholders' equity	22,856	20,290
	$44,845	$44,432

See notes to the financial statements.

Investment Assets $ 31m
Investment Liabilities - 16m
Net Investments => 15 million

BUSINESS OF THE COMPANY

The Company is primarily engaged in the business of manufacturing and selling cigars. It also invests in commodities (including regulated commodity futures) and in the securities of other issuers.

Cigar Business

The Company engages in the business of manufacturing and selling a complete and varied line of cigars ranging in retail price from 2/$.15 to $.75 each. Its principal brands are Phillies and Garcia y Vega. The tobaccos used in the production of the Company's cigars are purchased from tobacco growers located in North, Central and South America.

Sales are national in scope with a substantial portion being made in the Northeastern and Mid-Atlantic United States. Marketing is conducted primarily through independent distributors who resell to retail outlets. The Company also sells directly to a number of chain stores in the food and drug fields who warehouse and distribute its products.

The cigar industry is highly competitive. Competition in the cigar industry is based on brand names, price and the distribution network utilized by each company in the industry. The campaign against cigarette smoking for health reasons has had a depressing effect upon the demand for cigars over the last several years. It is believed that the two largest companies in the industry account for more than 50% of the total cigar sales volume. The Company believes that it stands in fourth position in sales and accounts for approximately 7% of total industry sales volume.

STATEMENT OF INCOME FROM CIGAR BUSINESS BEFORE INCOME TAXES

	Years Ended December 31, 1976	1977	1978	1979	1980	Nine Months Ended September 26, 1980	September 26, 1981
Sales	$32,008	$31,038	$27,482	$26,206	$26,604	$19,689	$20,293
Costs of Goods Sold	25,907	23,514	19,409	18,638	18,790	13,997	14,285
Selling General and Administrative	5,111	4,741	3,948	3,878	4,203	2,945	3,378
Depreciation and Amortization	472	460	455	417	396	296	289
	$31,490	$28,715	$23,812	$22,933	$23,389	$17,238	$17,952
Income from cigar operations before Income Taxes	$ 518	$ 2,323	$ 3,670	$ 3,273	$ 3,215	$ 2,451	$ 2,341

Assumptions: All expenses associated with the cigar operations are included in the above summary. Such expenses do not include any interest allocations or any other income or expense items not relating to the current cigar operations.

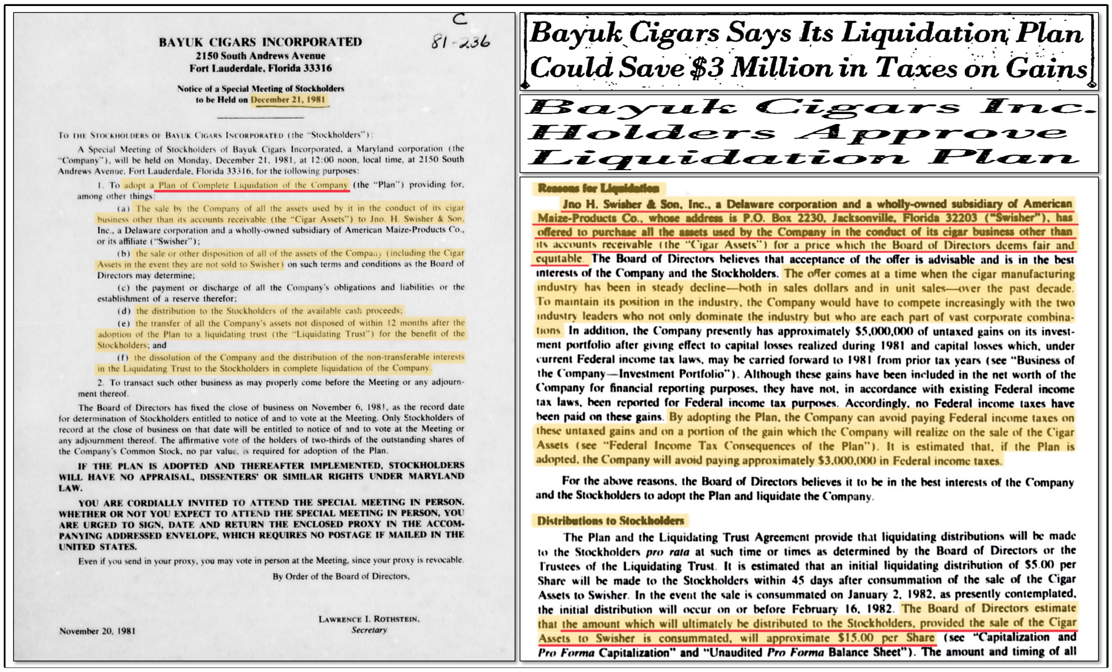
Investment Portfolio

The Company utilizes a portion of its resources (including its own funds, and lines of bank credits) to trade in equity and debt securities of publicly-held companies, commodities (including regulated commodity futures contracts) and U.S. Government securities, taking both long and short positions. This activity is done with a view toward maximizing the Company's total return.

The Company recorded gains (losses) of $2,172,000 and ($490,000) in 1980 and 1979 and $1,429,000 and $1,340,000 for the nine months ended September 26, 1981 and September 27, 1980 on account of the sale of securities and commodities (including regulated commodity futures contracts) in its portfolio. The Company received as dividend and interest income approximately $925,000 and $770,000 in 1980 and 1979 and $395,000 and $646,000 for the nine months ended September 26, 1981 and September 27, 1980 on its portfolio securities.

At September 26, 1981, the Company owned marketable securities and regulated commodity futures contracts (obligating the Company to purchase and/or deliver certain commodities) on which it had untaxed gains of approximately $5,000,000 after giving effect to capital losses realized during 1981 and capital losses which, under current Federal income tax laws, may be carried forward to 1981 from prior tax years. Although these gains have been recognized for financial reporting purposes, these gains have not, pursuant to current Federal income tax laws, been reported for Federal income tax purposes. Accordingly, no Federal income taxes have been paid with respect thereto.

Bayuk was the US's fourth-largest cigar maker. Their low-priced Phillies and Garcia Y Vega brands earned $3M pre-tax but "had been in decline over the past decade." Bayuk also owned $15M of securities. The board wanted to sell these assets "without paying [capital gains] taxes."



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BAYUK CIGARS INCORPORATED
2150 South Andrews Avenue
Fort Lauderdale, Florida 33316

Notice of a Special Meeting of Stockholders
to be Held on December 21, 1981

To the Stockholders of Bayuk Cigars Incorporated (the "Stockholders"):

A Special Meeting of Stockholders of Bayuk Cigars Incorporated, a Maryland corporation (the "Company"), will be held on Monday, December 21, 1981, at 12:00 noon, local time, at 2150 South Andrews Avenue, Fort Lauderdale, Florida 33316, for the following purposes:

1. To adopt a Plan of Complete Liquidation of the Company (the "Plan") providing for, among other things:

(a) The sale by the Company of all the assets used by it in the conduct of its cigar business other than its accounts receivable (the "Cigar Assets") to Jno. H. Swisher & Son, Inc., a Delaware corporation and a wholly-owned subsidiary of American Maize-Products Co., or its affiliate ("Swisher");

(b) the sale or other disposition of all of the assets of the Company (including the Cigar Assets in the event they are not sold to Swisher) on such terms and conditions as the Board of Directors may determine;

(c) the payment or discharge of all the Company's obligations and liabilities or the establishment of a reserve therefor;

(d) the distribution to the Stockholders of the available cash proceeds;

(e) the transfer of all the Company's assets not disposed of within 12 months after the adoption of the Plan to a liquidating trust (the "Liquidating Trust") for the benefit of the Stockholders; and

(f) the dissolution of the Company and the distribution of the non-transferable interests in the Liquidating Trust to the Stockholders in complete liquidation of the Company.

2. To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on November 6, 1981, as the record date for determination of Stockholders entitled to notice of and to vote at the Meeting. Only Stockholders of record at the close of business on that date will be entitled to notice of and to vote at the Meeting or any adjournment thereof. The affirmative vote of the holders of two-thirds of the outstanding shares of the Company's Common Stock, no par value, is required for adoption of the Plan.

IF THE PLAN IS ADOPTED AND THEREAFTER IMPLEMENTED, STOCKHOLDERS WILL HAVE NO APPRAISAL, DISSENTERS' OR SIMILAR RIGHTS UNDER MARYLAND LAW.

YOU ARE CORDIALLY INVITED TO ATTEND THE SPECIAL MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING IN PERSON, YOU ARE URGED TO SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ADDRESSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

Even if you send in your proxy, you may vote in person at the Meeting, since your proxy is revocable.

By Order of the Board of Directors,

Lawrence I. Rothstein,
Secretary

November 20, 1981

Bayuk Cigars Says Its Liquidation Plan Could Save $3 Million in Taxes on Gains

Bayuk Cigars Inc. Holders Approve Liquidation Plan

Reasons for Liquidation

Jno H. Swisher & Son, Inc., a Delaware corporation and a wholly-owned subsidiary of American Maize-Products Co., whose address is P.O. Box 2230, Jacksonville, Florida 32203 ("Swisher"), has offered to purchase all the assets used by the Company in the conduct of its cigar business other than its accounts receivable (the "Cigar Assets") for a price which the Board of Directors deems fair and equitable. The Board of Directors believes that acceptance of the offer is advisable and is in the best interests of the Company and the Stockholders. The offer comes at a time when the cigar manufacturing industry has been in steady decline—both in sales dollars and in unit sales—over the past decade. To maintain its position in the industry, the Company would have to compete increasingly with the two industry leaders who not only dominate the industry but who are each part of vast corporate combinations. In addition, the Company presently has approximately $5,000,000 of untaxed gains on its investment portfolio after giving effect to capital losses realized during 1981 and capital losses which, under current Federal income tax laws, may be carried forward to 1981 from prior tax years (see "Business of the Company—Investment Portfolio"). Although these gains have been included in the net worth of the Company for financial reporting purposes, they have not, in accordance with existing Federal income tax laws, been reported for Federal income tax purposes. Accordingly, no Federal income taxes have been paid on these gains. By adopting the Plan, the Company can avoid paying Federal income taxes on these untaxed gains and on a portion of the gain which the Company will realize on the sale of the Cigar Assets (see "Federal Income Tax Consequences of the Plan"). It is estimated that, if the Plan is adopted, the Company will avoid paying approximately $3,000,000 in Federal income taxes.

For the above reasons, the Board of Directors believes it to be in the best interests of the Company and the Stockholders to adopt the Plan and liquidate the Company.

Distributions to Stockholders

The Plan and the Liquidating Trust Agreement provide that liquidating distributions will be made to the Stockholders *pro rata* at such time or times as determined by the Board of Directors or the Trustees of the Liquidating Trust. It is estimated that an initial liquidating distribution of $5.00 per Share will be made to the Stockholders within 45 days after consummation of the sale of the Cigar Assets to Swisher. In the event the sale is consummated on January 2, 1982, as presently contemplated, the initial distribution will occur on or before February 16, 1982. The Board of Directors estimate that the amount which will ultimately be distributed to the Stockholders, provided the sale of the Cigar Assets to Swisher is consummated, will approximate $15.00 per Share (see "Capitalization and *Pro Forma* Capitalization" and "Unaudited *Pro Forma* Balance Sheet"). The amount and timing of all

The solution? Liquidate.

On December 21, 1981, shareholders voted to (a) sell the cigar assets to American Maize, (b) convert the securities to cash and (c) liquidate the company and distribute the proceeds to shareholders.

Liquidation value: $27M ($15 a share)

On December 22, 1981, the Department of Justice filed a civil complaint in the United States District Court for the Middle District of Florida against the Registrant and American Maize-Products Company ("American Maize"), the parent company of Jno. H. Swisher & Son, Inc. ("Swisher"). The complaint alleged that the proposed acquisition of the Registrant's cigar business by Swisher would violate Section 7 of the Clayton Act by eliminating competition between the two companies in the manufacture and sale of cigars and substantially lessening competition in the cigar industry generally.

On January 21, 1982, without the admission by any party with respect to any issue of fact or law, the Registrant and American Maize consented to the entry of a Final Judgment pursuant to which the Registrant was enjoined from selling, without the prior approval of the Department of Justice, any trade name or facility used in its cigar business to American Maize, Consolidated Cigar Company, Culbro Corporation, or American Brands, Inc. or any of their parents, subsidiaries, affiliates or successors; provided, however, that the Registrant was permitted to sell the Garcia y Vega brand and any manufacturing facilities and assets necessary to produce that brand to any cigar manufacturer other than Consolidated Cigar Corporation. The Final Judgment further provided that the Registrant would provide the Department of Justice with a copy of any contract for the sale of the Garcia y Vega brand and assets to any company listed above, together with a written description of such assets, at least ten days in advance of the closing date of the transaction. In addition, in those instances where, pursuant to the Final Judgment, prior approval of a proposed sale by the Department of Justice was required, the Registrant, in connection with an application to the Department of Justice for approval, is required to supply the Department of Justice with a copy of the proposed contract of sale together with all pertinent information relating thereto. The Department of Justice may, within 15 days of the receipt of such application, request such additional information as may be necessary for it to make its decision thereon.

The Final Judgment also provides that, for the purpose of determining or securing compliance with the Final Judgment, the Department of Justice may, subject to any legally recognized privilege, inspect the books, records and other documents, and interview officers, employees and agents, of the Registrant; in addition, the Registrant, upon the written request of the Attorney General or of the Assistant Attorney General in charge of the Antitrust Division, is required to submit written reports with respect to any matter contained in the Final Judgment. In this regard, the Final Judgment contains procedures to limit disclosure of the information obtained by the Department of Justice pursuant to the foregoing provision.

As noted under Item 1 above, the Registrant has sold its assets relating to its Garcia y Vega brand. In effecting the sale, the Registrant complied with all applicable provisions of the Final Judgment.

Sale of Garcia y Vega Assets

As noted above, pursuant to a Purchase Agreement dated March 1, 1982 ("Purchase Agreement"), the Registrant sold the Garcia y Vega Assets to Culbro on March 15, 1982. In addition, Culbro assumed liabilities relating to certain machinery, equipment and automobile leases; certain commitments to purchase tobacco; and miscellaneous commitments, up to a maximum of $15,000, to certain service companies. The purchase price paid by Culbro for the Garcia y Vega Assets was $10,000,000, which amount is subject to adjustment, as described below.

The Purchase Agreement provides that the Registrant will prepare, as soon as possible, an Initial Closing Statement setting forth the adjusted book value of the Garcia y Vega Assets as of March 15, 1982. The Initial Closing Statement will be reviewed by Price Waterhouse, the Registrant's independent accountants, and, no later than May 14, 1982, Price Waterhouse will deliver the Initial Closing Statement with any adjustments resulting from its review to the Registrant and Culbro. Thereafter, the Initial Closing Statement, including all adjustments as finally agreed to by the parties, will be used to determine the actual purchase price of the Garcia y Vega Assets. In the event of a dispute between Price Waterhouse and Culbro which cannot be resolved by the parties prior to July 13, 1982, the Registrant and Culbro will select a second firm of independent accountants which will resolve the dispute, and such resolution will be conclusively binding on the parties.

Note 10—Plan of Complete Liquidation

On December 21, 1981, the company adopted a Plan of Liquidation. Under the plan adopted, assets are to be realized and liabilities liquidated within a twelve month period from the plan adoption date in order to take advantage of tax benefits available under the internal revenue code.

On March 15, 1982, the company consummated the sale of its Garcia y Vega brand of cigars and related inventories. In addition, properties located in Hatfield, Mass. and Dothan, Alabama plus machinery and equipment were sold. The total proceeds is approximately $10,000, resulting in a gain of approximately $3,500. Such gain will not be subject to corporate income taxes due to the Plan of Liquidation.

One day after the vote, the DOJ moved to block the American Maize deal. Bayuk's backup plan: sell Garcia Y Vega to Culbro and find a buyer for Phillies over the next few months. The Culbro transaction closed on March 15, 1982.

The net proceeds: $10M ($5.49 a share)

TO THE STOCKHOLDERS OF BAYUK CIGARS INCORPORATED:

The company's net income for 1981 amounted to $4,217,000 including $625,000 of residual assets of the company's terminated Pension Plan. This compares with $3,455,000 including $288,000 of tax credits and $245,000 resulting from a change in accounting principles relating to marketable securities in 1980.

On December 21, 1981, the company adopted a Plan of Complete Liquidation. Under the plan, assets are to be realized and liabilities liquidated within a twelve month period from the plan adoption date in order to take advantage of tax benefits available under the internal revenue code.

On March 15, 1982, the company consummated the sale of its Garcia y Vega brand and related assets (excluding accounts receivable) to Culbro Corporation. In addition, the company declared an initial liquidating distribution of $8 per share to be paid on April 6, 1982. It is estimated that the total liquidating value per share will approximate $15 of which $12 is expected to be distributed in 1982.

I thank all the directors, officers and employees for their cooperation.

Sincerely yours,

President

March 16, 1982

The Plan and the Liquidating Trust Agreement provide that liquidating distributions will be made to the Stockholders pro rata at such time or times as determined by the Board of Directors or the Trustees of the Liquidating Trust. On March 15, 1982, the Board of Directors declared an initial liquidating distribution of $8.00 per Share payable on April 6, 1982 to all Stockholders of record on March 25, 1982. The amount and timing of all future distributions will depend upon whether the Registrant's remaining assets are sold and the amounts received therefor, and the amounts deemed necessary or appropriate by the Board of Directors to provide for the satisfaction of all liabilities (known or contingent) and the expenses of liquidating the Registrant. Further, the Plan provides that the assets of the Registrant may be invested during the Liquidation Period and prior to being distributed to the Stockholders in such investments as the Board of Directors may authorize, including investments in stocks, bonds, notes, commodities, regulated commodity futures contracts and stock options.

BAYUK CIGARS

(in thousands except per-share amounts)

	Balance Sheet			
	Reported *(12/31/1981)*	Asset Sales *(adjustments)*	Taxes & Other	Pro Forma *(3/31/1982)*
Cash & investments	30,862	10,000	(14,704)	26,158
Receivables	2,902	(2,902)	-	-
Inventories	7,763	(7,763)	-	-
Prepaid & other	653	(653)	-	-
Current assets	42,180	(1,318)	(14,704)	26,158
Property, plant & equipment, net	2,374	(2,374)	-	-
Held-for-sale & other	291	1,945	-	2,236
Total assets	44,845	(1,747)	(14,704)	28,394
Payables & accrued	2,301	(2,301)	-	-
Taxes	3,545	(3,545)	-	-
Current liabilities	5,846	(5,846)	-	-
Debt, including short-term	16,143	-	(16,143)	-
Shareholders' equity	22,856	4,099	1,439	28,394
Total assets	44,845	(1,747)	(14,704)	28,394

Shareholders' equity	28,394
Liquidation reserves	(1,000)
Net asset value	27,394
Shares outstanding	1,826
Net asset value per share	$ 15.00

Announced distribution — 4/6/1982	8.00
Planned distribution — 4/7/1982 to 12/31/1982	4.00
Distributions — 1982 estimate	12.00
Distributions — 1983 to 1986 estimate	3.00
Total distributions per share — estimate	$ 15.00

The $10M Garcia Y Vega sale left Bayuk with $26M of cash and Phillies, which was worth +$2M. Liquidation value remained within the $15 range on Bayuk's 1.8M shares, and the board (a) declared an $8 distribution payable on April 6 and (b) guided to an additional $4 by year-end.

In a Securities and Exchange Commission filing, Mr. Buffett said he holds 104,200 Bayuk common shares, including 100,200 bought from March 2 through April 30 at $5.675 to $13.50 each on the New York Stock Exchange. A total of $572,907 was paid for the 104,200 shares, the filing said.

MARKET AND DIVIDEND INFORMATION

The common stock of the company is traded on the New York Stock Exchange under the symbol BYK. The per share ranges of high and low sales prices, and dividends paid during each quarter of the last two years were:

	1981			1980		
	Market Price			Market Price		
	High	Low	Dividend	High	Low	Dividend
First	$13⅝	$ 7½	$.25	$ 7⅛	$6⅛	$.06
Second	14⅝	12⅛	.25	7⅜	6½	.08
Third	12¼	9¾	.25	10¼	6½	.08
Fourth	13⅛	10⅛	—	11⅝	8¼	.08
			$.75			$.30

Buffett started buying Bayuk in early March. He bought before the March 25 ex-distribution date at $13.50 and kept buying after the ex-distribution date at $5.675 ($13.675 equivalent). Between March 2 and April 30, Buffett bought 104,200 shares at a post-$8 distribution cost of $572,907.

Buffett's average purchase price:
- Pre-distribution = $13.50
- Post-distribution = $5.50

QUESTION: If you were investing a small sum of money, what approach would you use?

WARREN BUFFETT: I would use the approach that I think I'm using now of trying to search out businesses where I think they're selling at the lowest price relative to the discounted cash they would produce in the future.

BAYUK CIGARS

	Date of cash flow			
	3/31/82 *(purchase)*	4/6/82 *(distribution #1)*	4/7/82 to 12/31/82 *(forecasted)*	1/1/1983 to 12/31/1985 *(forecasted)*
Cash flow per share	$ (13.50)	$ 8.00	$ 4.00	$3.00

Buffett started buying in March at $13.50.

Why invest $13.50 for $15.00? Bayuk was going to pay $8.00 within weeks and $4.00 within months. Given these large upfront payments, Buffett's purchase price was cheap relative to the present value of Bayuk's expected cash flows.

Bayuk Sets $4-a-Share Liquidation Payout, Sells Phillies Brand

Bayuk said it will pay the second liquidation distribution of $4 a share on June 29 to stock of record June 11. The company has about 1.8 million common shares outstanding and its officers and directors own about 40.9%.

BAYUK CIGARS

	Date of cash flow			
	3/31/82 *(purchase)*	4/6/82 *(distribution #1)*	6/29/82 *(distribution #2)*	1/1/1983 to 12/31/1985 *(forecasted)*
Cash flow per share ……..	$ (13.50)	$ 8.00	$ 4.00	+$3.00

In June, Bayuk (a) sold Phillies for $5M and (b) paid the $4 distribution. Buffett got $12.00 of his $13.50 cost back in less than 90 days. And due to a better-than-expected Phillies sale price, he'd likely get more than $3.00 of future distributions.

BAYUK CIGARS INCORPORATED
LIQUIDATING TRUST
STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD OCTOBER 22, 1982 TO DECEMBER 31, 1982
($000 omitted)

Net assets as of October 22, 1982	$7,091
Changes in net assets in liquidation during the period October 22, 1982 to December 31, 1982:	
Interest and other income	107
General and administrative expenses	(73)
Net results of liquidating activities	34
Net assets in liquidation, December 31, 1982	$7,125

Assets:	
Cash	$ 51
U.S. government securities (at current market value)	6,242
Accounts and notes receivable	42
Income taxes receivable (Note 2)	970
Other assets	70
Total assets	7,375
Liabilities:	
Notes payable	13
Accounts payable and accrued expenses	237
Total liabilities	250
Net assets in liquidation	$7,125
Number of shares of beneficial interest outstanding	1,823,958
Net assets in liquidation per outstanding share	$3.9065

Bayuk Cigars Trading Halt And Share Delisting Planned

Bayuk Cigars Inc. Plans Transfer of $7.1 Million Into Liquidating Trust

FORT LAUDERDALE, Fla.—Bayuk Cigars Inc. said directors authorized the transfer, at the close of business Oct. 21, of about $7.1 million, or $3.89 a share, of undistributed assets to Bayuk Cigars Inc. Liquidating Trust.

It said that about $1.2 million of anticipated refundable income taxes are included in the assets to be transferred, in accordance with a liquidation plan adopted by shareholders Dec. 21.

How much more?

In October, Bayuk delisted its shares and transferred its assets to a liquidating trust. The year-end balance sheet comprised $6.3M of cash and $1.1M of receivables against just $0.3M of liabilities. Distribution forecasts increased from $3.00 to $3.89 per share.

Net assets in liquidation, December 31, 1982:	$7,125
Changes in net assets:	
Interest and other income	646
General and administrative expenses (Note 3)	(326)
Settlement of litigation (Note 4)	(125)
Liquidating cash distributions (Note 1)	(5,016)
Net results of liquidating activities	(4,821)
Net assets in liquidation, December 31, 1983	$2,304

During 1983, the Trust paid liquidating cash distributions of $1.50 and $1.25 per share, on March 15, 1983, and December 15, 1983, respectively, aggregating $5,015,886.

Net assets in liquidation, December 31, 1983:	$2,304
Changes in net assets:	
Interest and other income	238
General and administrative expenses (Note 3)	(109)
Net results of liquidating activities	129
Net assets in liquidation, December 31, 1984	$2,433

1984 Distributions: $0.00

Net assets in liquidation, December 31, 1984	2,433
Changes in net assets:	
Interest and other income — estimate	238
General and administrative expenses — estimate	(109)
Liquidating cash distributions — estimate	(991)
Net results of liquidating activities — estimate	(862)
Net assets in liquidation, December 31, 1985	1,571

1985 Distributions: $0.54

Net assets in liquidation, December 31, 1985	$1,570,594
Changes in net assets:	
Interest and other income	43,940
General, administrative and other expenses (Note 3)	(84,005)
Liquidating cash distributions (Note 1)	(1,530,529)
Net results of liquidating activities	(1,570,594)
Net assets in liquidation, November 30, 1986	$ 0

1. On April 15, 1986, the Trust made a liquidating distribution to each of its beneficiaries in an amount equal to $0.84 for each Share of Beneficial Interest held.

BAYUK CIGARS

	Date of cash flow						
	3/31/82 *(purchase)*	4/6/82 *(distribution #1)*	6/29/82 *(distribution #2)*	3/15/83 *(distribution #3)*	12/15/83 *(distribution #4)*	12/15/85 *(distribution #5)*	4/15/86 *(distribution #6)*
Cash flow per share ……..	$ (13.50)	$ 8.00	$ 4.00	$ 1.50	$ 1.25	$ 0.54	$ 0.84

Note: 1985 date and distribution are estimates.

Bayuk paid a third distribution of $1.50 on March 15, 1983. Buffett got his $13.50 back in less than a year. And he received three more payments: $1.25 on December 15, 1983; $0.54 on December 15, 1985; and $0.84 on April 15, 1986.

The total distributions: $16.13 per share

BAYUK CIGARS

	Date of cash flow						
	3/31/82 (purchase)	4/6/82 (distribution #1)	6/29/82 (distribution #2)	3/15/83 (distribution #3)	12/15/83 (distribution #4)	12/15/85 (distribution #5)	4/15/86 (distribution #6)
Cash flow per share ……..	$ (13.50)	$ 8.00	$ 4.00	$ 1.50	$ 1.25	$ 0.54	$ 0.84
distributions to purchase price		*59%*	*89%*	*100%*	*109%*	*113%*	*120%*

Note: 1985 date and distribution are estimates.

Internal Rate of Return: 50%

Distributions of $16.13 only produced 20% on Buffett's $13.50 purchase price. But consider the timing. Bayuk returned 59% of Buffett's capital within weeks, 89% within months and 100% within a year. These front-loaded payments increased Buffett's IRR to 50%.

WARREN BUFFETT'S PERSONAL ACCOUNT

NEAR-ZERO *(MARCH 21, 1975)*	$500 MILLION *(OCTOBER 6, 2008)*
Q. Do you make any personal investments other than Berkshire and Blue Chip and Diversified for yourself? A. No, my wife made a few, but I haven't. Q. Could you explain why you don't make any personal investments, you place everything through insurance companies? A. The best reason is I don't have any money, cash. All my money is basically in those 3 companies*, just total. But I like it that way. That was intentional. I just don't want to be running a portfolio myself the same time I am runnin one for Berkshire. *Berkshire Hathaway, Blue Chip Stamps and Diversified Retailing *(Blue Chip and Diversified Retailing merged into Berkshire Hathaway)*	Once this program is off the ground, I would suggest that the capitalization of PPPF – both equity and debt – be doubled. In this instance, however, Wall Street firms – again on a pro-bono basis – would offer $10 billion of PPPF's common stock to the American public on exactly the same terms as those granted the initial institutional investors. If PPPF is going to be a good deal for equity holders – and I believe it will be – I would want to be sure that the average American has a chance to share in such an investment on a basis equal to that secured by Berkshire Hathaway and other institutional investors. If this offer is fully subscribed, Treasury would purchase an additional $40 billion of notes, giving PPPF total buying power of $100 billion. I would be willing to personally buy $100 million of stock in this public offering. (This constitutes about 20% of my net worth outside of my Berkshire holdings, which as you know are promised to charity.)

QUESTION: Mr. Buffett, you've said that you could return 50 percent per annum, if you were managing a $1 million portfolio. What type of strategy would you use?

WARREN BUFFETT: It might well be the arbitrage strategy, but in a very different, perhaps, way than customary arbitrages. One way or another, I can assure you, if Charlie was working with a million, or I was working with a million, we would find a way to make that with essentially no risk, not using a lot of leverage or anything of the sort. There are little fringe inefficiencies that people don't spot.

Was Bayuk a one-off?

No. Buffett grew his private account from $0 to $500M in 33 years. And he did it with Bayuk-type holdings: "fringe inefficiencies," "little wrinkles" and "arbitrage but in a different way than customary arbitrage."

That's how Buffett earns 50% on small sums.

Sources

- Berkshire Hathaway Shareholder Meeting Notes
- Bayuk Cigars Filings
- Newspaper Clippings

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