

Notes from Berkshire Meeting May 6th, 2006

(These are notes I typed out furiously during the meeting. They were recorded manually without aid of recording device, per rules and Buffett's requests. As such, they qualify as recollections only and should not be relied upon in any formal manner. Italics are my 'best of')

I'm Warren, he's Charlie. There is one thing to clear up, in the movie he always gets the girl. Now, that's hard to figure out. But I finally understand what is happening. It is the Anna-Nicole Smith rule. When choosing between two old rich guys, pick the older one.

Now, in a few minutes, we're going to open this up to your questions. First, a few thank you's. First, thanks to Andy Hayward, who does the cartoon. He runs Deak entertainment. Produces Liberties Kids, about the time of the American revolution. It is a great tool to teach grandchildren about American history. Also, they are doing the Secret Millionaires Club, a program to teach kids about money and how to use it effectively. I guarantee it will be a terrific program for teaching kids about money.

Bob Eiger, runs Disney, doing a terrific job. We thought originally would could entice the Housewives just to appear with Charlie. Then we went to Bob. Thank you Bob.

Also, the man who taught Charlie about great businesses. Primarily we had looked at financial metrics. Eventually, we found that intangible assets properly identified could make a lot more money. We didn't know anything about making candy. When we bought it, we met a young fellow there that he was ideal person to run See's candies. Deal has lasted a lifetime. Chuck Huggins, give him a round of applause.

My daughter produced the movie, we don't pay her. Suz, take a bow. Empresario of this event, I turn it over to her and she arranges everything. We just come down on the day of meeting and take a bow. Kelly [].

Introduces directors.

I know of no directors of any large publicly owned companies that have as universally a significant amount of net worth in the company, purchased in open market.

Charlie? None.

Jamie Lee Curtis, son goes to a special learning school.

Quarterly Earnings: Our real exposure is in the 3Q. 1Q are not normalized. Geico had huge growth in 1Q. Reinsurance was good, GenRe had a good quarter.

Big event this quarter was the acquisition of a large, well-managed, profitable, company called Iskar. Knew nothing of Iskar except last October I got a page and a half letter. Sometimes character and talent jump off the page. I expressed an interest in getting together with Aton, and his CEO Jacob Arpaz. Subsequently they met Charlie. Yesterday we signed a contract. Maybe Charlie would like to say a word about Charlie.

C: Well this is a company from modest beginnings to become the best in the world. Not the biggest, but it leaves them something to do. Average quality of people is off the chart. Beauty is that they are all young. They know how to do things we don't know how to do. Always enthusiastic about working with the best people in the world.

Aton: Good morning. We bring a new family into a new home. Representing 5869 people, their families, their past and their future. Took us three years. Have a lot of mistakes ahead. We have heard of Berkshire, but never thought about it. It is the right combination for us, a family company with a strong culture. Interesting lesson from Warren, and lesson from Charlie, and we survived both of them. I'm very happy to represent the people who make the product and customers. I thank my customers every day, for trying new things. If we stay competitive, we'll be there long term. My CEO, he fired me 10 years ago. In company 34 years, and the real job is done by Jakob. Like eighty days around the world – we prepared a film about our 61 companies around the world. We will work very hard. We hope we will be successful. I look forward to coming to Omaha every spring, where the fields are green and the days grow longer.

W: We paid \$4b for 80%. Family retains 20%. First private company bought outside the US. Significant event in Berkshire Hathaway. Companies get sold, figures get dressed up. We continue to hear about businesses that aren't willing to auction. People who pass thru that filter, that don't put their business up like a piece of meat at an auction, they make the best managers and partners over time. The customer, the people are too important. The sellers care about the home where that business resides. The crowning one is Iskar.

Questions:

Q. Last year when asked about SS, you said a country should take care of it's old people. This year, I read Running on Empty by Pete Peterson. Where should you draw the line on entitlement spending?

W: In every society, you must take care of old and young. Productive turn out the services, young and old need them. We statutorily formalized it in 1935 for the old. Always felt that way for young. Some merit to argument that 65 became outmoded as longevity improved. More change will be needed. Country has output of \$40,000 per person. We are lucky and are wired well. Others are not so lucky. They do not have ability to earn at a rate that provides for them in later years. Our country can easily handle social security question. Irony is that government that runs \$300b deficit currently worries about \$100b deficit in future. There is some discrepancy between worker to retiree ratio. We have a growing pie, and we could very easily take care of people in future.

C: I think world of Pete Peterson. But I don't come to same conclusion. It is child's play to provide by diverting to people who are older. It is crazy to freeze the share going to old. It is easy to pay more to elderly. It is one of the most successful programs in history of country. I wish own party would wise up a bit.

W: This is what happens when you ask old people about taking care of old people. Lots of hypocrisy.

Q: How would you design compensation in cyclical industry, where it can lead to big swings in pay. Industries boom and bust due to no fault of management.

W: That is a terrific question. Running a copper company, you can coin money as the village idiot. We design compensation systems at Berkshire. We have a wide variety of systems. You are wise to ask in that situation. Often people come in with standardized systems. If we owned a copper mining company, we would measure more in cost of production. Management has control of the operating conditions, but not over market prices. We would have something that wouldn't fluctuate a lot in the business. Tie to what the management has control over.

For compensation, we measure at Geico: 1) unit growth, and 2) profitability of seasoned business. We don't charge for expensive new business. We don't want to pay for things not under their control. In a cyclical business, if oil is \$70 a barrel, they don't deserve credit for what market is paying. They do get credit is low finding costs over time, those who can discover and develop oil over time at below average costs.

C: It's easy to have a fair compensation system, and a lot of other companies have fair systems. But about half do not have fair systems. We know how to fix Berkshire. But our ability to influence rest of corporate America is zero.

W: I have responsibility for 40 comp systems. I can't think of anyone we have lost due to views on compensation. We have never had a compensation consultant. We don't spend time on it. It is made more complicated and more confusing because having a system that is confusing serves the needs of those that have hand on the switch

C: We were biggest shareholder at Salomon. Warren was on comp committee. In the frenzy of envy that characterizes investment banking, he made his opinion known, but was outvoted.

W: Envy is probably a bigger motivation than greed – an interesting phenomenon. Hand someone \$2m and they are fine until they find out guy next to them got \$2.1m and they feel sick for the next year. Gluttony – there is real upside to gluttony. And we don't want to get into lust. I've heard there is upside. Envy – you just sit around and make yourself sick and can't sleep. Irony: SEC wants more transparency on pay, but it becomes a shopping list. CEO's decide they need their haircuts paid for by company, and they become big tippers.

Q: Norman from Bonn Germany. Thank you for treating us as partners. How do you train your successors? What do you tell them? How would you measure whether or not they have lived up to your expectations?

W: Part of reason letter is written is to convey to partners and shareholders what Berkshire is all about. It is intended to give character and personality to Berkshire. Want managers to join us and who believe in us, with lifetime commitment to business. Want what they see in business to underscore our values. Want consistency. That is training in and of itself. Kids at home: learning something everyday by actions of big people around them. Managers buy into it to start with, and it doesn't require formal lessons or mentoring or anything of the sort. They think consistently with how we think. Our culture is so well defined that inconsistent behavior doesn't really fit.

C: Well you know, if Warren has kept faith until 75 years old, do you really think he'll blow the job of passing the faith on? What could be more important in terms of his duties in life? You all have something more important to do than worry that candle will go out at Berkshire. *At headquarters, we aren't training executives. We find them.* They aren't hard to find. If a mountain stands up like Everest, you don't have to be a genius to find it.

Q: With your enthusiasm for emerging markets, many funds are trading at premiums to NAV. It doesn't seem rational. Why do premia persist?

W: History will show that most closed end funds go to discounts. Overwhelmingly closed end funds go to discounts. Closed end funds can sell at 30-40% premia historically however.

C: Nothing to add.

Q5: I'm from Elkhart Indiana. With regard to influence over Robin Williams, Warren will go to no end to promote products of companies he acquires. Noting move from plurality to majority voting in US corporate governance, do you have any viewpoint?

C: It won't have any effect at all on ethics. There get to be fashions.

W: There is a difference between those who vote like owners and those who don't. Job of board is to get right CEO, prevent overreaching, and exercise independent judgment on acquisitions as CEOs often are motivated by non-rational reasons. US directors haven't given great performance. Only cure is for very large shareholders to zero in, and not with checklists, issuing grades, etc. If really large institutional investors vote directly – you'd get change. Won't get done by coalition building. Some have farmed out voting. Some have turned process over to others – they don't want to think like owners.

Q6: Andy Pawn from Michigan. You have said you don't understand technology, but that you are learning. With regards to Intel, Cisco, Dell and others, I'm curious to learn what you have learned about major tech companies.

W: What I've learned is that I don't know enough to make an investment decision. We have a circle of competence that can evaluate a number of businesses. In some businesses the future is so likely to be different than the present -- some may have

insights but we certainly don't. We want to come to judgment that they will be same business in 5 years. Fundamentals won't change, the way people think won't change. Telecom business has changed so much that it is frightening. ***We have three boxes at the company - in, out, and too hard. If you run 100m well you don't have to throw the shotput.*** Tom Watson Sr. said I'm no genius but I'm smart in spots and I stay around those spots. A lot of our managers can't solve every problem in the world, but they run their businesses very well. Look for people good at what they do. I was there at birth of Intel. We bought \$300,000 of original debentures. No idea about future of Intel, and don't know how to do it now. I don't know exactly how it will look in 5 yrs. ***Some businesses are hard to predict.***

C: One of foreign correspondents said, you don't seem smart enough to do as well as you are doing. Have you got an explanation? Response: ***We know the edge of our competency better than most people do. It's not a competency if you don't know the edge of it.***

Q7: John Baily, Boston. If you could consider three hypothetical securities: a) share of median family income for US, b) share of corporate income for US, ever larger slice of GDP or c) a share in all capital assets in US, including intangibles.

W: Corporate profits have been close to highs, except for very few years, as % of GDP. It is hard to imagine them larger. All standard measures are on high end of historical range. Corporate taxes as % of GDP / government revenues however are not high. Median family income, we are not shooting for that. In last 5 – 10 years, the disparity in income has widened significantly, and tax breaks for wealthy have been extraordinary. I have pointed out in past that most of members of Fortune 500 pay a lower % of total income than the receptionist that works in their office.

My taxes: I just do things and add it all up. My tax rate as % of income was lowest in office in 2004. My rate was lower in 2005. This is not understood well in America. I have no tax shelters. Median income has not shared in the wealth of last decade.

C: Main figure that matters to all of us, including people at median, is GDP / capita growth. Those figures have been very good. Not all permanently in state A or B, and we are all in big flux. Some of those tax changes were crazy, and caused more envy than needed. Not all are that important.

Q8: What is your opinion on the economics of ethanol as a fuel additive, and should I be looking at that industry.

W: Charlie and I wouldn't know enough about ethanol. It is far easier to figure out about drinking coke or eating See's candy. It is easy to raise money for ethanol now. General experience is that we don't look at things that are hot at any period or time. Son was head of the Ethanol Board. Ethanol usage will grow. Agricultural processing have not returned high returns on capital invested. Ethanol could prove an exception, but can't see how you can gain a competitive advantage.

C: I have just enough thermodynamics left in me to realize that it takes more energy to make ethanol than you get out of it.

Q9: Do you think we are in a commodity bubble?

W: Looking at agriculture commodities, they haven't done anything. Most extreme move has been copper. Wise man does what fool does in end. Any asset that has big move will attract speculative participation and that can become dominant. For instance, Tulip bulbs. Once a price history develops that causes people to look, and drives envy, that takes over. My guess is that we are seeing some of that in the commodity area, as in housing. Lots of activity is speculative on both sides of market. It can go on a long, long time. Look at silver. We bought early, and sold early. Managed to do it all with great efficiency. Not good at game of speculation, at figuring out how far it may go. We may not make as much as last 30 days or 30 weeks of a wild orgy. They tend to be wildest at the end, when punchbowl is flowing. At midnight all turns to pumpkin and mice, and the participants think they will get out before midnight. Problem with that dance is that there are no clocks on the wall. Net stocks, copper, uranium in 1950s => no clocks on wall.

Q10: Latin American stock markets growing fast. What do you think?

W: Looking to put out hundreds of millions of dollars at a time. We made an investment in PTR 3 yrs ago, one of 5 largest companies in world. In country the size of china, only got \$400m invested. We weren't afraid to go into china. We wanted to get paid more to go there. There is a great beer company down there, that a friend of mine ran. Brazil wouldn't be off limits, but we need a big chunk. It needs to be cheaper than in US. Unlikely to put a lot of money into small economies, can't get enough into them.

Q11: Manufactured housing: what is outlook for demand, will lending increase in meaningful way? Area homes priced competitively vs. competition?

W: Interesting history on manufactured housing. Must go back 40 yrs to find volume so low as last couple yrs. There were yrs when 20% of new houses were manufactured. Now it is at 6-7%. The % of new houses is very low even while the houses are considerably better quality. 2 houses here today, \$45 per sq foot. Good value. There is resistance by local builders. We are now actually developing subdivisions. Houses were mis-sold four or five years ago, with retailers getting down-payments, securitizing them, really an abuse of credit in the field. It has taken a long time for the hangover. They should be financed on shorter terms. Terms got lax for a while. Industry is bearing consequences now. Sales won't get bigger this year. Number of plants and retailers down a lot. Clayton's record is very strong.

C: Stick built housing. One of troubles is that stick built housing has gotten very efficient. MITAC which we own helps. Stick built housing very efficient with MITAC systems. Personally I think manufactured housing will get better and take more of market, and it will eventually happen. Some of sin in finance in manufactured housing

has shifted to stick built housing finance. There is lots of ridiculous credit being extended. My guess is there will be trouble. The accounting profession has not stopped compromising itself with contemptible behavior.

W: Our accounting bill just went up.

W: Should get to 200k per year eventually. Industry must think through a logical way of financing. Make person who can buy it can afford it. Clayton could be largest homebuilder in industry in future years. You can have an epidemic in dumb financing. We had it in commercial financing in 1980s. A developer will develop anything he can borrow money against. Happened in manufactured housing, commercial housing. ***If you look at most recent 10Qs of lending institutions, the balances building for income accrued but not paid -- you'll see some very interesting statistics.***

Q12: Russia. What needs to happen in Russia?

W: [Walter Ribson] was wrong about defaults in Russia. We inherited an oil business in Russia while at Salomon. As long as we were drilling they were friendly, but when we wanted to take money out, situation was extreme. It would take a while before we wanted to sink a lot of money into Russia. I had breakfast in Sun Valley with Khordokowsky. He was thinking about listing Yukos on NYSE, but wasn't sure if it would be too dangerous. Now he has been put into bankruptcy with tax claims. Hard to develop a lot of confidence that world has changed there with attitude to capital, particularly outside capital.

C: "If they ever do find oil, that old man will steal it."

W: Charlie, didn't we have the livelihood of our people threatened? That was not that long ago.

Q1: What are your thoughts about residential real estate.

W: We once worked for 20 yrs to develop some land. Sold it for \$5-6m, and just paid our interest costs. But it would now be now worth \$100m. From time to time, even in great localities, the swing in property values has been huge. What we see in residential brokerage is a slow down everywhere, but certainly in hottest markets. Biggest fall: high end, investment rather than use. Investment type holdings get sold, day traders of internet move to day trading of condos, then you get a market that can move in big way. First it sort of stops, then reopens. Only need one buyer that hasn't gotten word. Today in Broward county, where average condo is worth \$500k -- in 2004, there were less than 9000 condos on the market, and 2300 sold. Now, 30,000 are listed, with sales expected to top 2000. \$15b of property is on offer. The whole supply demand situation is changed. I will be surprised if there are not significant downward adjustments.

C: Bubbles came in Manhattan and California. In Omaha, prices are quite reasonable.

W: We just got word, there are 24,000 attendees today. We are on target to do \$30m for NFM this weekend, which is what they do in month.

Q2: I have a 2-yr rule for my closet: if I don't wear it, I give it to someone else. I'm wondering if Berkshire Hathaway should have similar rule, with it's excess cash?

W: Normal number at Berkshire is \$10b. We don't want to scrape the bottom of the barrel. We don't need \$40b. We had \$37b at end of Q1. We are spending money on other things. There is nothing even about way businesses come to us. One idea now, low probability - \$15b of cash needed. But we care more. We don't like having excess cash, but we like even less doing dumb deals. You are right to say we should be uncomfortable, but we don't get more desirous of doing deals. We are likely to have less cash in future, but we can't guarantee it. You are right to keep jabbing us on that. We jab ourselves. We always want to have adequate cash. We are the biggest player in world in cat insurance. But we don't have to be as liquid as we are now. We spent \$3.5b on PacificCorp lasty year. We will get more chances in that field.

C: You may get some perspective on what bothers you. Go back to annual report from ten years ago, and notice we put a lot of wonderful stuff into Berkshire in last 10 years and not we aren't exactly not optimistic about the future..

Q: My name is Phil McCall, do you have any comments on Coca-Cola?

W: They sell more every year. Their products account for a little greater share of liquids consumed every year. It has \$5b of tangible assets, and it makes a similar amount on the bottom line. Few businesses earn 100% on fixed assets pre-tax. If company sells 4-5% more units and population of world up 2%, then that is a wonderful business that sold at a silly price a few years back. At 50x earnings it was a silly price. We'll own it ten years from now in my view.

C: Nothing more to add.

Q: Have insurance rates hardened as much as anticipated, and has flight to quality occurred?

W: Policies up more than premium volume, so average premium is actually down. But in re-insurance in which we are big player, there are great variances. If you take rates in marine, prices are up dramatically. Offshore drilling in last 15 yrs: \$2b in premium, \$15b in losses. Rates should be up. We are largest writer of cat insurance in world. Mix has changed, prices up, but don't know if exposures might be up even more. Don't know if experience of last 2 yrs is more to be relied upon than last 100 yrs. We don't know which is more meaningful. It is silly to assume 100yr experience is relevant. We know certain atmospheric conditions have changed. We don't understand propensity of hurricanes to occur, and no one else does either. If last 2 yrs are relevant, we aren't getting paid enough. Scary possibility that change is continuous, and last 2years not relevant. Chaos theory suggests output not a linear relationship. Scary scenarios. We are willing to write

certain areas, certain coverage, because we are willing to lose many billions of dollars on certain catastrophes if we are paid appropriately. You are dealing with changing variables. Worst to do is look at history book. Don't have as much exposure for wind in 3Q. If prices get to where we get appropriate payment, we will take on a fair amount of risk. It is a dangerous business. We don't believe in modeling at all. It's silly, they don't know a thing about what is going to happen. If over a lifetime the guesses are decent, we will know we were doing something right. We bring a lot to party. If there is some super catastrophe (\$250b vs. \$60 Katrina), we can pay and we can comfortably pay. A large % of industry would be in serious trouble. We can play bigger, and survive. You can't judge by any one year.

C: Record of past has been quite respectable. Why shouldn't we use our capital strength to get into volatile stuff that makes other people scared?

Q: NetJets is obscured by losses, can you help estimate its value? Also, how do I value re-insurance group in light of deferred charges?

W: On insurance, there is a \$2b item on asset side that reflects retroactive policies, where we reinsure losses incurred though they don't know final loss, but we set up factor that says we will have asset which will get amortized over time. There is nothing magic, it is going to amortize over lifetime. Took a \$100m charge last year when we mis-guessed.

In terms of earnings and operations, NetJets has grown fast. However, expenses growing faster than revenue. Have a very strong position in larger airplanes. Thought we would have economies of scale. Arguably however, we have diseconomies of scale. Expenses got out of hand last year. No one else can run it as well as Santuli, it is an important service, but fuel prices up, etc. I had expected we would be profitable last year. I was dead wrong. I think we will be profitable, but you should take that with skepticism. Anyone looking for a large plane comes to us. We paid a lot for it, we haven't earned any money, but it is a bigger business today. Raytheon in their last 10Q, they lost a lot of money.

C: Product integrity is extreme. Pilots subjected to real oxygen withdrawal so that they will recognize subtle sensation. It is expensive to do, obsessive product integrity. In due course that obsession will be rewarded.

Q: Are you largest owner of physical silver? How do you calculate value of non-interest bearing asset like silver?

W: In recent past, production of silver and reclamation were running at 100m ounces, running less than consumption. I haven't looked at figures in last few years. There are enormous quantities above ground, and huge quantities that could be removed and be added to supply. It is being reclaimed at lesser rate than being consumed. Not easy to bring on added production. Thought silver would get tight. Have no silver now. Didn't make much money on it. Doesn't earn anything. Not like sitting with a stock. Have to hope that commodity moves in price, as it is not producing anything as it sits there.

C: We didn't get where we are by owning non-interest bearing assets. It's a good habit to trumpet your failures and be quiet about your successes.

Q: Is it a good investment strategy to invest in countries with high resources / capita and good infrastructure?

W: That is a little macro for us. Will people keep eating candy and can we charge more for it next year? We don't play demographic trends. There is too much money to be made year to year than thinking in decades. Can't recall decision we made on a stock based on a macro idea.

C: We recently failed to profit from one of biggest commodity booms in history. We'll keep searching for ways to fail.

W: Your question is probably true in Canada, with millions of barrels of oil coming on, relatively few people and a current a/c surplus. Not strange that currency is strong. Other factors may be more important.

Q5: I'm an optimistic person. As an investor, I'd like to know how to address risk of nuclear terrorism in US. Consider scenario of nuke devastation.

W: Maybe you should consider mortality derivatives. Agree with you enormously. It is ultimate problem of mankind, state sponsored or otherwise. We have always had evil in the world -- always had people who wish evil on others. Years ago, you throw a rock. Now, bows and arrows have changed. Since 1945 the potential to do harm has increased at geometric pace. It is *the* problem of mankind. Some say if we solved poverty we'd solve this. But nukes have been used twice by richest country in world. People will justify their use for any number of reasons. What holds it in check are knowledge, materials and deliverability -- all need to be held in check. It is a real problem. But we won't be thinking about what Berkshire did that day in the stock market. It is a worst case problem. A certain percentage of six billion are crazy, and will try to do great harm to a large number of people. One will succeed someday.

C: It will happen. Not much any of us can do, but be as sensible as they can.

W: You have a vote. Can't eliminate it - genie is out of bottle. I would like to see leaders thinking about it as major problem of our time. Hard to address.

Q6: Share repurchases? You have said that when Berk has gotten cheaper, you have found other cheaper stocks. Not fair to buy out some shareholders at expense of others. Would shareholders be correct to infer that BUD and WMT trading at deeper discount to intrinsic value than Berk?

W: We might require a greater margin on Berk than on other investments. Price needs to be compelling. It was compelling in 2000, but act of writing about it eliminated opportunity to do it, like Heisenberg. We will announce it again in future.

C: Whole climate has changed. Many repurchases now designed to prop up share price - not bargain seeking.

W: On buy-backs, most wanted to buy stock below intrinsic 30 yrs ago. In recent years that motivation has been swamped by fashion or propping stock up. Berkshire has one if not the lowest turnover of any company in United States. Not a function of concentrated holdings (compare to WMT with family ownership, but high turnover). It is a reflection of fact that we have unusual shareholder body who consider themselves owners. We have highest ownership attitude among 400,000 shareholders of any company in United States. Not looking to buy out partners at a discount.

Q7: Hyper-helpers?

C: There are more helpers in economy than there used to be. We get the best of them here. As to what helpers ought to do so they become like Warren Buffett, I would say reduce your expectations.

W: It is an interesting business. Activities of professionals are self-neutralizing. If your wife is going to have a baby, you will be better off if you call an obstetrician. In aggregate, the investment profession does not add value. I put cost estimate at \$140b / year -- arguably they are doing what can be done by someone in 10 minutes per year.

C: I can't think of any business like that.

W: The more you charge, the more money you can bring in, temporarily. Name me a great business: it is business school. The more you charge is meaningful. There is a lot of that in the investment field. You now have large portions of investment management charging fees in aggregate that can not work out for investors. You can not pay 2/20 in an economy that only produces 7% a year and have people net better off. How do I pick out the exceptions? I am willing to bet a significant sum of money on anyone who wants to name 10 partnerships over \$500m who will outperform after fees against the S&P over 10 years. A few will do well, and are bound to do well. I picked a few, did it in past. (Bill Ruane). If you know enough about person, such as honesty, intelligence, you can pick some winners. You won't be able to do it as pension manager.

C: On state pension fund investment subject, I think it ought to be a crime to entertain a state pension fund official. And a crime to accept entertainment. Human nature being what it is, and amounts of money being what they are, I don't think it will be improved.

Q: Many demonstrations recently on subject of illegal immigration. We are dependent on cheap labor. Business Week focused on carpet industry and illegal labor. How would reforms affect Berkshire subsidiaries?

W: In Nebraska, substantial numbers of illegal immigrants are employed. In meatpacking industry, for instance. I was at airport recently and saw a very large plane with 100 people lined up in shackles. I don't believe in shipping 11m people away from US. Whatever acceptable way would be good. We should enforce rules, but I don't think it would make dramatic difference. May pay more for meat in the end, but don't think it will have dramatic effect on economy or specific industries, but may change relative prices a bit. Wouldn't affect if made legal. Need to have laws enforced, shouldn't send 11m back.

C: We should get used to what we get.

Q9: I'm a Jayhawk -- what is best finance program. Could you compare and contrast finance opportunities now and when you graduated?

W: 40 schools are visiting us this year. Now I usually double up, 20 / yr is all I can handle. All I can say is that the teaching and finance departments based on what I have seen have improved a lot, but from a low base. Orthodoxy of 20 yrs ago – it was like the flat earth was being embraced. Professor Hirschey at KU has done a great job. Florida, Columbia, Stanford. Tough job getting position and advancement stifled if you didn't go along with orthodoxy, efficient markets etc. I enjoy seeing these groups of students. They all think they'll get rich by copying what we did many years ago. I wish them well. The amount of brainpower going into money management is distressing. You can look ahead to a very interesting future, though many find methods or talents are used in different manner than used presently. An awful lot say private equity or hedge fund. Hard to imagine what we would do for food and clothing. I am encouraged by students we meet. They try to sell me companies. No luck yet.

C: Something like half of top b-school grads want to go into private equity or hedge funds. Those whom I bump into seem to judge whether they are keeping up with age cohort at Goldman Sachs. This can't possibly end well, in terms of satisfying these expectations.

Q10: Swami-ji: Truth, humbleness, your children. May 1999 interested in Berkshire Hathaway. So I can judge a little about you. I bought b shares, at \$1410. It became 40% of portfolio. Son, you come and sit in my lap. That is your simplicity, your humbleness. Touch your feet and get your blessings. A lot business people have respect for you. Like a young teenage girl who waits by phone, and the calls come in. But I do wonder about the phone, that the phone may not ring as much after you are gone. Do you see it as a concern?

W: It is not any question that my successor will go through media probation for a year or so. People will wonder if culture will be different under successor. Phone won't ring less. Bankers will all try out this guy, to see if he wants to participate in auction. It will become evident over time that culture is the same. Yardsticks, metrics, attitudes won't change. But there will be a hiatus. But it won't last long. Successors are very smart,

they've bought in to whole corporate personality that we have. They will develop confidence of world. Good question, and there will be a period when phone won't ring for a while. I don't think it would work well to have a half and half arrangement. You could say that someone else could handle the deals, but we don't need an operating guy. The main thing to do is not destroy or damage the spirit they bring to businesses. I'm not sure what a chief operating officer would do with Berkshire except expose that I'm not doing anything. And as long as I am around they wouldn't get the calls on the deals.

There will be stories after I die, one year later', and successor will keep culture but also put stamp on the place. We will still represent a one of a kind place for an owner that really cares about the future of his/her business. They have to solve ownership problem without changing psychic attitude, and can't find it except at Berkshire.

C: Speaking for Munger heirs, I want to wring the last amount of good out of Warren, at low pay.

W: If I die tonight, person taking over tomorrow will not get as many phone calls. But these are very smart people, they know how to make deals, they are deal savvy. They know how to avoid deals – equally important. World won't grasp it, but once it happened, it will be even stronger than before. When Sam Walton died in 1991, and world wondered whether Wal-mart would continue in same tradition. But it was not required for continuance.

Q: We thank you for the weekend. Thinking though capital allocation, will you help us think through charitable giving, and how we pick charities?

W: Tough to give advice on that. For majority, it is their church or their school. Pick what gives you the most satisfaction. I like to think of things that don't have actual funding constituencies. I go where my gut leads me. If doing it with large sums you may have some reason or obligation to think about where really large sums can have impact on a societal problem that might not otherwise get funded, impact.

W: We get profit on one out of every 12 cokes, so just open them -- you don't have to drink them.

Q: Did potential for data transmission / telecom lead you to utility business?

W: No. we are going to earn a return whether we do it old way or some new way. Be efficient, keep customer costs down. Even in term of what generating sources, we are following will of people. If people want more expensive electricity, that is decision of people of that state. I see no large developments that change the economics of what we are doing.

C: Nothing to add.

Q: Media and entertainment business? Is nature of newspaper, music and entertainment – becoming less predictable due to new technology? Do some of these businesses represent good purchases now?

W: People will always want to be entertained, but we only have 2 eyeballs and 24hrs / day. Entertainment time hasn't expanded, or for acquiring knowledge. Any time you get more and more people competing in any area, the economics deteriorate. Newspapers still profitable vs. tangible equity employed, but future is uncertain. Television margins are still strong but audience eroding. This must erode economics. Cable – telecom has come in. Very few businesses get better because of more competition. Friend in newspaper: Her idea of a competitor was a corpse laid out on a slab with a toe-twitching. Economics of news businesses were enormously profitable. License from federal government became huge revenue stream. But you keep building more ways for Pfizer or GM to get to eyeballs and value of highway/bridge goes down over time. Those businesses don't have great prospects in aggregate.

We own the World Book, sold 300k per year for \$600 every year. But now can get most information thru internet, no trees, no paper mills, no delivery cost. People now have lots of other alternatives. It won't stop.

C: It will be a rare business that doesn't have a way worse future than its past.

W: Give me the bad news Charlie... the thing to do was own the NFL originally. Value gets extracted in much different way now.

Q: RMB YEN EURO – any views? During visit by Premier Hu, level of currency was big issue. Cheap Chinese exports... cheap currency, cheap capital. Problem of cheap Asia commodities. We are addicted to opium, should government try harder to break the cycle? What would you think about currency? What are your views now?

W: My views are strong as ever and perhaps a bit stronger. We are doing less directly, as carry cost has gone negative. Earning power is in Iskar for instance, where earnings not in dollars. Less in currency futures unless carry changes. But from fundamental picture, we believe that US currency weakens over time because we are following policies that don't leave much choice. From Feb 28, 2002 – “countries that have gone down this path have run into trouble, and eventually those countries will need to be restrained” – this quote by Alan Greenspan. In later years he did not emphasize it as much. He never repudiated it, but was quiet. People talk about a soft landing, but never explain it. Probabilities were that ending good (Bernanke), but couldn't rule out otherwise. We will have at Berkshire a fair amount of earning power from other countries, but we will always be primarily in US. We may see significantly higher inflation. If you owe a lot, it is tempting to pay in a deflated currency.

C: I have no capacity to predict price of Euro now. Generally speaking, it can't be good to run big current a/c deficit and [] and have both growing. Great civilization might be

able to withstand longer than previously expected. Surely would have to be dealt with painfully. Something unpleasant likely will happen.

W: The longer it goes on, the greater the net debtor position the US is in. The more that people see we are addicted to this type of behavior, that some big adjustments might take place, where currency adjustments might take part. We saw portfolio insurance catch on in 1980s which was sold as a sophisticated way to manage money, setting up mechanistic ways to deal with setbacks. A relatively small portion of money was being guided by this, but on Oct 19th 1987 it was the leading factor in changing the value of American stocks by 22% in one day. Having everyone following same signal created doomsday machine. Now it is probably magnified, but who knows where it starts or why someone yells fire. But when fire is yelled, the currency markets will play a part in rush to the door.

Q: Warren you brought up topic of inflation. Do you believe CPI is accurate?

W: Bill Gross has written a bit about that. If you go to furniture mart, prices haven't moved much. Certain areas there is big deflation. There are huge areas where CPI is not particularly good. Core, excluding food and energy – what a joke! Can't think of much that is more core! CPI had housing in it before, but now has imputed level of housing cost – doesn't reflect reality. Rental factor has lagged cost for American family. I think CPI has done a disservice. If you are old and drink coke all day, it is accurate. But if buying a new house and driving to work with new family, has gone up a lot.

C: At Costco, almost no increase in cost in goods flowing through Costco. That said, I don't feel bad for millionaires buying big apartments in Manhattan.

W: At Costco and WMT, LIFO adjustment is inconsequential. It would have picked up CPI induced adjustments. In steel and jewelry, there are big LIFO adjustments. Carpet has had substantial price adjustments, with a minus LIFO figure 3 yrs ago, and this year \$100m. Overall for a typical young family, the CPI has underestimated burden they have faced with own living situation.

Q: Could you tell us some more about other acquisitions in the past year.

W: Russell still in works. In proxy statement, can get copy of filing. Described BusinessWire situation in annual report. Got letter from Cathy, good business. GE - part of insurance assets. Haven't participated in any auctions. Projections are plain silly in the investment banking books. I would love to meet the people who write those books.

We get the calls occasionally who care about their businesses. Applied underwriters – run by two great guys. They wanted to come to Berkshire. They are keeping 20% of company, and will do best being associated with Berkshire. They came to us directly. I don't know about how many stories there are about a \$4b dollar deal with no investment banker on either side.

C: The interesting thing about it is the mindset, especially with all the new helpers in world. They talk about doing deals. Not the mindset. We talk about welcoming partners. Guy doing deals want to do deal and unwind deal. We like things that never leave us, with relationships that are fruitful. Our system will work better over long term. The deal flippers will get in each other's way. Flipping flipping flipping, fees fees fees.

I remember a story told to me once by a banker: How did your firm make its money? 'Off the top, off the bottom, off both sides and in the middle.'

In end, Omaha may do better than Wall Street.

Q: Thank you for being role models. How might a derivative melt-down proceed, and how will it get solved?

W: What will cause fire? LTCM affected financial world in big way. Pretty strange things happened during that period. Look at junk bond market in 2002, it closed for a while, it was chaos. I'll give Charlie a question. In 1991, in Salomon, in middle of August -- on a Sunday, we were within ½ hr of seeking out a federal judge, but fortunately fed reversed itself and we got out of it. It happened to be the same day that Gorbachev was spirited away. Dow opened a couple hundred down. If you superimposed Salomon failing in Japan that Sunday night, and no securities being delivered, and include trading on derivatives...

C: Interesting story. Nick Brady enabled that having been a Berkshire Hathaway shareholder. He had watched relatives who had held on to stock. Old fashioned reputation was involved. What would have happened? It was terrifying, but an element of personal reputation saved it.

W: Nick Chase introduced me to Nick Brady in 1960s. I was in my 30s. Nick was a few years older. In 1991 he was Secretary of Treasury, they had issued a death sentence at 1030am on that Sunday. If Nick hadn't reversed it at 230pm, it would have been a mild daisy chain example of a derivative melt-down. It is not an experiment you would want to voluntarily conduct.

Q: Thank you for impact on my career. I have a question about newspaper industry. Some of largest stocks earn great returns on invested capital. But re: valuation, if you were looking at newspaper stocks today, how would you determine a comfortable margin of safety?

W: What multiple should you pay for \$100m pretax going down 5% per year vs. one going up 5% / yr? Eroding earnings, with every trend pointing in that direction. I do not think circulation will be larger and don't think advertising pages will be greater. Don't think that is true in growing areas either. But I don't think most owners have gotten to point of projecting declining earnings. Multiples not quite cheap enough to compensate for earnings decline. Also they doesn't compensate for perception that m&a might solve problems. People always think they are seeing first robin. I think in newspapers, decline

may be accelerating. When they take people to cemeteries, they take readers. When they graduate from school, they don't read papers. Virtuous cycle is not in favor. Newspapers are indispensable. I read five newspapers every day. Charlie reads more, and it shows too. We couldn't live without them. But a lot of people can. We thought they were bulletproof. Not bulletproof anymore. We must believe our eyes on what we are seeing.

C: I once thought general motors was a bulletproof. I don't know if Warren buying General Motors, but I have a good guess. It's just too hard. If it is too hard, we look for something that isn't too hard. It isn't much harder than that.

W: We talk about every paper, and potential for buying it. Easy business economics problem. I wrote in 1991 annual report that pre-prints in the world starting turning newspaper into a wrapper. Are their easier ways to carry around / deliver pre-prints? Other things became better ways of delivering advertisements into house. Interesting thing watching owners and investors resist seeing what is in front of them.

C: If the technology had not changed, they would not be impregnable franchises. Fortunately carbide cutting tools have no substitute. Network television made a ton of money.

Q: Seattle. You've had many opportunities. Any present day mentors?

W: Don't have to look at present day, can look at Tom Murphy or Don Keough. Don't have to study some 55 yr old. HBS will be doing a study on Cap Cities. If you learned lessons of Tom Murphy, you don't need any other lessons.

C: Warren not following the 40yr old investment professionals very well right now. Basic framework – invest when rest are paralyzed. Lesson of following logic rather than emotion is obvious. There weren't very many smart people in investment field. Now we have armies of brilliant young people. There is a vast amount of talent, and a lot of competition. If there were a crisis now, there would be 500 firms studying it intensely.

W: In 2002, people were terrified.

C: If you have a big convulsion, like a fire in auditorium, you can get a lot of weird behavior. If you can be wise when everyone else being crazy, you can do well -- but it may lead long periods of dullness.

W: Korea – lots of very good companies in 2002 trading at 3x earnings.

Q: If you were starting out today with a \$1m, what type of strategy would you look to make in first five years?

W: Formed the first partnership May 4, 1956, 50 years ago 2 days ago. If we were starting all over again, succumbing to Satan as Charlie suggests, we might be doing something very similar. You only need to find one or two. Don't need tons, just need a

good idea that is worth a ton. It would mean smaller stocks. If we were trying to buy businesses, we would have no reputation, so not much success with small amounts trying to buy businesses. Charlie started in real estate where you could magnify capital with brainpower. My natural inclination would be to look to securities. A couple years ago I would have been 100% in Korea. I would be looking around for something very mispriced that I understood.

C: Concept that you'll make 20% compounded over 40 yrs is dreamland. Find best thing you can find that you can find, and measure everything against it. Then trick is getting enough expertise so that next best option -- your opportunity cost -- is high enough. Act always thinking about your best opportunity cost. By the way, that is a freshman concept in economics, but it hasn't made it into modern portfolio theory.

Q: Jeremy Siegel had some ideas in his second book. How would this impact your investment strategies?

W: It didn't.

C: I think he is demented.

W: He is a very nice guy Charlie.

C: He may well be a very nice guy, but he is comparing apples against elephants in trying to make accurate projections.

Q: Can't see who is swimming naked until tide goes out. Effective decision making processes?

W: You are neither right nor wrong because people agree with you. You are right because your facts and reasoning are right. Information on all things available, but then once you have facts, you must consider what they mean. Focus on important and knowable. Important and unknowable, forget it! All kinds of things are knowable but unimportant. Narrow it down to knowable and important. Then decide if you have information of sufficient value to act. Market is there to serve you and not instruct you. When people talk about charting, momentum etc -- that is when market is instructing them. But market doesn't tell us anything, it only tells us prices. If prices are out of whack, then you can do something about it.

LTCM crisis, we were getting calls from people on Sunday with portfolios that were screwed up. Sunday... Just need to make sure you are callee, not caller. *Need to confirm accuracy, and whether you can play out your hand – never get in situation where other guy can call the tune, and you let market serve you not instruct you.* And you can't miss.

C: I would say that some of you can miss.

Q: What numbers would you look at to determine whether Berk is underpriced or overpriced?

W: We try to put everything in that report that I would want as investor just getting off a desert island. We don't leave out important things. It runs 76 pages. You can drown people in information that doesn't make difference. We try to explain about how we think about it. It is really a report which I would make to Charlie or Charlie would make to me. It may take a few hours to do it, but worth reading whole report, what are these guys trying to attempt, what is it worth if they are not successful in deploying incremental capital. Obviously what counts is kind of business we have, the managers we have, and what returns will be generated over time. And what incremental capital is available to add. I think you'll find the information you will need to evaluate Berkshire. If we had to stick a number down, it would be a different number between the two of us. But we'd be in same ballpark, and they are the things we report in that report.

Real question will be earnings developed, quality of those earnings, future earnings from that point, plus liquid assets. It will be a lot tougher in terms of percentage gains.

C: I generally try to approach complex task by disposing of easy decisions. Go through operating business then insurance operations -- that is easiest valuation process in Berkshire. The insurance operation is very interesting. Also is process by which cash is redeployed. Take no brainers first.

Q: How have underwriting standards changed, as terrorism escalates, and please comment on development of float?

W: Float -- depends on long tail or short tail. Will be hard to increase value of float at clip in past. We are coming close to 10% of [US] industry. It can be very attractive though in terms of underwriting and pandemics, terrorism. We get propositions offered every day. We talk about probabilities of \$50b and \$20b. Ajit applies it, and we kick around possibilities. We must figure whether we are getting paid enough. If we have a big loss, it doesn't mean we were wrong. No magic to it. Earthquake experience has more validity than windstorm or hurricane experience. But I'd bet real money that way, and we have. What will hurricane experience be? I don't know, but I'll keep thinking about it every day.

C: If oceans get warmer, weather will have more high energy uproar, according to laws of thermodynamics. Natural reaction is to raise your prices. Whether you've raised them enough is the art of the business.

W: You have possibility that 1% changes or 2% changes create 100% change in probabilistic cost. That is game we are in. But we don't have to play, if we don't like what we are being offered.

Q: What are criteria to find a person like you in health care. More prone to become unethical, sell shares, open shop next door. How do you find checkpoints? How to find leaders so we don't get a surprise in a dog eat dog world?

C: Health care, with much bad ethics, do we have anything to contribute? That has tended to go into the too hard pile, but a lot of people have made a lot of money writing health insurance. You are right that there are a lot of bad ethics, but also a lot of good ethics. In terms of investments that policy is too hard pile. Unless Warren is keeping secrets.

W: My only expertise in diet. Very tough problem.

Q: Chapter 11. Possible reforms in that area?

W: Charlie probably better qualified on that. Junk bonds, Fruit of the loom.

C: Much of bankruptcy is pretty horrible. There is competition where courts themselves have gone into bidding to attract business. If they develop a culture where they overpay a lot of people, they can attract more business. I find it so unpleasant to watch, I don't pay as much attention to bankruptcy as I should. I am an old man, and I don't like to have an upset stomach.

W: We will participate in bankruptcies at times. We bought the Osprey's of Enron. A complicated bankruptcy can offer money, but not now since so many looking at it. Fruit of Loom I entered through bonds. Penn Central was big mess, but a lot of money was made. Anytime something big, complicated, there is a chance of mispricing. Lately, mispricing a bit on the high side, not the low side. Other bankruptcy situations where we got involved but got outbid. Burlington, cytel. It is something to understand, but I would say if we are around another 15 years we'll do something substantial. Enron payments still being made. We didn't buy at bottom, and we tripled our money.

C: Eastern airlines with lots of employees, and courts abused senior creditors. If you bought wrong securities, unfortunate.

W: Penn central, judge just looked at most complicated bankruptcy – and he said it is just too damn complicated. I'm just going to put it all together, and give it a fast solution. But it wasn't what book said. Judge ordered a stay. I asked Charlie, how much power does a judge have? 'For a certain time, as much as he wants.'

Q: P&G as dream deal. Short and long term fit for pharmaceutical, and long term growth of P&G as a whole?

W: Very strong company, and big retailers are becoming brands of their own, and more concentration going on. Struggle between brands and retailers will go on and on. I would want to be strengthening my hand. I think combined enterprise better than

separate, mainly due to Costco and WMT. I don't know a thing about pharmaceutical business.

Q: Oriental Trading Company. Are you interested in buying it?

W: Sounds like some private group bought it and now reselling it. A financial group bought it and wants to resell it. Invariably auction business, to a 'strategic buyer' – otherwise known as someone who would pay too much. Idea that we are going to find a business to buy from someone looking to sell something is unlikely. We like people who weren't contemplating sales. We won't get many sensible buys from resellers. Some resellers keep going. We are not buyers from financial sellers.

C: In 1930s there was a stretch when you could borrow more against real estate than you could sell it for. It is happening in private equity. It's weird. This is not our field.

Q: Current account deficit. A couple factoids. If you add up all current a/c deficits over last couple decades, you get 4.5trillion, but you get only 2.5t net [], since 2 trillion represented by cap gains. Other factoid, if you look at income on assets, US investors net positive position. Do they influence current a/c concerns? Do you know why US investors should earn more on investments abroad than foreigners?

W: Net balance flipped in most recent qtr. One important reason, a year or two ago, foreigners getting only 1% on treasury bonds. Higher rates abroad paid more. Favorable net balance in interest income. It may well be that some were made earlier paying higher returns. If you get into net debtor position, we around \$3tril. In recent weeks, dollar weakened so brings down net debtor position. Attractive possibility is inflation. Not a huge factor, what you are talking about. Affected by currency changes more. Overall, that will not be what determines consequences in terms of current account problems. Or currency exacerbating some other kind of chaos.

C: This is not a field to which I have devoted the same attention as Warren. I share his pessimism. There will be a price to pay. I always thought there was more ruinous behavior that can be tolerated. Amazing how much you can have when your reputation is strong. If you stopped to think about it, would you like to invest in Europe with 12% unemployment, or fabulous assets like Brazil with political instability. It isn't as though the other options all look wonderful compared to us. Not totally irrational that people like us in spite of our flaws. What I regard as fiscal misbehavior may go a long time without paying the price.

W: That said, I agree. But when you are doing something dangerous sometimes it can sneak up on you.

Q: Your views on gambling are well known. But I look at insurance, it looks same. How do you reconcile views?

W: *Gambling involves creating risks that don't need to be created.* Created risk. Whereas if you have a home or a business on a coastal area, risk is there but not created intentionally. There is a transfer of large existing risks rather than creation of risk.

Q: Short selling

W: I had about a 100 ideas for shorts in my life, and I think about all of them worked out eventually. But I don't think I would have made money on any of them. It is too hard when you have crooks and liars working 24 hrs a day to create a sham. I wouldn't invest in a short-selling fund, it is too hard to make money.

C: It is also painful. Who would want to make an investment which then went to 3x, while the crooks are living large on their winnings and you are suffering margin calls. Who needs that kind of pain?