

WB: Good morning, I'm kind of worn out. [*After dancing to movie rendition of "B-R-K-A", sung to the tune of "Y-M-C-A".*]

WB: We will go through a few figures, a few slides. Then I'll make an introduction of the directors. It was a good quarter, not quite as good as it looked. You should focus on the operating incomes. It was a benign quarter in insurance, and all of our companies did well – our big businesses did quite well. I don't know if we have ever had earnings of \$3.9b in a quarter. The insurance earnings were helped a bit by the strength of the dollar. If we have liabilities payable in the future and the dollar appreciates we get a small benefit from that, but the strong dollar also hurts us in some ways. We have some earnings in foreign currency from some other business like Coke that sell around the world so that hurts us. But I never really know if the dollar going up or down helps us at all.

We settled some disagreements with Swiss Re. We showed a gain of \$166m from closing a part of this contract, but surprisingly they claimed a gain of \$100m as well. It's amazing what accounting can do. We will get in an argument with Swiss Re every quarter over this.

One highlight in the quarter was the pick-up at Geico. The strengths I mentioned in 2012 have gotten even stronger. A lot of it is seasonality related to month on month policy gains, but our closure ratio and persistency have improved significantly. The rise in persistency equals pure gold. The number of people who get a quote from us and go on to get a policy, the closure rate, is rising. Mathematically each policy is worth about \$1,500 to us. If we get 1mn policies we will see a \$1.5bn gain in intrinsic value that isn't captured in our accounts. I can't resist sales pitch on that, the closure rate is at amazing levels. When people call us or go on the website they find they can save a lot of money. It just so happens that in the exhibition hall right here we have a lot of friendly people that can save you money. You can walk out whenever Charlie is talking and get a quote and you can save money. It is in the Berkshire Hathaway spirit to save a lot of money!

Finally, our railroad this year is doing very well. You saw the earnings in the 1st quarter report. We have some figures up that show our gains in our car loading up 3.8%, when all other railroads increased 0.4%. That is significant money. We don't have the Canadian railroads up here, but this is representative. A lot of oil has been found close to our railroad tracks, what a good place to find oil. We have been moving a lot of that.

As a result of all this we are now the 5th most valuable company in the world. That will change over time but I hope that changes for the better.

I would like to introduce our directors. Please withhold your applause until the end and you can choose to withhold it then, too. CM and I are directors. HW, SM, SD, BG, SG, SCD, DK, DM, RO, WSJ, and MW.

WB: I will start the questioning in a minute but first some housekeeping. Tomorrow at Borsheim's Ariel Hsing will be available to play table tennis for anyone foolish enough to challenge her. She won her first two games in the last Olympics, and Ariel will be out there at 1PM and if you are courageous enough you will bring your paddle and look like an idiot.

WB: We want to thank Stan Lipsey who retired as publisher of the Buffalo News. Years ago, we were locked in a competitive struggle, and we were not doing well at all because of a tough judicial order. Stan gave up a life here in Omaha and without him the company would not have produced the profits it has for BH.

WB: One other announcement is that we bought out 20% remaining of Iscar for \$2bil. But the relationship with the Wertheimer family continues. Iscar will be part of BRK forever. Thank Eitan and his family.

WB: We will now move onto questions until noon. We'll take a break for lunch then return for business meeting.

Q1, Carol Loomis: Speaking for the 3 of us, we have received 1000's of questions, if we did not pick your questions we did not get to it. WB and CM have no idea of our questions and we will try to throw curveballs. Question from Texas. Warren, you measure BH corporate performance by growth in book value per share. It has increased less than the S&P Index. You say that S&P growth is suitable for BH. Do you expect to grow that much, is that assured?

WB: Well, it is certainly not assured. The last ten years have not been the best for business. If the stock market continues to perform like this it will be the first five year period that book value will fall short of S&P performance. Will not be a happy period, but we like to point out that we will do well in down years relatively. The reason we won't look as good is our performance in 2008 will roll off. I should point out that we use book value because it's a calculable figure. It is a good proxy for intrinsic value, but we think there is a significant gap between book and intrinsic value and that is why we are willing to buy back shares at 1.2x book value. Intrinsic value would add that \$1.5bn from Geico. The day we buy more stock in Iscar we have to mark down \$1b in book value. We need to do better for you than you would do in an index fund. But we won't do it every year.

CM: I confidently expect that BH will do quite well over the long-term, don't pay attention to 3-5 years. Of course we will not do as well in the future if you average it out because past performance was spectacular.

WB: At 89 years Charlie is not worried about year on year.

CM: I'm worried about my old age, which might come on at any time.

WB: I haven't noticed it.

Q2, Jonathan Brandt: Iscar, are there specific advantages versus Sandvik?

WB: The advantage is the brains and incredible passion for the business. Sandvik is bigger but Iscar is better. It's interesting if you go back to 1951, when Stef Wertheimer started Iscar. Think about the prospects, Kennametal and Sandvik were well entrenched and well financed. Here is this guy from Israel,

25 years old, and all raw materials come from China. They are selling into Boeing and GM, big industrial companies. There was no great locational advantage from being in Israel. To do it -- getting the tungsten 1000 miles away shipping it 1000 miles away and competing against Sandvik. When you see that result you have had some incredibly talented people who have continued to make customers happy. From the business perspective I have, I think that Iscar is one of the greatest companies in the world.

CM: Sandvik is a fabulous company, extremely competitive. It is a particular achievement to do better than them. Iscar is only place where I have seen a factory with only robots and engineers working on computers.

Q3, Station 1: Dan Lewis from Chicago. Thank you for opening early.

WB: If we had a company that sold coats we would have left you out there.

Q3, cont: When you think about BH and the decade that is gone, what are your worries?

WB: We worry all the time. Culture and the businesses we own are very important. After I'm gone, the trains will still be running and people will still buy Geico insurance. The key is preserving the culture and having a successor at CEO with more passion and brains than I have. We are solidly in agreement about who that individual should be. The culture has intensified. We always knew what we were about. Making sure that everyone who joined us thought the same. Everyone who bought into this, that took time. It is one of a kind now and will remain one of a kind. Any foreign type behavior would be cast out. It would be rejected like a foreign tissue if we got the wrong person. We have a board that is especially dedicated. We have people who have brought their companies to BH. People have self-selected in. Whoever succeeds me, there will be newspaper headlines saying it is not the same thing, but it will be the same thing.

CM: My thoughts are very simple, I want to say to the many Mungers here, "Do not be stupid as to sell these shares."

WEB: That goes for the Buffett's too.

Q4, Becky Quick: After the Heinz deal there was a report that showed that you got the better end of the deal with the preferred getting the returns and the common equity dead money if the market is weak. Is that true?

WB: Totally inaccurate. Jorge and I were in Colorado and he asked if I was interested in Heinz. I said I was interested. I knew Jorge Paulo from when we were both Gillette directors. Maybe a week later I received a term sheet on the deal and another sheet on governance. Absolutely fair deal, I did not have to change one word in the arrangement. Charlie and I paid a little more than we would have if we had done the deal ourselves, but Jorge and his team are extraordinary managers and we stretched a little because of that fact. The design of the deal is that their \$4.1bil will do better over time than our \$12b because they have more leverage. We have less leverage in the capital structure. We provided that leverage on fair terms. If anyone thinks common is dead money, my guess is that in five years there won't be much debate. We will know that in five years and they have a lot of operating ability. In five years you will find they will receive a higher rate of return but because we put more money in we will get more absolute return.

CM: As you said, the report was totally wrong.

WB: That will teach them. *[laughter]*

Q5, Cliff Gallant: Ajit's new strategy seems to be expanding, with Aon underwriting agreement and AIG executives. What is the goal, market share? Aren't you going to get closer to market returns?

WB: The goal is to get more market share. There were two important moves. One is the participation of 7.5% in all business originally in Lloyds market, and I believe, now extended to the entire UK market. Bear in mind that people who are insured get to choose, so it is not automatic. Profits are our goal and this will give us more presence. In last week or so it was announced that four pretty well known AIG people had joined us, primarily to write commercial insurance, in US but also globally. These are people had reached out to Berkshire, we were ready to enter this field, with these people who are very able. I think you will see Berkshire, in addition to other insurance businesses, I think you will see us become a significant player in commercial, and it could reach into billions, a fair number of billions. We have the right people, we have capital like no one else. Others have to spread the coverages, we don't.

CM: The reinsurance business is not very good for most people. It is desirable for Berkshire. Our reinsurance business under Ajit is very peculiar, and others who think it is easy, will find out it is not.

WB: We will be in primary business. There is a lot of premium volume there, and a lot of chances to make mistakes.

Q6, Station 2. NY. Geico, no plan to adopt usage based driving technology, like Progressive, like snapshot?

WB: That still is the case. Others are doing it. Arrangement tries to get picture of how people really do drive – I'm not so sure. Insurance underwriting is to determine using variables what the chances of an accident are. In life insurance, it is easy to see more deaths at age 100 vs. age 20. In auto insurance, accident variability is different. Probability is tied to different variables. A 16 year old male is more likely to have accident. That isn't because I'm a better driver, but a 16 year old drives more and is trying to impress girl he's sitting next to. I've given up on that, it doesn't work for me anymore. *[laughter]* We test for propensity for accidents. There are variables that are useful for predicting. We'll see how they do with snapshot. Our ability to sell insurance at a price that is considerably lower, and still earn an underwriting profit, indicates our selection process is working quite well. It is not the same rate for 16 year old and 40 year old. Our criteria have been developed over many decades, we have huge policy holders, everyone in business trying to predict better. Progressive is focusing on snapshot. We are watching with interest.

CM: I have nothing to add.

Q7, Andrew Sorkin: What are implications for Businesswire of Twitter and SEC changes? Can it transform itself? And what are you doing on Twitter?

WB: I haven't figured that out. Key to disclosure is accuracy and synchronicity. Businesswire does an amazing job of that. We want to be sure we get accurate information and at exactly same time as everyone else. If I want information about Wells Fargo, I don't want to have to go to their web page, and hope I'm not 10 seconds behind. Businesswire has great record, we have sensational manager. If we could clone manager Cathy I would do it. Berkshire we like to put information out after the close. Anything important will come out on Businesswire, so people get accurate information.

CM: It is hard for me to know anything about Twitter when I am avoiding it like the plague.

Q8, Doug Kass: Thank you for allowing me to play Daniel in the lion's den in front of 40,000 of your closest friends. It is said that size matters, and

WB: [Warren interrupts] It does. [laughter]

Q8, cont: You are now a buyer of pricier and more mature businesses. All are done at prices well above prior acquisitions. Many might be great additions. But lower returns? Gazelles vs. elephants? Does it resemble an index fund, more appropriate for widows and orphans?

WB: There is no question we won't do as well. We will have bad markets, where size may be an advantage. But I would take exception to question whether we paid fancier prices. In Geico we paid 20x and high multiple of book, and we have paid up for good businesses. We have always known that would be case. Even with some diminution of returns of the past, we will be okay. We should have paid up for businesses thirty years ago, it wouldn't have been a mistake.

CM: We can't do as well in future, we have said that. But I can make the short sellers argument better. Look at the history of big companies in the world and the record is not good. Standard Oil, however, did very well after getting big. We think we are doing well because we have a better system than most people. We don't have better system than consolidating up oil, but still we feel we have bought great businesses.

WB: We own eight and a half businesses that would be on Fortune 500 list if separate. Doug, you haven't convinced me to sell the shares yet, but keep working on it. [laughter]

Q9, Station 3. Macau. Will USD continue as the reserve currency? Loss of status?

WB: I don't know the answer to that but I don't think it is relevant. I think it will be reserve currency for some time to come. Extremely unlikely a currency supplants USD.

CM: There are advantages to the country that has the reserve currency. If you lose that you lose the advantage. England had a better hand. If that eventually happened to US, it would not be all that significant. It is in nature of things that every great leader is no longer the leader. Every great civilization has fallen. Over the long run we are all dead, said Keynes. [laughter]

WB: This is the cheery part of the program. *[laughter]* What is probability USD still reserve currency in 20 years?

CM: It will be reserve currency in 20 years. But that doesn't mean forever.

Q10, Carol Loomis: Philadelphia. You said in 1999 in Fortune Magazine, that you have to be wildly optimistic to think that corporate profits can sustain above 6% of GDP. Now they are 10%. How should we think about it?

WB: It is pretty unusual, profits are extraordinary as a percentage of GDP at least on looking back on history of US. What is interesting about it is that US business is complaining frequently about corporate income tax, and it is half of what it was 40 years ago as a percentage of GDP but profits are two times. I would take with a grain of salt any complaints about US corporate tax rates. US business has done very well. Inequality has widened, but businesses have done well. It will be interesting to see if levels can be maintained. Business has come back strongly from the precipice of 2008. Employment has not come back the same way. That will be subject of a lot of public discourse. If I had to bet on whether corporate profits would be 10% of GDP, with much of that is earned outside, I think it trends downwards, but GDP will be growing so it won't be horrible.

CM: I wouldn't be too surprised if 6% is on low side. Just because Warren thought something twenty years ago doesn't mean it is law of nature. *[laughter]*

WB: We'll talk about that at lunch.

CM: Stocks are owned by endowments and pension funds. There is no [automatic] correlation between the figures.

WB: Is 10% too high?

CM: If rest of world keeps coming down, it will be hard for us to keep it up. I don't mind paying more, but would like to see corporate rates down.

WB: He's republican, I'm the democrat!

Q11, Jonathan Brandt: Too many direct reports? How weigh the benefits of adding new businesses with complexity of managing them?

WB: I think my successor will organize things differently than me. But they won't change that the CEOs run everything in their businesses except capital allocation. I actually have delegated a few units to an assistant of mine. My guess is my successor will modestly organize things in a different way. I've grown up with these companies. I communicate very rarely to some. Someone coming in fresh, will need to understand, and does understand them well, the major businesses. But the smaller ones might be rearranged. Insurance and the big businesses will make the real money. Maybe one more person at headquarters.

CM: Of course it would be unwieldy if we tried to run many small businesses in an imperial style. Wouldn't work if we controlled it. If your system is to decentralize, almost to the point of abdication, what difference does it make how many we have?

WB: Changes will be made, sometimes through death or disability. We are trying to acquire businesses with \$75m pretax. The best acquisitions are the bolt-ons, did almost \$2.5bil worth last year. They fall under the purview of managers, and add nothing to headquarters. Best bolt-ons are buying out minority interests. That is adding earning power without any more work, more of a good thing.

CM: You have to think about it, if it were all that difficult, what we are doing would be impossible.

WB: I'll have to think about that. *[laughter]*

CM: If you were asked 40 years ago can you manage something this size with so little staff, it would have been ridiculous. But it works!

WB: We'll leave it at that.

Q12, Station 4. Is Fed buying too much? How do we stop?

CM: My basic answer is to say that I have no idea.

WB: I have nothing to add.

CM: It is going to be difficult.

WB: It is a lot easier to buy than sell, like the Hunt Brothers found out with silver. Those are a lot of securities, \$3.4tril. Wells Fargo has \$175bil at Fed earning nothing. There is all this liquidity created, but it hasn't really hit the market, banks have let it sit there. Banks want loans. Wells is not happy to have \$175mil at Fed. They are trying to get it out, but with proviso that they get it back! I have a lot of faith in Bernanke. He's running a risk he knows and understands. He may be influenced by fact that that his term is ending... 'Here's this balance sheet and bring it down a few trillion, and I gave a few lectures at GWU last year and maybe it will help...' It has potential to be inflationary but think the Fed might hope that it was more inflationary. They would never admit it, but the easiest way to run up nominal GDP is to inflate. At least some Fed members are probably disappointed they haven't seen more inflation. When market gets any kind of signal that buying ends or selling starts, is that shot heard around the world? Anyone who owns securities will start reevaluating their hand and people evaluate very quickly in markets.

CM: What has happened has surprised everyone who thought they knew the answers, in particular the economists. Who thought Japan would have twenty years of stasis? Economists should have more caution that they know how to stay out of trouble.

WB: Inflation at 5% or higher in next 10 years?

CM: I worry about more than about inflation. I won't be here, but if we can get through this century, with better results than the last, which had a lot of inflation, that would be a good result.

WB: Charlie says he won't be here, but I reject such defeatism! *[laughter]*

Q13, Becky Quick: How is Fed zero interest policy effecting various Berkshire business segments.

WB: It has helped. Interest rates are to asset prices sort of like gravity to the apple. When interest rates are low there is little gravitational pull on asset prices. People make different decisions when money costs nothing vs. when Volcker was trying to stem inflation. Interest rates power everything in economic universe. We borrowed very cheaply on Heinz transaction so we were willing to pay more. But in Japan hasn't changed for decades. At first no one believed rates would fall. But now bringing down interest rates and keeping them down, it reflects permanence. When 30 year is down to 3.8%, it makes houses more attractive. Smart policy, but the unwind of it will be far more difficult than buying. To buy 85bil a month, easy. Don't know what would happen if they tried to sell 85bil a month. This is like watching a good movie, because I do not know the end. In two years, I will say I told you so, and hope you have a bad memory.

CM: I don't think rates will stay this low for extended period, but no one expected this. Our incremental float is worth less than it was in old days. That should give cheer, because if it changes that will give an advantage.

WB: We have 40bil in short term securities. We never stretch for yield, we are earning nothing in treasuries. If short term rates we were at 5%, that is a few billion of earnings pretax. But it would hurt some of our other businesses. We have benefited significantly by what the Fed has done in last few years, if they can successfully pull off a reversal without surprises.

Q14, Cliff Gallant: There...

WB: Cliff, you ran a 2:40 marathon last year?

Q14, cont: Yes. Commercial insurance? Why not buy a public one?

WB: There aren't too many commercial operations we would want to acquire. If you look at big ones, some we wouldn't want and for the good ones we would have to pay more than we could build it for, and we don't want the bad habits. Better to build than buy if you can find right people and right mindset. We have terrific manager in Ajit. Others have sought him out. There are certain we would have bought, but couldn't get at right price. We will have significant operation in a short period of time.

Q15, Station 5: Bitcoin – significance of unregulated currencies?

WB: Charlie?

CM: I have no confidence whatsoever in bitcoin being a universal currency.

WB: Of our \$49bil, we haven't moved any to bitcoin. Truth is I don't know anything about it. Normally that doesn't always stop me from saying something, but it will in this case.

Q16, Andrew Ross Sorkin: MLM, Herbalife, pampered chef? How do you think about debate?

WB: I've never looked at a 10k of HLF. The key is whether direct marketing is selling to distributors or selling to end users. Pampered Chef is long way from selling to level A then selling to level B. Pampered gets paid on results. Pampered is based on selling to end users. We have thousands of parties every week, and they are going to use the product. We don't load them up and have them leave the sales force. I think that should be distinguishing characteristic, if I was a regulator. If a bunch of people couldn't sell the inventory - and the parent company left them only with unfulfilled dreams.

CM: There is likely to be more flimflam selling magic potions than selling pots and pans. *[laughter]*

WB: At our age we're in market for magic potions, if anyone has any. *[laughter]*

Q17, Doug Kass: [assertively] Warren, ...

WB: *[assertively]* Doug, ...

Q17, cont: Much of your returns from your investments have been premised on your reputation, what about successor?

WB: My successor will have more capital than me when markets are in distress. At those times few people have capital and even fewer have willingness to commit. It is unusual to have capital at times of turbulence, when ability to say yes quickly with large sums sets you apart. I would not worry about that successor being willing to deploy and being called upon. Berkshire is the 1-800- number when there are panics in markets. It happened a couple times in 2008 and once in 2011. Not our main business, but if Dow falling down a 1000 points for a few days, they will call Berkshire. Our reputation will become even more solidified, when Berkshire does it when I'm not around. It becomes even more the Berkshire brand.

CM: In the early days, Warren had huge success because competition was small. Then competition was more intense. Now we are in the niche of offering capital to big businesses who don't want to be controlled by somebody else - and this is less competitive. It is ridiculous to think the past was a place we should have stayed. The other people are not getting calls.

WB: They don't have money and are not willing to act immediately. This area is very much our own. These qualities will remain with Berkshire after I'm gone.

CM: That is what I like about it.

WB: *[happy purr, then prompts next question]*

Q18, Station 6: How to get people to sell you businesses when they don't want to?

WB: See's had been put up for sale, and I hadn't heard about it until one other party who negotiated but then didn't go through with it. Charlie persuaded me to buy it, not them to sell it.

CM: We didn't persuade anyone to sell.

WB: We bought Berkshire in open market. It wasn't most attractive business; it was a textile company, which had had losses over prior ten years. We bought stock, two big blocks from Stanton, and relative of Malcolm Chace. I never met Otis Stanton. We were not out convincing anyone to sell their stock. Very little that I can remember. With Wesco, we talked to Betty Peters about not doing a deal we thought was dumb. She remains a shareholder to this day, 40 years later.

CM: I have nothing to add to that at all.

Q19, Carol Loomis: Crested Butte. Warren, both you and Charlie have said building sustainable for long term. I am having difficulty in how to explain this to my [daughter] Katie. What is your long term sustainable advantage, in three simple sentences?

WB: Charlie, you talk to Katie.

CM: We have tried to stay sane when others like to go crazy. That is competitive advantage. Second, we have used golden rule, where we treat subsidiaries how we would want to be treated if we were subsidiaries. People come to us who don't want to go elsewhere. That is long term advantage. We have tried to be a good partner and that is an advantage. We are leaving behind a competitive place, and have gone to a place more unusual. This was a very good idea, I wish we had done it on purpose. *[laughter]*

WB: A person a few years ago came to me and he was in his 60's. He didn't want to retire. But he had experience in buying a business, which had soured. And wanted to put to bed the risk of selling, that what he had built would be destroyed, or family destroyed. He thought about it a year, if I sell it to a competitor, they are logical buyer. Competitor would come in and put their people in charge. They would have synergy ideas, his people would all get sacked, and acquirer would be like Attila the Hun. He didn't want to do that to his people. Private equity should load up with debt and sell it later. So when he came to me and he said, it isn't because you are so attractive, but you are the last man standing. People who stayed with me, I'll get to sleep well at night knowing they are ok. Our competitive advantage is that we don't have many competitors. Also, shareholders are partners. That is unusual.

Q20, Jonathan Brandt: Coal fired power in decline, but can tracks be redeployed, are they fungible? Can crude by rail still last, with pipelines coming?

WB: If there was no coal moving, there wouldn't be a lot of use for some of the tracks. What you are talking about is likely very gradual. Year by year fluctuations may depend on price of gas. In terms of oil the view a few years ago was that there might be a little blip. I've talked to some oil producers in the Bakken, and I think there will be a lot of rail usage for a long time. Oil moves faster by rail than by pipeline. Visual conception is that it moves quickly. But you can move oil faster on rail. There is a lot of flexibility in oil transport by rail. Matt Rose?

Matt Rose: Two franchises are very different. We expect coal franchise to stay where it is. Crude by rail, we have 10 loading stations now for 30 destination stations. We are looking at 30 more destinations. 650k bpd now, 750bpd by year-end and we see path to 1m to 1.2m in a few years.

Q21, Station 7: Harley Davidson investment, 15% note that matures?

WB: We'd like to stop answering the mail and let them keep paying 15%. We had a few private transactions when market was frozen. Those deals are coming due. That was a special time, and that is a depleting asset left over from 5 years ago. We won't see anything like that soon, but we will see similar things at some time in the future. World is given to excesses, and they have consequences. We didn't think HD would go broke. Any company that gets customers to tattoo their logo on their chest can't be all bad. But it will be a sad day.

Q22, Becky Quick: Would you share thoughts on stocks with Tad or Ted?

WB: I gave them each \$1bil on March 1st. They don't check with me. I wouldn't even know their list until after the fact. There are one or two things they are restricted on. For instance, we can't buy more American Express. But otherwise they have no restrictions on them. They buy things I wouldn't buy, I buy things they wouldn't buy. They can put it all in one stock if they want. Or 50 if they want, although that is not my style. I want them to be free agent. I would want free rein, I didn't want to be held responsible with my hands tied. It is an unusual person to whom we would delegate. We believe that more than ever.

CM: What can I say in addition to that?

Q23, Cliff Gallant: Snapshot. Geico going well. But Progressive is giving 30% rate cuts and then they are still the most profitable. It appears a creditable underwriting tool.

WB: Obviously, Progressive disagrees, but I don't think their selection method is better than ours. I might even feel that our selection method is better than theirs. Peter Lewis, who runs Progressive, he went into the motorcycle business first. The first loss was red headed, and he decided not to insure red heads for a while. All we are trying to do is charge different rates to different people. Life insurance, health insurance, there is a different probability based on a whole lot of variables. Before Snapshot they had a different approach. We are retaining a hugely disproportionate number of new policyholders vs. market, and rates are attractive and underwriting results are attractive. We look for ways to refine selection technique. I invite you to compare Geico's results and Progressive. If am wrong I will admit it. I don't think we will be wrong.

CM: Obviously we aren't going to immediately copy every oddball thing that every competitor is doing.

WB: If I was starting in the auto business, I would attempt to copy Geico, but it wouldn't work. You can't give Tony Nicely enough credit. Entire industry will get 1.5m new adds, and we'll get 1mil, and we'll do it profitably and save people money.

Q24, Station 8. Los Angeles. It is said that you organize yourself by listing your top 25 goals and then pick the top 5 and move forward by focusing on the top 5 and avoiding the bottom 20.

WB: I'm more curious about how you came up with it. *[laughter]* It sounds good, and it sounds much more disciplined than I am. If they stick fudge in front of me, I eat it. Charlie and I live very simple lives. We know what we enjoy, and now we get to do it. We like to read a lot and Charlie likes to design buildings. He's no longer a frustrated architect. I don't remember ever making a list in my life. Maybe I'll start.

CM: What is interesting on subject of Warren's operating methods? When we started we didn't know this modern psychological evidence that you shouldn't make decisions when tired and how tiring it is to make decisions. And how good caffeine and sugar are to decision-making. Warren and I live on autopilot, we are totally habitual, and so we waste no energy making little decisions. And we ingest coke and chocolate.

WB: When we write our book on nutrition.... *[laughter]*

CM: I can't remember an important decision Warren has made when tired. He's never tired. Our style looks peculiar but it turns out to be ideal for human cognition.

Q25, Andrew Ross Sorkin: Omaha. I'm from Omaha, and I'm thrilled you bought our newspaper. It doesn't make sense economically. Please quantify returns.

WB: We will get a decent rate of return. They were bought as an S corporation or partnership. They have a structural advantage because we get to write off intangibles, and it affects our after-tax return. With declining earnings, after taxes returns will be at least 10% and may be higher, and unlikely for it to be lower. But everything we have seen to date indicates we will meet or beat 10%. It doesn't move the needle at Berkshire. There is about \$100m of pretax earnings in total in newspapers. Some get favorable tax treatment. It is real money but doesn't move needle here. We wouldn't have done it any other business but this doesn't require an ounce of effort. Will have decent return. We are buying papers at low prices versus current earnings, since earnings will go down. We expect them to go down in newspapers. Charlie?

CM: I think what you are saying is that it is an exception, and you like doing it.

WB: I wish I hadn't asked. *[laughter]*

Q26, Doug Kass: (Sort of a lead in). In a previous question, you mentioned that when you are gone, Berkshire likely to move towards more centralized management. You have said that Singleton at Teledyne is a manager everyone should study. He was 100% rational. Prior to death he broke up Teledyne into 3 companies. According to Lee Cooperman, Singleton did this because it was getting hard to manage for one CEO. What would you say about your greater complexity and size, and what is advisability about creating separately traded companies along business lines?

WB: Berkshire is easy to run. It is easier to manage. Greater centralization after death, but only a tiny bit more. I don't expect any changes of real significance. Charlie knew Henry Singleton. Might be interesting? Right and wrong. Breaking it up into several companies I'm convinced would lead a poorer result.

CM: Henry Singleton was a genius who could play blindfolded chess at just under the grand master level. I knew him. He started as conglomerate and grew the business by acquisition to keep the daisy chain going, and on way down bought in the stock aggressively. He managed on way more centralized basis. He wanted to sell it to us at the end. He really wanted to sell to us. He wanted Berkshire stock. We said no. He understood these very high take businesses.

WB: He played public markets very well. We're not interested in that. He made fortune for shareholders if you stayed with him. But he looked at shareholders as someone to take advantage of. He issued stock for 50 acquisitions. He promoted stock. We didn't want to play that game. It worked wonderfully if you didn't care how it ended up. Berkshire was going to be his third stage: first issue overpriced stock, buy back cheap, and then get our stock.

CM: I like our system better. We are more avuncular than Teledyne was.

WB: Not a tough comparison.

Q27, Station 9. Kelly Morell, NY. What should business leaders be focused on for competitiveness?

WB: Healthcare. 17.5% of GDP on healthcare, while most rivals are paying 9.5%. There are only 100c on dollar. It is just like raw material that costs you more. Doesn't relate to Medicare. It is costs. Whatever payer, we have big disadvantage. GM used to have \$1500 per car disadvantage in pension costs. If auto companies had a \$1500, or \$150 or even \$15 disadvantage in steel cost, management would be focused on it. But healthcare costs are beyond control of any one company. We have done very well. But I think healthcare cost is a disadvantage.

CM: It doesn't do our competitiveness any good to have grossly swollen financial and derivative markets. I think crazy outcome in terms of effect on country that Caltech or MIT graduates go into finance.

WB: Anything further?

CM: I agree on healthcare, but I find the other more revolting.

Q28, Carol Loomis: John Sealmy, I have never read whether 300k employees receiving benefits. What is cost of complying with affordable care act?

WB: I don't know answer to that. I am virtually certain, to my knowledge, that I don't know of any units that don't have healthcare benefits. Healthcare costs are huge cost. We are actually going to do something centralized for healthcare. We have not yet assessed in any way to answer that question. I see them at individual units. I see costs rising 10-12%. Same happening to competitors, and we'll try to figure out what makes sense. But we don't try to control out of headquarters.

CM: We really don't want to control that out of headquarters. We want that decision made at the firing line.

Q29, Jonathan Brandt: Electricity costs, subsidies for personal solar. Solar power - are regulated utilities really immune?

CM: I don't think anyone really knows how it will play out. I confidently predict there will be more solar in deserts than of rooftops. And our investments are all in deserts. We get very favorable terms and incentives. We will do fine in solar. I am skeptical about trying to run utilities from rooftops. I suspect there is some twaddle and fancy salesmanship in that. Price came down quickly. I am not charmed by rooftops in cloudy areas.

WB: Greg?

Greg Able: Costs are coming down but when put in total costs, utilities are still competitive pricing. You'll see restructuring of tariff, but a lot of protection to the utility. But we are confident we are valuable still.

Q30, Station 10. Bill Gross said investors of his generation benefitted from timing. Did that matter at Berkshire?

WB: Being born in USA was huge advantage and being male gave me more opportunities. Timing could have been a little better. Dad was securities salesman, I was conceived in Nov 1929. There was nobody to call on after the crash, Dad was bored. Provided a decade of terrible business, and people were turned off on stocks. Kind of like the past decade. That was a favorable environment. If 5 years earlier, maybe I would have made more, if 10 years later probably less. I envy the baby being born today in USA, and on probability adjusted basis that is luckiest child ever born. Better odds than existed when I was born. There will be opportunities to do well in investments. The person that has passion for investing, coming of age 20 years from now, will do very well, and will live far better. Like we live better than John D Rockefeller.

CM: Competition was weak in early days. Competition not as weak now. Sure we got advantages from timing, but it doesn't mean there is nothing to be done ahead.

WB: But in 2008/2009, you were competing with thousands of professionals, and you are sitting on 3x returns on your investments at the Daily Journal?

CM: I had learned a a lot over the years. You were drowning in opportunities when I first knew you. But you had no money.

WB: Now we have money and no ideas. *[laughter]*

Q31, Station 10 [again]: I'm 30 years old. If you could communicate to yourself 50 years ago, what would you say?

WB: Charlie, you answer that. I'll trade you places.

CM: Stay rational and hard work. The old fashioned virtues.

WB: But find what turns you on.

CM: I have never succeeded in something I didn't like doing. Even at the grocery store, we were not going to be promoted even with the family name! *[laughter]*

WB: We found things we liked to do, and we pushed hard. We have had so much fun running Berkshire, it is like a sin.

CM: And you atoned for our sins by giving all the money back.

WB: You give it all back whether you want to or not in the end. *[laughter]*

Q32, Becky Quick: Why pricing so rational in insurance when so large?

WB: Berkshire is an unusually rational place. We have had a long run. We have a controlling shareholder. There is no outside shareholder pushing us in direction we didn't want to go. There is no pressure for increasing premium volume. We actually contracted the business, at National Indemnity, by 80%, when we thought pricing worse. Most public companies couldn't do that. If we did something stupid, it is because we did something stupid. No external factors are pressing on us. That is great way to operate. It can be hard when others are getting applauded by Wall Street. There is no reason for us to do anything stupid in insurance. We were major writers of natural catastrophe insurance. We haven't left market, market left us. We won't get paid 90c to get probabilistic loss of \$1.

CM: There are pressures on other people that we don't want and therefore don't have. It is very difficult to shrink a business by 80% -- especially when people come in and have nothing to do.

WB: Like in internet stocks, and neighbors having success and they have high IQ's. It works for a while, that is great danger period. It starts as skepticism, but neighbor gets richer. We don't have any pressures

to do that sort of thing. We don't think we are smarter than others, we just won't do stuff we don't understand. And we won't be jealous when others do well. That is what it is all about.

CM: I always say there is a reason why that stuff is in the Bible. Can't covet your neighbor's ass. They were having trouble with envy a long time ago. It is the one sin there is no fun.

WB: Lust has its place, but Cliff you're up? *[laughter]*

Q33, Cliff Gallant: Hard to follow that, but reinsurance pricing down?

WB: We hate dumb competition. Hedge funds have entered the insurance and reinsurance business, Bermuda and deferred income location, and it can be sold to investors. People say uncorrelated. Anything Wall Street can sell, they will sell.

CM: They like big words.

WB: Money may bring down prices in reinsurance. We know what we are willing to do and at what price. If we can't do it, we'll watch for a while. You can't afford to go along with crowd in investment insurance. It can be irritating to have a dumb competitor. If guy across street willing to sell below cost, you have a problem. In insurance, the standby costs are not huge, not like idling a steel plant. In 1980s operating costs went up with volumes down.

CM: With our cranky wait-it-out methods we have ended up with best large scale casualty business in world.

WB: We never expected it. And we got some sensational people. Ajit Jain, Ted Montrose, Tony Nicely, Don Wurster. They like environment where they don't get pressure to do dumb things.

Q34, Station 11. Susan Tilson. You enjoy a lot of advantages as a male. I have noticed you have women on the board, not many do. Is it a problem, what should be done about it?

WB: It is a problem. You'll see my views on it on fortune.com, in front of pay wall. Women haven't had same shot. I had two sisters. A couple sisters, as smart as I am, more personable. Got along with people better. Grades same, they didn't have the opportunities at all. All my teachers, every one of them were female. I had better teachers than deserved. There has been improvement. There is pipeline effect, hard to change in one day. Katherine Graham, she was very, very intelligent, but she had been told by mother, and husband and society that women couldn't get rid of it. She saw herself in fun house mirror, it had been there too long. During her time in charge her stock went up 40:1, she wrote Pulitzer Prize autobiography, but she couldn't get rid of voice in her head. But the exterior obstacles they are crumbling. Country has come a long way, it is moving in right direction. I hope it keeps moving and moving faster. And I hope females laboring get rid of fun house mirrors and get regular mirrors.

Q35, Andrew Ross Sorkin: Is Berkshire too big to fail? On same topic how do you feel about Dodd Frank? Wells Fargo and GS?

WB: I don't think it is affecting insurance businesses to my knowledge. To my knowledge nothing that impinges on too big to fail doctrine. The capital ratios are being established at higher levels than smaller banks. Affects ROE. Higher capital ratio the lower the ROE. I consider the banking system in USA to be stronger than anytime in last twenty five years. Capital is dramatically higher. Very significant part of loans is gone, loans in last five years are better. Banks are better than 25 years ago, better than EU. Canada ok. I don't worry about banking system as cause of next bubble. It will be something else. Capitalism will go to excess, because of the people who are in it. I feel good about US Bancorp, M&T, Wells Fargo, they should be a decent investment. But returns on tangible equity won't be as high as 7-8 years ago.

CM: Well I'm a little less optimistic about banking system long term than you are. I don't see why massive derivative books should be mixed up with insured deposits. I would like to see something more extreme in limiting bank activities, like massive derivative books. The more bankers want to be like investment bankers the more I don't like it.

WB: I agree with that.

CM: I don't want to say anything more about it.

WB: I can see the journalists licking their chops for Charlie to throw a thunderbolt. We are now close to noon. I wrote about costs borne by investors. I wrote about hedge funds and private equity. World has been good at extracting returns. I offered to bet that a group of hedge funds would not beat S&P. We each invested \$350k in zero's that each which would be worth \$1m in 10yrs. I promised to report this year, but interest rates down so far, the original bets were now valued at \$950k. So we bought Berkshire with it. I guaranteed worth more than \$1mil at maturity.

We are now at half way point. You can see it at longbets.org. There are a number of propositions people have wagered on. Ted gave a description. Some of these include the large Hadron collider will destroy earth in 10 years. Not sure that will collect, \$1000 bet. At least one human alive, 148yrs old. One hour break for lunch, and we'll continue with questions then.

[Lunch break]

WB: We'll start in a minute. I had a hot dog with a lot of ketchup, hope you did too.

Q36, Doug Kass: You used to do channel checks on American Express and now you buy Bank of America after it came to you in the bathtub. Do you have less research intensity now? Do you like the game more than the score?

WB: You have to love something if you want to do well at it. The passion adds to your productivity. I love thinking about Berkshire, about our managers, it is part of me. You can't separate the game from the score. It is part of game. The proceeds are unimportant but come from it. It is what I like. If I didn't own a share and didn't get paid I'd still work for Berkshire. There is nothing more fun today than to find something to add to Berkshire.

CM: When you bought Amex the first time, you didn't know much about it, so you went out to learn a lot. The second time you saw how hard it was for Frank Olson at Hertz to get rid of American Express. The first was hard, the second was easy. It is all cumulative. That's one of the great things about investing.

WB: What I learned with Geico in 1951 is still useful. You can build on it. But not changing dramatically. We just don't play in game if it is changing. I didn't know much about American Express when Salad Oil Scandal hit. I learned a lot about traveler's checks, travel cards. Played golf with guy running Hertz Corp, and he said there was no way he could get rid of American Express, or cut their fees. We now own 13%. We can't buy more shares at American Express as bank holding co but they buy back their own stock and therefore do it for us. Our interests going up as they buy back shares. We love it when companies buy back shares. We get a bigger percentage of the business. Even better when the companies earn more. Passion is not gone, I promise you.

Q37, Station 1: Seattle. Which quantitative metrics to judge a stock?

WB: We aren't looking at the aspects of stocks, but always are buying a business. If you were a basketball coach, you can look for all seven-footers. We look at different numbers for different businesses. We see certain things that shut out to us to look further. We also know what we can't know. Often we have a fact that slips back in which causes us to change our mind. The bathtub wasn't the central factor for Bank of America. I read a book 50 years ago, *Biography of a Bank*, a great book. We have certain things we look for in insurance. We have things that we think about which is different when we think about Iscar. There are things we think about when dependent on brands. Some brands travel well, like Coke, some don't. In the bath, I thought Bank of America might be good idea, so I gave him a call. It is not because I calculated some precise PE or book value ratio. I have some idea of what company will look like in 5 years, and there is a disparity between that price and today's value.

CM: We don't know how to buy a stock based on ratios. We need to know how a company actually functions. Do you use a computer to screen anything?

WB: No I don't know how to. We don't really use screens but we are really screening everything. We look at it just as if someone offered us the whole thing, and what will it look like in five to ten years, and

how sure of it we are and if it is in the price. There are a lot of businesses that we just don't know the answers to and feel that we can't foresee the future well enough. We have watched the auto business for 50 yrs. It is a very interesting business.

CM: BNSF will have a competitive advantage in 10 yrs. We don't know that about Apple or an oil company.

CM: People who are good at math look for numbers and think they can find an answer. You need to understand a company's competitive position, but it isn't that easy. It isn't math, you need to need to know the business.

WB: Not what I learned at Ben Graham. Not sure whether I would know how to manage money if I just had to look at the numbers.

CM: You would do it poorly. *[laughter]*

WB: Well, on that...Carol?

Q38, Carol Loomis: Is Bill Gross right about new normal?

WB: Charlie and I don't pay any attention to macro forecasts. We don't know. I can't think of a time when we have made a decision on a company based on the macro. We have a little conceit, that if we don't know, who would? People do it all the time, talk about future and macro, but not very productive. They don't know what they are talking about. I like Bill Gross, but it doesn't matter to me. I sound like Lloyd Bentsen. What we do know is that BNSF will be carrying more carloads, there will be no substitute. There will be two railroads in West. It has incredible replacement value. To ignore what you know to listen to what someone else who doesn't know, doesn't make sense. People will do very well owning good businesses if they don't pay too much. If they try to time it, they will do well for broker and not themselves.

CM: We have a lot of money, and have to invest. If you are a busy surgeon deciding on whether to work a little longer or retire now, I would suggest work a couple more years. I kind of agree with Bill Gross.

WB: Will it be worse than the last 10 years?

CM: I think that's a conceivable outcome.

Q39, Jonathan Brandt: What can Fruit of the Loom do about Galvan - a competitor?

WB: Keep costs down and constantly work at brand building. Try very hard to make sure main customers are keeping their customers very happy at their price points. Galvan has hurt Fruit in last 10 years. We turn out first quality low price underwear with strong brand recognition. Galvan pays very little in income tax because they route stuff through the Caymans. It will be hard to beat us in costs or to build a new brand. I think market share in men and boys will hold up. It is not a business you can coast

on. It is not an unbranded product. I think Fruit will do reasonably well, but not the kind of profit margins you can get in certain brands.

CM: We are not going to win every brand skirmish.

Q40, Station 2: Publish Buffett partnership letters? Book list?

CM: You wouldn't really be helped by early Buffett partnership letters. Early names?

WB: Mosaic Tile, Meadow River Coal & Land, Flat Utica, I've owned 400-500 names, but most of money made in 10 of them.

CM: I can't list 10 books that would be much better than the next ten. My mind is blend of so many books.

WB: The Intelligent Investor changed my life. I read every investment book in the Omaha public library but Graham's book gave me a bedrock philosophy which made sense. Taught me about stocks, and that market is there to serve me. Stocks are pieces of businesses, not ticker symbols. That philosophy, further influenced by Fischer, that we are better in great economics than flitting from flower to flower. I haven't found flaws in that. In other arenas, Charlie has read more biography than anyone else. Joe Kennedy biography? We read for the enjoyment, it is fun, and we get very substantial benefits.

Q41, Becky Quick: Bill Miller - US airline industry, historically terrible. But now, top 4 carriers will have 90% of traffic. Substantial free cash flow. Will economics persist? Netjets synergies?

WB: NetsJets - no. Industry - yes industry interesting. But in some industries, two competitors can compete with each other and do stupid things.. Freddie Mac and Fannie Mae - they drove prices for insuring loans down to improper levels. You see it in certain industries. If you take Coke and Pepsi, there are only two colas people can name. But if you go into supermarket on weekend you will see them pricing at very low prices and competing vigorously. It is industry specific. Airline industry, very low incremental cost per seat, with enormous fixed costs. Temptation to sell last seat is very high, and hard to distinguish between which is the last seats and others. Labor intensive, capital intensive, largely commoditized. It has been a deathtrap for investors, a capitalist should have shot down Orville Wright. If it ever gets down to one airline and no regulation, it will be a good business. Is it a good business yet? I don't know answer but I'm skeptical.

CM: The last time we were presented with an opportunity like this was in railroads where you had consolidation and the industry improved. We missed it and came back to it late. It's conceivable that Bill Miller is right.

WB: Which way do you bet?

CM: It goes into my too hard pile.

WB: Me too. It will be fun to watch. With See's Candy we don't think things will change much, even though the real profitability is limited to West Coast. We do not see a competitor taking the business.

CM: You couldn't create another railroad. You could create another airline.

WB: I've had a dozen proposals from people who want to get into airline business. It is sexy for some reason. If you go into an office of a CEO and talk about a new airplane, you are in the door. You ask to talk about hauling coal, it is harder. Some have gone bankrupt more than once. US Air, it went into bankruptcy twice, we were very lucky to make money. US Air was in trouble before my check cleared. They never made their projections. We weren't very popular because we pointed that out at the board meetings.

Q42, Cliff Gallant: How solid a floor is the 1.2x p/b multiple?

WB: Intrinsic business value is what matters, but virtually no correlation with most companies. Book value has reasonably good tracking at Berkshire. Our intrinsic is high versus book value. We have said we would repurchase at 120% of book. If we got opportunity we would buy a whole lot of it. If you can buy additional businesses and add to the intrinsic, do it. A very sure way to improve per share value. But very tough for us because every time we start to buy, people get excited...

CM: If those cheapskates are willing to pay that...

WB: We don't really like the idea of running a company where it makes money by buying partners out at a discount. We haven't done much of it. Most of time stock in reasonable range vs. book value. If in our opinion the stock is at significant discount, and have stock at reasonable quantity, we will buy it. There are circumstances where we would buy a whole lot.

CM: Nothing to add.

Q43, Station 3. Would Charlie move to Omaha to be closer to headquarters?

CM: The answer to that is no.

WB: While we are technophobic, we have gotten so we can use the phone. And we know exactly how the other guy thinks. We used to do a lot of phoning when it cost and lot and now it costs nothing and we don't talk. *[laughter]*

CM: They are rebuilding, Omaha has changed in last five years.

WB: You have to remember 1/3rd of the lifetime of the country has passed during our lifetime, you need to expect some change! *[laughter]*

Q44, Andrew Ross Sorkin: What do actuaries believe are the risks of climate change? Price on carbon debate?

WB: Climate is really getting a lot warmer. *[laughter, since it was 35 degrees outside that morning]*
Charlie knows more about science than I do, but that doesn't say much. There is a reasonable chance that people who worry about it are right, but I don't know. I don't think it makes any real difference assessing insurance rates from year to year. We would have a pessimistic bias about general insurance, that future would be somewhat worse. We assume disasters will be worse without a climate view. Resetting price of insurance from year to year - global warming isn't an issue.

Q44, cont: Price of carbon debate?

WB: That question calls for having Charlie giving answer.

CM: I'm a Caltech trained meteorologist, back before most modern meteorology was invented. I think carbon trading is impractical. If you want to change habits, I think carbon taxes are better. Europe, because they are socialist, like to tax things that people need the most, so they tax diesel and motor fuel. They stumbled on it, but I think it is right. We should have way higher taxes on motor fuels. *[light clapping]*

CM: Some shareholders are in favor of higher taxes. *[Charlie laughs]*

WB: They weren't all clapping.

Q45, Doug Kass: Asymmetry between reward and risk. Todd Combs used to short stocks. Would you ever consider investing in a short seller, and investing \$100m at Seabreeze?

CM: He had so much success he stopped doing it. *[laughter]*

Doug Kass: But he got the job.

WB: That's not why he got the job. We got to 1:55pm before the first ad...

CM: The answer to your question is no.

WB: Charlie and I are no stranger to short selling.

CM: We both failed at it. *[laughter]*

WB: I've known, if you go back far enough, we did a reasonable amount of short selling. I've identified frauds and overvalued companies. But it is not a game that we like over a long period of time.

CM: We don't like trading agony for money.

WB: But we wish you well. *[laughter]*

Q46, Station 4. Shreveport, LA. How did you tell Heinz was fair price? What sources on changes in industries?

WB: We usually feel we are paying too much. We then gag and get there on price if we find the business good. There is no mathematical formula. Looking back, we could have paid significantly more money for some businesses and still would have been a good decision. In general, if get a chance to buy a good business that you have a high degree of certainty has economic characteristics that they will earn unusually high rates over time, or, better yet, can reinvest to grow, you should probably stretch a little. Charlie or I will say let's do it. It happened with See's Candies. We were paying 5% more than I wanted and Charlie said, "For god's sakes Warren write the check!" We always think it is too expensive.

CM: It almost always happens. Modern prices aren't cheap.

WB: But you will see it in the market. Negotiated purchase of business – you are almost always dealing with person who is prepared. In stock markets you get flash crashes. You will see opportunities in stock market that you will never get in business market. What we really like is buying businesses to hold. Particularly when you've got cash coming in, you want to deploy in businesses you can enjoy forever.

CM: We are in different mode now. If we kept to our original mode, we wouldn't have done very well. It is a game of learning, if you want to win.

WB: We want to win.

Q47, Carol Loomis: I would respectfully and urgently request you stop eating hamburgers. [laughter] You extol thriftiness. If this is hallmark, how can you support an administration that put us in so much debt?

WB: We'll have to give Bush some credit for the \$16tril. The Obama administration was not responsible for the financial crisis. But I always find it unproductive to discuss politics with people. Half will agree, half will not. We don't agree much me and Charlie. The amount of deficit spending. I think the spending has been quite appropriate in response to the crisis, largest in my lifetime. We had quite a situation where Freddie and Fannie in conservatorship, GE calling Berkshire for money and money market funds drained by 5% in 3 days. We needed the stimulus. Problem is how to get off it. But it is a lesser problem if we had had austerity.

CM: I agree with you completely. By the way so did George W. Bush.

WB: Those are the ten greatest words in economic history. It is up there with Adam Smith. "If money doesn't loosen up, this sucker could go down." We owe him a lot in that respect, and many didn't agree. Our leaders once in trouble have behaved and made policies which were very useful, to avoid something far worse than what we experienced. I am disturbed by a national debt that grows in respect to GDP, I wrote this in an article in 2010. We came out of WW2 with higher number, and people were predicting terrible things and the country has done sensationally. The danger is that it continues to grow. We have

encountered far worse problems. This is not our country's hardest hour. You won't be disturbed when reading about it 10 years hence.

CM: Our current problems are quite confusing, and if you aren't confused I don't think you understand it very well. *[laughter]*

WB: How bothered are you by level of debt to GDP.

CM: I don't think a fixed ratio. Most of debt isn't counted. Off the books debt is bigger – the present value of future promises, our unfunded liabilities.

WB: ...that can be changed...

CM: But will we take social security away from someone who has worked a lifetime? That is great problem. If GDP rises at 2% per annum, all problems fade into insignificance. I'm not sure we have those policies.

Q48, Jonathan Brandt: Question about competitiveness at Benjamin Moore. Change in management recently? Behr?

WB: We have a small percentage of the total paint market, but good in the high end. We have not lost position in the high-end, we use dealerships for Benjamin Moore. We were always approached by big boxes. We would have had huge jump in volume. They would have loved us. But it would have totally changed distribution. After my pledge and management's pledge, that would have been double-crossing dealers. A dealer policy will work with a first-class brand like Bennie Moore. We were offered Behr at one time. But the company was investigating and on its way to implementing plan to gut and hurt the dealers. So we did have a change there. We will not follow the Sherwin Williams path, but it is very effective. We will have dealer strategy. It has worked very well. I think Sherwin Williams will do well. We are in a different segment. It is up to us to protect and foster the dealer network. With our position in Bennie Moore, we won't look to raise share, but will have high profitability.

CM: It is a very good business. I wish we could buy 5 more like it tomorrow.

Q49, Station 5. Canada. Strategy buying 20 best companies?

WB: You might get the 20 and perform in line with index fund. Spend time becoming an expert on businesses, which is different than the person who will do a profession and wants to own equities on side, but they may get excited about stocks at the wrong time. Idea of buying an index is avoiding buying at wrong time. If you an amateur, there is nothing wrong with being an amateur. Buy American business in a diversified way.

CM: I have nothing to add. Knowing edge of your competency is important. If you think you know more than you do you will get in trouble. It works particularly well in matrimony. *[laughter]*

Q50, Becky Quick: Your stock donations are enormously generous. Could annual sales be reason for weak share price?

WB: Foundation sells \$2bil every year, or 1% of float annually, while many stocks trade 100% of float. That is peanuts. You can argue that it can aid, but a supply of 1% annually is not going to change a level a stock trades. Berkshire volume is like \$400m per day. \$2bil over year won't affect it.

CM: There is nothing as insignificant as an extra \$2bil to an old man. *[laughter]*

WB: It has a lot more impact in the hands of others.

Q51, Cliff Gallant: What are you seeing in reading the tea leaves about US economy? Go international?

WB: We never foreclosed anything, but we'll find most of opportunities in USA. We are better known here. Most deals will take place here. But some bolt-ons will be internationally. Ever since 2009 seeing gradual improvement. Car loadings 3.5% on car loadings. Industry up 4% to 4.5%. The economy has not come roaring back but it has not really faltered. Overhang in housing ended about a year ago. We are starting to get recovery in home prices. Big psychological effect. We don't want to start overbuilding again. We want starts equal to household formation. I think we will have moved forward. Won't surge, won't stall.

CM: Not a field where I've been good. We know what is going on now. Can't make a lot of money investing in what is going on now.

WB: Can't make a lot of money thinking you know what is going to happen either. If we hear about something where we can spend \$15-20bil on we will move in an instant. We never know when opportunity will come along. And in financial markets sometimes it happens in a huge way. Most in this room will see incredible opportunities offered. Things will happen, and you have to be able to act. Must have the ability and mental fortitude to get in when others are getting out.

Q52, Station 6. Los Angeles. What advice do you have if I want to start a fund?

WB: Well you haven't sold me. Even we have to be careful when looking at a track record. But start developing an audited track record as soon as you can. We looked at Ted and Todd's record. But it was not the sole reason. If you have a coin flipping contest, 310 million orangutans, 300k orangutans will flip 10 in a row, and they will likely look for people to back them in the next coin flipping contest. Our job is to make sure we're not hiring lucky orangutans.

CM: When you had his problem, didn't you scrap together \$100k from a loving family?

WB: You should be able to explain to people why that record is sound. Charlie, starting today and age 25?

CM: You have to start with people whose trust you have earned in some way.

WB: During this time hedge fund managers will have made a lot of money. \$120m for Todd and Ted by sticking money in the ground.

CM: The arithmetic attracts a lot of the wrong type of people.

WB: Naturally, we thought we were the exceptions.

Q53, Andrew Ross Sorkin: Is Ajit your successor?

WB: You'll have just as much luck on the B's. But on Ajit, he does it differently when others start to copy.

CM: When Ajit is not with us, we won't look as good.

WB: We have people who do not need the money. They are doing a job for you shareholders and me and Charlie which you could say we don't deserve. But they don't have to do show and tell to headquarters. We operated for 20 years without Ajit. If he came in 1965, we would own the world. It is fun to think about.

Q54, Doug Kass: I don't mean to be disrespectful, but...

WB: It sounds like you are going to be disrespectful. *[laughter]*

Doug Kass: Other than the accident of birth, why is Howard qualified?

WB: He's not taking on the role you described. It is not his job to run the business or allocate capital. But if a mistake is made in picking the CEO he is there as protector of the culture. I know of nobody that will feel more responsible for that. The chance our choice in CEO is correct should be 99 out of 100. Odds that he is needed are less than 1 in a hundred. To have a non-exec to take care of the shareholders, it will be far easier to make another change in case a mistake is made. He will have to think about whether board will need to change CEO. I have seen many times likeable but not dishonest, very hard to change him out, when he's Chairman. Now boards meet once a year without Chairman. That is a big improvement. But they could be better - but who will speak up. I know no one who would do better job for Berkshire.

CM: Mungers will be safer with Howard there. Board owns a lot of stock. We are not trying to gum it up.

WB: Over period of time, the stock will go to help people around the world. It will matter how well company is doing well or not. We have seen 6 on scale of 10 CEO, who runs the business, when someone else could do it a whole lot better. Hard to make that change.

CM: 9 out of 10 with deep flaws.

WB: Blessed are the meek for they shall inherit the earth, but after they inherit it will they stay meek? We don't want someone to use Berkshire as a power base. When I write about how we won't influence the editorial policies of our newspapers, I'm boxing my successor in.

CM: Once famous California CEO, it was said he was the only man who could strut sitting down.
[laughter]

Q55, Station 7: Low interest rate environment, challenge to insurance companies. Cash flow for low interest. Can you explain what is the term credit facility at Fed?

WB: No. Problem faced by people who have stayed in cash, it is brutal. The loss if they live off their income, the loss of purchasing power is just staggering. They are huge victims of a low interest policy. It is a dramatically low interest policy. Equities were cheap. You were going to get killed in low interest fixed dollar investments. Anyone I advised, owning businesses made more sense than owning fixed dollar investments. It has made dramatic sense a few years ago when equities marked down to terrific buys. I didn't anticipate it would go on so long. I get a lot of letters from people. It has hit millions of people in a harsh way. It has been a good argument for owning productive assets rather than owning dollars.

CM: Well it had to hurt somebody, and the savers were convenient. I would have done what they did, but I would have felt bad about it.

Q56, Station 8. Chris Yu, Tokyo, Japan. IBM and moat? Full disclosure, I work for Microsoft.

WB: I don't understand moat at IBM as well as Coca-Cola. I have more conviction on Coca-Cola, Mars, Wrigley. But I feel good enough about IBM to put considerable position. I think odds are good that their position is maintained over time. It is hard to think about things that could go wrong with BNSF, but can with IBM. IBM has large pension fund, 75bil of assets and liabilities. It is big annuity company on the side. You can have balls take funny bounces in the annuity field. They show assets and liabilities being equal, but liabilities are more certain than assets.

CM: Life insurance companies are suffering the tortures of hell. They promised 3% in Japan, very difficult.

WB: Our life insurance business is very small. Life business gives away too many options. We don't like writing people options. Mortgage too. 30 year mortgage - good deal for you and if not, you can call it off. Everyone in this room should go get a mortgage. Life companies have engaged in that big time. That is where life companies are now. Like switchblade fight and you say 'you didn't touch me', but wait until you shake your head. Anything else Charlie?

CM: No that is gloomy enough.

Q57, Station 9: How were you different when you managed small capital?

WB: We would be looking at small things or discrepancies. The opportunities are out there and periodically they are extraordinary. But we have 12-14bil coming in every year.

CM: I'm glad I am through with that particular problem.

WB: Looked under a lot of rocks.

CM: I frequently made enough money on the float on my unpaid income tax, enough to pay the tax. Small things in idiosyncratic places.

Q58, Station 10: Shanghai, China. How do you see emerging markets?

WB: We don't start out looking to either countries or emerging markets. Our strength not there in market evaluation. Most people's strength not there too. If you told me we could only invest in United States for rest of lives, we would not regard that as huge hardship.

CM: Salespeople like to divide investments into categories. It is a great way to sell investment advice, but not a good way to invest. But in most things we feel we don't have an edge.

WB: When talking concepts, it sounds better for the sellers. Just find a good business.

CM: "Our experts like Bolivia." But last year you liked Sri Lanka.

WB: We're not comfortable with that.

Q59, Station 11: US government complicit to buy a home. Are we near bubble now?

WB: We are not in a bubble now. Your statement is accurate but not complete. Gov't was big part of it, due to financing. Legislators were encouraging Freddie and Fannie to do silly things. It had that aspect, year after year, that skeptics look like idiots. Those who jumped on bandwagon, people are really susceptible to that sort of bandwagon effect. Everyone was making easy money. Doesn't mean Freddie or Fannie were necessarily evil. Legislators not evil, most of them. It will happen again. We have low interest rates, but we aren't in that kind of period in housing. Personally about a year ago I recommended people to buy houses, and to finance it. I think a great time to buy housing.

CM: Main problem was that as things got crazier, government could have intervened, but instead government increased the proof in the punch bowl. It is hard to get governments in a democracy to take away from voters who want to get drunk. You are complaining about what is inevitable in life. That is not too good an idea.

WB: You'll see it again. Humans get fearful when others get fearful. When people get scared, it is very pervasive. If I owned a bank in a two bank town, I might hire people to stand in front of the other bank. People get fearful en masse, but confidence comes back one at a time. Charlie and I have one edge: we

are able to not get caught up in what other people are doing. Not sure we learned over time. You never want to go out on a limb. There was a lot of leverage on the housing, and finally the roof fell in.

Q60, Station 1: Cologne. Eurozone investment opportunities? Do you trust ECB policies?

WB: We will be happy if we find business in any of the 17 countries. EU not going to go away. But EU monetary union has a major flaw, and it is grappling with way to correct that flaw with 17 political bodies and diverse cultures. They will do it in time in my view. They synchronized the currency without anything else. Nature finds a flaw, and so they need to find a structure that does work.

CM: Structured as EU was structured, letting in Greece was a lot like using rat poison as whipping cream. It is not a responsible country.

WB: I tried to tell him not to name particular countries...

CM: And committed extreme fraud in getting into union, they lied about their debt. Europe made terrible mistakes, they have politicians too.

WB: Will it be behind them in 10 years?

CM: They will muddle through.

WB: We'd like to buy a big business, and pay cash.

CM: I hope you'll call me if it is in Greece. *[laughter]*

Q61, Station 2: Social media?

WB: Half the people in this audience can answer that question better. Internet marketing is making a huge change to Geico. It was founded in 1936 with the model of going direct entirely by mail. It worked very well, then TV advertising and now social media. We have to listen to customer. I thought internet would affect younger people. But it has affected everyone. Spread across age range. It is huge change. You have to respond to that. I am not best person by miles. They will continue to think about it. It would be a terrible mistake to put me in charge of social media at Berkshire. Charlie wouldn't be a good choice either. *[laughter]*

CM: I hate idea of teenagers immortalizing for all time the dumb things they said when they were 13. There is a time when your existence when your folly ought to be hidden. *[laughter]* And when you multitask like crazy, none of the tasks will be done well.

Q62, Station 3: Stamford CT. What to look for in financials and accounts? How to identify fraud?

WB: We don't have a checklist to look at regarding the balance sheet or the P&L. We are assessing people. When we buy a business, we hand them a lot of money and get a stock certificate. For insurance

companies, we compare reserves. I've seen frauds, company A & B, when offering stock to public, reserves would go down. Or when selling to other insurance companies, they were buying in stock. There are a million different ways. You can spot certain people.

CM: Sometimes it's pretty obvious.

WB: If you've got doubts, forget it.

CM: Remember they wanted to sell us a fire insurance company, in Eastern Europe.

WB: Don't name countries!!! [laughter]

CM: He said, "like taking candy from babies". We only write fire insurance on concrete structures under water. I am a very acute man.

WB: When you get into accounting, movies - you can see how fast you write off, or progress payments. In financial institutions they are probably prone to it. A lot of it, they aren't being deliberately fraudulent, they believe what they are saying.

WB: So people like to hire them as salesmen. [laughter]

CM: It is now harder to understand big banks financial statements. So many footnotes, so much gobbledygook.

WB: We couldn't understand them when we owned them. GenRe had 23k derivative contracts.

CM: So I created a new accounting term, 'good until reached for'. Accountants on both sides blessed the contract, and profits on both side of contract.

WB: I became interim Chairman at Salomon in 1991. Fortunately I testified before I found this out. Salomon wanted conservative accounting. Then they walked in one day and said, 'Warren you should probably know we have this item...' It was a \$180m plug on capital base of \$4 billion. We have been plugging this number for 10 years since Phibro. They just stuck a number in every day. I couldn't even figure out how to unplug it.

CM: We had a discrepancy in our savings and loan. We just let it run out.

CM: In accounting you can do things like they do in Italy, when the mail piles up, they just throw away a few car loads of mail.

WB: That happened in some unnamed country. [laughter]

CM: Yeah, Italy. [laughter]

Q63, Station 4: If you found business in Africa, would you invest?

WB: I wouldn't preclude it.

CM: U of Michigan hired guy in London to invest in Africa. They bought all the little banks. They made a lot of money.

WB: If we were poor enough we might even think about doing it.

CM: I don't think so.

WB: Next year we'll prepare for this. *[laughter]*

Q64, Station 5: Ft Worth- home to 4 Berkshire companies.

WB: We love Ft Worth.

Q64, cont: how much is enough to give your children?

WB: I think more kids are ruined by behavior of their parents than by the inheritance. They are learning about the world through you. You are their teacher. I don't think that amount of money leaves is the determining factor at all. What they see about how parents behave is important. I've loosened up a little. I don't reduce the amount. Think that they are going to read the will someday. It is crazy to have them read it after you are dead. What if they have questions about how to carry out wishes? I have them read it. I want them to understand how to carry out obligations, or if they have concerns, to have a discussion. I don't advise it with your 14 year old. In mid 30s, they should be participants in the will. If you get to be wealthy, trying to pass on dynasty, money has far more utility to society than to keep with a trust officer, who your kid calls once a year for money.

CM: You don't want to discuss the will if you will treat them unequally. That is poison.

WB: But you want to make sure your definition of equality matches.

Q65, Station 6. No question.

WB: I like Station 6.

Q66, Station 7: Stock splits?

WB: I think we have a pretty good arrangement now. We created B shares, now B shares are in the \$100 range. If some corporate transaction the A and B will be treated identically. I see no reason to change the present situation.

CM: I would not hold your breath waiting for us to change.

WB: That may apply to anything in our lives.

WB: We'll take a five minute recess, and I thank you for coming and I hope you come next year.

Notes courtesy of Peter Boodell, Portfolio Manager and Managing Partner, Boodell & Company Capital Management LLC, located in New York City. Edits courtesy of Rick Schmidt, Portfolio Manager, Harding Loevner, located in Bridgewater, NJ. Please address any comments or concerns about this document to info@boodellco.com. Of note, no recording devices were used to create these notes. As such, they should not be relied upon. Peter's high school typing teacher, Mr. Eagle (may he rest in peace), deserves whatever credit, if any, is due.