

WARREN BUFFETT: I'd like to just comment for a few minutes -- and this will be transcribed and up on the internet at our web page -- I'd like to comment for just a few minutes, and I'd like to ask Charlie then to give his thoughts on the matter of David Sokol and the purchase of Lubrizol stock.

You saw in the movie a clip from the Salomon situation and that occurred almost 20 years ago. It will be 20 years ago this August. And at the time, it was a Sunday, Charlie was there, and I was elected the chairman at -- what, about 3:00 in the afternoon or so I think on a Sunday at Salomon, and I went down to address a press group.

And almost the first -- somewhere in the early questions, somebody sort of asked me, you know, what happened? Well, I'd just gotten to Salomon fairly recently, so I didn't know too much about it but the phrase that came out of my mind then -- out of my mouth then -- sometimes my mind and my mouth are coordinated -- the phrase that came out of my mouth then was that what happened was inexplicable and inexcusable.

Now, it's 20 years later, and looking back on Salomon, I still find what happened

inexplicable and inexcusable. You know, I will never understand exactly why some of the events that transpired did transpire. And to some extent, in looking at what happened a few months ago with Dave Sokol's failure to notify me at all that he'd had any kind of contact with Citigroup, in fact, he directed my attention to the fact that they represented Lubrizol and never said a word about any contact with them, and then the purchase of stock immediately prior to recommending Lubrizol to Berkshire, I think I -- for reasons that are laid out in the audit committee report, which I urge you to read and which is on our website, I don't think there's any question about the inexcusable part that Dave violated the code of ethics, he violated our insider trading rules, and he violated the principles I laid out -- I lay out every two years in a direct personal letter to all of our managers and which I've been doing for a long time. So I -- you can read the audit committee report about that.

The inexplicable part is somewhat -- well, it's inexplicable, but I'd like to talk about it a little bit because I will tell you what goes through my mind in respect to it.

Certainly -- well, one interesting point is that Dave, to my knowledge, at least, made no attempt to disguise the fact that he was buying the stock. I mean, you know, you read about insider trading cases and people set up trusts in Luxembourg or they use neighbors who know neighbors or they use third cousins -- I mean, they have various ways of trying to buy the stock so that when it's later -- the FINRA supervising organization looks at the trading activity in the months prior to the deal, they do not see names that jump out at them as being associated with the deal.

To my knowledge, Dave did nothing like that so he was leaving a total record as to his purchases.

Now, I think at least usually -- and maybe always -- we are queried after any deal. We are asked who knew about it when, and we supply a list of whether it's people at the law firm or people that are in a secretarial position at our place or the law firm. We give them a list of everybody that might have known or did know about the deal prior to the public announcement and I -- I don't know whether they do that 100 percent of the time, but certainly it's my experience that you get that. And then a while

later, you'll get a list of names of people that FINRA again has picked up as trading and they ask you if any of those names ring a bell with you, so they're trying to put together whether anybody did any inside trading ahead of time.

So the odds that if you're trading in your own name and you're on that list of people who know of a deal ahead of time, the odds that it's not going to get picked up seem to me are very much against you.

But, to my knowledge, Dave did not disguise the trading, which, you know, that's somewhat inexplicable that if he really felt he was engaging in insider trading and knew the penalties that could be attached to it, that he essentially did it right out in the open.

The second fact, which is less -- perhaps less puzzling, but Dave obviously has a net worth in very high numbers. He made I think close to \$24 million. He earned it from Berkshire last year, and we got our money's worth, but he did get \$24 million too.

So I would say that there are plenty of activities in this world that are unsavory that are committed by people with lots of money. So I don't regard that as totally puzzling. But I

will give you one instance that does make it puzzling. It makes it very puzzling to me.

We bought MidAmerican at the end -- Berkshire Hathaway bought MidAmerican at the end of 1999, bought about 80 percent. Walter Scott who I just introduced and his family was the second largest holder, I think something over 10 percent, and then two operating people, Dave Sokol the senior one, owned or had options on a big piece and Greg Abel, a terrific partner of Dave's, also had a piece.

And Walter Scott -- and I've told this story privately a few times but not -- I don't think I've done it publicly. Walter Scott came to me a year or two after we'd bought it, and Walter said, I think we ought to have some special compensation arrangement for Dave and Greg if they perform in a really outstanding manner.

And he said -- I think maybe he suggested something involving equity and he saw me turn white. So he said, Why don't you design one and let me know.

So I just scribbled something out on a yellow pad. It didn't take me five minutes. And we call it sort of in honor of Charlie, although he didn't know about it, we called it

the Lollapalooza, and it provided for a very large cash payout, which I'll get to in a second, based on the five-year compounded gain in earnings, and we were starting from a high base, in other words this was not from any depressed level, and we set a figure that no other utility company in the United States was going to come close to. But if that figure were achieved, we were going to give \$50 million to Dave and \$25 million to Greg Abel.

And I had Dave come to the office and I said, Here's what Walter and I are thinking, and, What do you think of this plan? And it had these figures on per share that -- that like I say, move forward at 16 percent compounded per year, and then I say, Here's the pay out.

And he looked at it for just a very short period of time and he said -- he said, Warren, this is more than generous. But he said, There's just one change you should make.

And I said, What's that?

And he said, You should split it equally between me and Greg instead of being \$50 million for me and \$25 for Greg. It should be \$37 and a half a piece.

So I witnessed -- and Walter witnessed, you can talk to him about it -- we witnessed Dave voluntarily, without any -- Greg had nothing to do with it, he wasn't there, we saw Dave transfer over 12 and a half million dollars, getting no fanfare, no credit whatsoever, to his, in effect, junior partner.

And I thought that was rather extraordinary, and what really makes it extraordinary is that \$3 million, you know, ten or so years later would have led to the kind of troubles that it's led to. I find -- that -- that is really the fact that I find inexplicable and I think I'll probably -- you know, it's 20 years after Salomon. Twenty years from now Charlie will be 107, and we won't mention what I'll be, but I -- I think 20 years from now I will not understand what causes a man to voluntarily turn away 12 and a half million dollars to an associate without getting any credit for it in the world and -- and then ten or so years later buy a significant amount of stock the week before he talked to me. And when he talked to me about Lubrizol, it was either the 14th or 15th, he says it was the 14th, and I have no reason to disagree with that. The only reason I couldn't

say specifically was I had eight university groups, 160 students in on that Friday. That's the only thing it shows, and I spent most of the day with them. And the 10K and the 10Q that got printed out on Saturday have that date on them, the 15th, when I looked at Lubrizol for the first time.

You might be interested in knowing I've been looking up 10Ks and 10Qs for 20 or 30 years, but I don't know how to print them out. Fortunately, Tracy Britt was in the office. I said, Tracy, can you print this damn thing out? I don't know how to do it yet. That is why I don't know if it was the 14th or 15th. The 10Q says the 15th.

But at that time when Dave called me on it he said nothing about contact with Citigroup or anything of the sort and he -- and I said, I don't know anything really about the company.

He said, Well, take a look at it. It -- you know, it might fit Berkshire.

I said, How come?

He said -- he said, I've owned it and it's a good company. It's a Berkshire type company.

And, you know, I obviously made a big mistake by not saying, Well, when did you buy it, but I think if somebody says I've owned the

stock, you know it sounds to me like they didn't buy it the previous week.

So there we are with a situation, which is sad for Berkshire, sad for Dave, still inexplicable in my mind, and we will undoubtedly get more questions on that. We'll be glad to answer them. Charlie do you have any thoughts on this.

CHARLIE MUNGER: I think it's generally a mistake to assume that rationality is going to be perfect even in very able people. We prove that pretty well regularly.

WARREN BUFFETT: Do you have any explanation for the irrational?

CHARLIE MUNGER: Yeah. I think hubris contributes to it.

WARREN BUFFETT: Well we've gotten quite a bit out of him folks.

Okay. Let's go to work. We'll start with Carol Loomis of Fortune Magazine. I might as well -- I should introduce our group here.

We didn't go alphabetical this time. We've got Carol, and then Andrew Ross Sorkin of the New York Times, and we have Becky Quick of CNBC now.

In terms of my check-off system, I'm still going to go to Becky. That's alphabetical.

So, Andrew, it didn't do you any good to try to
move over there into the center spot.

Carol, you're on.

CAROL LOOMIS: Good morning from all of us, and I will make the small preamble that I've made before. We've been getting questions for a couple of months, each of us on our e-mail. Sometimes a question will be sent to all three of us and sometimes they'll just send to one of us, therefore it becomes very hard to count how many we've had, but certainly it's in the many hundreds and probably in the -- up into a thousand, 2,000. And obviously we aren't going to be able to ask every question -- every good question. We have a lot of good questions we won't be able to get to. But it's just that you had to pick and choose.

And the other thing I should say is that whatever we do ask, Warren and Charlie have no idea of the question. None. No hint.

WARREN BUFFETT: Sometimes we have no idea of the answer either, but go ahead.

CAROL LOOMIS: So I will begin. I don't think that anybody will be surprised that it is a Sokol question.

And actually, the -- this particular long-term shareholder believed, as Warren has believed, he says, I do not see why he should have been expected to ask Sokol about his Lubrizol stock holdings when he said he owned

the stock. That wouldn't have been a natural question. But when you found out the details of his stock purchases a short time later, I do not understand your reaction. Surely you realized immediately that these facts were going to become known and that they were going to damage Berkshire's reputation, something you had said repeatedly you would be ruthless in protecting. Be ruthless probably would have meant your firing Sokol on the spot, but you didn't do that. And then you put out a press release that many Berkshire shareholders that I have talked to found totally inadequate. You have always been very direct in stating things. You were not direct in that press release except in praising David Sokol. Otherwise you stated some facts and behavior that you said you didn't believe was illegal. And then you ended the release, leaving us -- now maybe you thought somehow we were going to read between the lines -- without expressing any anger about what had happened. Why were you not incensed? If you were, why did you not express your anger? Why did you handle this matter in the inadequate way you did?

WARREN BUFFETT: Yeah. The -- the -- it wasn't really immediately thereafter. I

learned on March 14, which was the day we announced -- now bear in mind his first conversation when he said he owned the stock was January 14. In between January 14 and March 14, Dave gave no indication that he'd had any contact with Citigroup of any kind and as we learned later, I mean, he went -- they met in maybe October or something like that where -- and talked about possible acquisition candidates for Berkshire. But none of that -- he told me at one point, he said Evercore and Citi represent Lubrizol. One of them represents the directors and one of them represents the company, and not a word about any contact.

On March 14, when the deal was announced in the morning, I got a call from John Freund. John Freund is probably here today. John Freund works for Citi in Chicago, and he handles -- has handled the great majority of our business in equities for decades, and I've got a direct line to him. I talk to him frequently. And he called and said congratulations and -- you know and -- and aren't you proud of our -- words to the effect.

You can talk to John directly, although I've been told that the Citi lawyers have told

him not to talk, but that -- knowing the press, they probably can work something out of him.

The -- he's -- essentially his words were that -- that Citi's team had worked with Dave on this acquisition, and they were proud to be part of it, et cetera, et cetera.

And this was all news to me, so that set up some yellow lights, at least.

And the next day, I had Marc Hamburg, our CFO, call Dave, and Dave readily gave him the information about when he had bought the stock and how much. Marc also asked him what the participation of -- of Citi had been in reference to Berkshire's side of the transaction, and Dave said that while he -- he thought he called a fellow there to get their phone number, which turned out to be somewhat of an understatement.

Now, during the period when we announced the deal on March 14, Lubrizol is the one that needed to prepare a proxy statement. We were not issuing shares at Berkshire. So there was no proxy statement, no -- nothing of this -- that sort on our part.

The Lubrizol legal team, Jones Day, went to work with Lubrizol management to start preparing the proxy statement. We eagerly

awaited to see the first draft of that because I was going to be leaving for Asia on Saturday, which, I guess, would be the 19th, and I wanted to see what Lubrizol had to say about this whole Citi matter or anything else. The most interesting part of every proxy statement is something that says -- it's basically the history of the transaction, and it's -- it's the first thing I read on any deal because it gives you a blow-by-blow of what has taken place.

And as Marc Hamburg can tell you, I kept -- and our law firm can tell you, I kept urging them to get that to me before I took off for Asia.

We got that the afternoon* of Friday the 18th, and it had a fair amount of material in it about Dave's involvement with Citigroup. Then at that point -- I believe it was at that point -- our law firm got involved, Munger Tolles got involved, in their input to the Lubrizol lawyers as to what we had seen that was different or what we had seen that they didn't know about that we could add.

**Berkshire actually received a draft of the "Background" section the morning of Friday the 18th.*

Ron Olson, a director of Berkshire and partner of Munger Tolles, was on the trip to Asia. So we got on the plane on Saturday the 19th and traveled over the next week until the 26th. And we knew at that point that his partners at Munger Tolles were interviewing Dave, as -- maybe some other people too, but certainly Dave, and I believe that he was interviewed at least three times about both the stock purchases, the history of things with -- of his relationship with Citigroup and they were assembling this information.

I don't have a BlackBerry or whatever it may be. Ron does. So he would get some information as we were over there, and he was getting some input but -- and we decided that when we got back we would need to have a prompt meeting of the Berkshire Board about this matter and we would also learn what -- the full details, at least, of what Bob Denham and maybe other attorneys at Munger Tolles learned from their interviews with Dave.

And we back on -- I guess it would be Saturday the 26th and on the 28th we were going to bring Charlie into it before calling a board meeting. But there would have been a board meeting that week and then about five or so in

the afternoon, a letter was delivered by Dave's assistant which really came out of the blue.

And I -- he said to me he felt he was retiring on a high point and he gave the reasons why he was retiring which I laid out and so on. I don't know whether the questioning the previous week had affected his attitude. He would say not. But in any event, we had that resignation.

That resignation as is -- I believe it may have been put in the audit committee report -- may have saved us some money. If we'd fired him, the question would be whether it was with cause or not with cause, and we would have said it was with cause, but that might have very well gotten litigated and a retirement did provide, in effect, the same non-level of severance payments that a firing with cause provided.

So I drafted up a press release, which has since been the subject of at least mild criticism, and I laid out the good things that Dave had done, which he had done for the company. He'd done many good things, some extraordinary things. And then I laid out some actions which I said, based on what I knew then, did not seem to me to be unlawful, and I

talked with both Charlie and Ron about that. Ron would have been more careful in that wording. I'm not sure Charlie would have been. I'll let him speak for himself on that.

And we ran it -- I ran it by Dave Tuesday morning just to be sure the facts were accurate, and he said -- he objected much to something I put in where I said that I thought that he was, in effect, had had his hopes dashed for succeeding me and that was part of the reason, and he said that was absolutely not true, that he had no hopes ever of succeeding me and that I -- you know, basically he was telling me what was in his mind, and I shouldn't be trying to second-guess what was in his mind. So I took that part out.

But he affirmed all of the other facts in that letter and then I took it out, I sent it to him a second time to make sure that he was okay with the facts, and he said that they were accurate.

Now, in there was included the fact that Dave had no indication that -- that Lubrizol had any interest in an approach from Berkshire and that, at least according to the final Lubrizol proxy, is not the case. I have not talked to anybody except John Freund at

Citigroup, so I have no idea what took place with the investment bankers at Citigroup except what I read in the Lubrizol proxy. But the Lubrizol proxy now says that Dave did know that Lubrizol had an interest on December 17*.

But both in the two chances he had to review it and then when he went on CNBC on a Thursday and talked for a half an hour, he made no attempt to correct any of the facts in it.

Now, on Wednesday when we put out the report, we had to have a board meeting first. It was news to the board. They got the release a little bit ahead of time and then we had a board meeting. We also delivered -- we, through our law firm, we phoned the head of the enforcement division of the Securities & Exchange Commission and told them exactly the facts regarding the stock purchases and anything else that they might have cared to know.

**A better and more precise statement of what the proxy statement said is as follows: "Later on December 17, 2010, Citi informed Mr. Sokol that Mr. Hambrick had indicated that he would discuss Berkshire Hathaway's possible interest with the Board" (James Hambrick is Lubrizol's CEO).*

So I think we acted in that case, very, very promptly, to make sure the Securities & Exchange Commission and the top of the enforcement division was well-versed on what had taken place to our knowledge to that point.

So from our standpoint and my standpoint, Dave was gone, minimum severance costs, minimum chances for lawsuits about compensation due him and we had turned over some very damning evidence, in my view, to both the public and to the SEC.

What I think bothers people is that there wasn't some big sense of outrage or something in the -- in the release and, you know, I plead guilty to that. I -- this fellow had done a lot of good things for us over 10 or 11 years, and I felt that if I'm laying out a whole bunch of facts that are going to create lots of problems for him for years to come, that I also list his side of the equation in terms of what he'd done for Berkshire.

And I -- and as I said a little bit earlier, you know, one thing I didn't even lay out was this extraordinary act where in effect he turned over 12 and a half million dollars to a fellow employee. So that's the history of my thinking on it.

Charlie, do you want to add anything?

CHARLIE MUNGER: Yes. I think we can concede that that press release was not the cleverest press release in the history of the world. The facts were complicated, and we didn't foresee appropriately the natural reaction.

But I would argue that you don't want to make important decisions in anger. You want to display as much ruthlessness as your duty requires, and you do not want to add one single iota because you're angry.

So Tom Murphy, one of our best directors -- one of our best directors always told the people at Cap Cities, you can always tell a man to go to hell tomorrow if it's such a good idea. So the anger part of it -- and I don't think it was wrong to remember the man's virtues as well as his error.

WARREN BUFFETT: I might add as an aside Charlie and I have worked together for 52 years, and we have disagreed on a lot of things. We've never had an argument. I need Tom Murphy's advice to remind myself of it on other things, but with Charlie it's never been necessary.

BECKY QUICK: I'd like to ask a question that comes from Ram Tarakad from Sugarland, Texas.

He says, Good morning, Mr. Buffett and Mr. Munger. You have always put great emphasis on hiring and retaining managers that not only have exceptional talent but also adhere to the higher standards of corporate ethics and behavior. Recent events surrounding Mr. Sokol's actions have demonstrated that we were not very far from a situation where someone running Berkshire Hathaway had great talent but lacked the other quality that has made Berkshire the envy of the business world. In some ways we are relieved these events happened when you were still at the helm. But coming back to the succession plan that you have in place, how can you ensure that there are no more Sokols in the lineup of successional managers that you have.

WARREN BUFFETT: Yeah, he made an assumption there about Sokol being the next in line, which I'm not sure was warranted, but he certainly was entitled to think that he was a candidate, and there are -- that is one of the reasons that I think it's a good idea if my son, Howard Buffett, who would have no -- get

paid nothing and have no activities in the company be the chairman after I'm not around because you can make a mistake in selecting a CEO.

I mean, I think the odds of us making a mistake are very, very low. And certainly the candidate that I think is the leading candidate now, I wouldn't -- I would lay a lot of money on the fact that he is straight as an arrow.

But mistakes can be made. You know, the -- the Bible says the meek shall inherit the earth, but the question is, will they stay meek. You know -- and the idea of having an independent chairman who would be voting a lot of stock -- because even at my death, because of the concentration of A stock and so on, the executors would have a very significant block of stock, and if some mistake were made, it would be easier to change if not only a very large block of stock were available to express an opinion but also if the chairmanship was not locked in with the CEO.

It's gotten less tough to change CEOs at companies where either their moral or their intellectual qualities are found lacking but it's still difficult. If -- you know, it's particularly difficult if they turn out to be a

mediocre CEO. If the person is really bad, you know, people will rise up sometimes and -- particularly if they have meetings without the CEO present. But it's not an easy job to displace a sitting CEO who also holds the chairman's position and controls the agenda and all of that. So I think an independent chairman, particularly one that represents a very large block of stock and has no designs himself on taking over the place is a safety measure for the possibility, however remote, that the wrong decision is made. But I will tell you that the directors at Berkshire will be thinking every bit as much about the quality of the person as a human being as they will be thinking about their managerial skills because it's vital that you have somebody at Berkshire, in my view, that is running the place that really cares more about Berkshire than he does about himself in terms of advancement. And I think we have multiple candidates that fulfill that and the idea of an independent chairmanship is a -- is, you know, part of the belt and suspenders.

Charlie?

CHARLIE MUNGER: Well, you know, your idea about the Buffett family has a precedent. The

Rockefellers left the management of Standard Oil many, many decades, and they -- but they did intervene once and that was to throw out, what was it, the head of Standard of Indiana, and it was on moral grounds.

So that sort of thing can happen and you have another string in our bow.

ANDREW ROSS SORKIN: This question comes from a shareholder named Ralph Cutant who asks, In your press release, your original press release, you noted that Dave brought the idea of purchasing Lubrizol to me on either January 14 or 15. Initially you said I was unimpressed. You went on to note on January 24th you sent another note to Dave indicating your, quote, skepticism about making an offer for the company. However in a very short period of time after Dave's discussion with Lubrizol's CEO, you, quote, quickly warmed to the idea. Please clarify what caused you to, quote, warm to the idea so quickly if this didn't strike you as being a great business at first glance what changes? And what was David Sokol's role in convincing you?

WARREN BUFFETT: Yeah, the -- it wasn't that it didn't -- it struck me as a business I didn't know anything about initially. You know, you're talking about petroleum additives. I -- I never would understand the chemistry of it, but I -- but that's not necessarily vital. What is important is that I understand the economic dynamics of the industry. Is there -- are there competitive moats, is there ease of entry, all of that sort of thing. I did not

have any understanding of that at all initially.

As a matter of fact, I suggested to Dave, I said, Charlie is a lot smarter about oil than I am. Why don't you give him a call because I don't -- you know, I -- I just don't know anything about that business.

And I talked to Charlie a few days later, and I -- I don't remember whether I asked him whether Dave had called or anything but I mentioned to Charlie, and Charlie says, I don't understand it either.

So when I talked to Dave later he had not talked -- he had not gotten a hold of Charlie. I told him, Forget it. He's as bad as I am.

What Dave passed along to me after having that dinner with James Hambrick and which I later confirmed in a lunch when James Hambrick came out here on February 8, but it was the same thing, I -- I thought -- and I still feel -- I thought I got a good understanding of industry dynamics and how the business had developed over time, what the role of oil companies was and would be in relation to a chemical additive.

The oil companies are the biggest customers. They sell base oil to a Lubrizol,

but they buy the -- they are the big customers, and they have gotten out of the business to quite a degree, although there's two of them left in it.

So this industry had consolidated over time. I looked at the question of ease of entry. You know, every time I look at a business -- when we bought See's Candy in 1972, I said to myself if I had a hundred million dollars and I wanted to go in and take on See's Candy could I do it. And I came to the conclusion, No, so we bought See's Candy. If the answer had been yes, we wouldn't have done it.

I asked myself that same question, you know, can I start a soft drink company and take on Coca-Cola if I have a hundred billion dollars, you know. Richard Branson tried it some years ago in something called Virgin Cola. You know, the brand is supposed to be a promise. I'm not sure that's the promise you want to get if you buy a soft drink, but in any event, I felt after my conversation with Dave subject to a second conversation with James Hambrick, but covering the same ground, that it's not impossible at all for people to enter this business but in terms of the service

that -- and the relatively low cost of what Lubrizol brings to the party, and in terms of people trying to break into a market and take them on -- and it's not a huge market, it's probably only about a \$10 billion market overall, I decided there's probably a good size moat on this. They've got lots and lots of patents, but more than that they have a connection with customers. They work with customers when new engines come along to develop the right kind of additive.

So I felt that I had an understanding -- didn't understand one thing about chemistry than when I started, but I felt I had an understanding of the economics of the business, the same way I felt when the Iscar people talked to me. I mean, who would think you can take some Tungsten out of the ground and shine it and put it in little carbide tools and that you could have some durable competitive advantage, but I decided Iscar had some durable competitive advantage after looking at it for a while.

That's the conclusion I -- I have come to the conclusion that -- and Charlie as well -- that the Lubrizol position is the dominant -- or the No. 1 company, not dominant, but the

No. 1 company in terms of market share and that business is sustainable and that it's a very good business over time. It helps -- you know, they are helping engines run longer, run smoother, you know. You know, when metal is acting on metal, the lubricants are important, and they're always going to be around, and I think Lubrizol will be the leading company for a very, very long time. And that's the conclusion I came to.

And I did not have a fix on that, nor did Charlie, prior to Dave relaying onto me what he had learned at that dinner, which incidentally, Lubrizol had been telling the world -- I mean they made investor presentations and all that quite extensively over the years. I simply hadn't paid any real attention to it. And when it was explained to me, I thought I understood it, and I still think I understand it. I think Lubrizol will be a very, very good addition to Berkshire, and I saw James Hambrick just yesterday and despite the turmoil around this, they are very enthused about becoming part of Berkshire, that they regard it as the ideal home.

Charlie?

CHARLIE MUNGER: Yeah, you know, Iscar

and Lubrizol, to some extent, are sisters under the skin. You've got very small markets that aren't really too attractive to anybody with any sense to enter and (inaudible) in service, so if you have any more like that why, please give Warren a call.

ANDREW ROSS SORKIN: The question is, can you explain the company's policy for your own personal investing outside of Berkshire and that of your other managers, and why aren't all trades in investments first cleared through a compliance department like that of most other companies?

WARREN BUFFETT: Well, I don't think it is true of most other companies. We have 260,000 employees, and we have one company that's a subsidiary of General Re called New England Asset Management but that's the only company that advises people on investment or operates in the investment field.

At Berkshire, there are presently three people that can execute trades and then there are a few other clerical people that would see what was done. But we are not an investment advisory firm. We're not a mutual fund or anything of the sort. So if we -- we have some, I think, pretty clear rules that are going to be looked at, again, I can assure you by the audit committee. But in terms of the code of conduct, code of ethics, and insider trading rules, which go to the managers, I don't think there's anything ambiguous in those.

Now, to extend those beyond -- I don't

know, Marc, how many people those go to but -- whether 60 or 70 or something, I'm not sure of the number -- but the problem with rules, you know, is, I mean, you've got to have them and we emphasize not only the letter of them but the spirit. That's why I write that letter every couple years.

I was on the audit committee, for example, of Coca-Cola, and Coca-Cola has about one-fifth as many employees -- or did then, had about 50,000 -- had about one-fifth as many employees as Berkshire, and each time the audit committee met we had eight or ten code violations. I mean, people -- if you take Berkshire at 260,000 people, you know, that's about the number of households in the greater metropolitan Omaha. And as perfect as we like to think we are in Omaha, I will tell you there's a lot of things going on in Omaha right as we sit here that, you know, do not match the rules.

So it's a -- it's a real problem. The problem, obviously, with the Sokol thing is it hit very, very high up, you know.

But we had a case sometime back where a fellow that was a friend of mine, vice president of one of our subsidiaries, and, like

I say, a personal friend, and we supplied the evidence that sent him to jail. You know, it -- it has happened. We had a -- as I remember some years ago I think it was in Woodbury, New York, we may have had a woman arrested in the offices just because we want to make very clear, you know, what -- that we mean business and as the -- as the audit committee said that this is not public relations, this is reality.

Here's a letter that went out from Johns Manville. I didn't know anything about it until Todd Raba gave it to me the other day, but it describes what -- dated April 27, and it said, The audit committee clearly found that Mr. Sokol compromised the integrity related values of both Berkshire and JM have worked so hard to ingrain in the fabric of both companies. This should serve as a tragic lesson learned for every employee in JM. And then in boldface, There are no gray areas when it comes to integrity. And it goes on.

So we hope to get some value out of this experience that will help us reinforce with not only the 60 or 70 managers but with 260,000 people that we do mean business on this, and we've shown them we mean business when we -- we

have sent more than one person to jail.

But there will be -- you know, if we -- we can have all the records in the world and if somebody wants to trade outside them or something, you know, I -- they're not going to tell us they're trading in their cousin's name. You know, it just doesn't work that way. And then it -- we will have occasions in the future when people do wrong things. Usually they get handled at the subsidiary level. I mean, it's somebody doing something, whether it's getting a kickback from a vendor or stealing out of a cash register, whatever it may be, and then, you know, we get the occasional mega one, which is very painful, but we will -- if there's anything we can do in the rules that will make it even more explicit or get across further the idea that rules are not made to be danced around but rather the spirit of them extends beyond them, we want to be sure we do it.

Charlie?

CHARLIE MUNGER: Yeah, all that said, if you look at the greatest institutions in the world, they select very trustworthy people, and they trust them a lot, and it's so much fun to be trusted, and there's so much self-respect you get from it when you are trusted and are

worthy of the trust that I think your best compliance cultures are the ones which have this attitude of trust and some of the ones with the biggest compliance departments, like Wall Street, have the most scandals.

So it's not so simple that you can make your behavior better automatically just by making the compliance department bigger and bigger and bigger. This general culture of trust is what works.

And, you know, Berkshire hasn't had that many scandals of consequence, and I don't think we're going to get huge numbers either.

WARREN BUFFETT: Because they're transcribing this and we want to get it all correct, Ron has one point or two points that he wants to correct in terms of dates that I used, so we are going to give the microphone to him.

RON OLSON: Not that they're all that telling, but I thought since we are creating a record I wanted to clarify two points.

The Berkshire law firm, mainly Munger Tolles & Olson worked with the Lubrizol counsel in pulling together what Warren described as Lubrizol's proxy describing the background of the transaction.

We as counsel for Berkshire started to work on that gathering of facts pertaining to Berkshire's involvement, essentially David Sokol's and Warren's, during the week of March 15.

Warren, in speaking to you about the facts this morning, I believe, placed the beginning of that work in the subsequent week.

So I simply wanted to clarify that as we gathered the facts, and that gathering included several interviews of David Sokol, during that week.

Secondly, in describing internal policies

at Berkshire to protect against misbehavior or negligent behavior, Berkshire maintains a -- something that those in the trading business describe as restricted lists, and on that restricted list are any securities in which Berkshire is buying, selling, has a peculiar interest, and that prohibits any of the corporate officers or the top officers of the subsidiaries of Berkshire from participating in trades of those securities without the consent of the CFO, Marc Hamburg. That is what I wanted to clarify, Warren.

WARREN BUFFETT: Thanks, Ron.

RON OLSON: I wanted to clarify my clarification. Sounds like a lawyer, doesn't it?

WARREN BUFFETT: It sounds like a lawyer.

RON OLSON: Marc Hamburg was concerned that when I spoke of our insider trading policy and mentioned that we had a restricted list, that it -- somebody may interpret that as suggesting that Lubrizol was on that restricted list. It was not. What goes on our restricted list are securities that we have a position in that we publicly reported.

So I just simply wanted clarify that

point. Lubrizol is not on the restricted list.