BERKSHIRE HATHAWAY ANNUAL MEETING 2010, MAY 1, 2010

(As is standard, no recording equipment was used to reproduce these notes. My high school typing teacher gets all the credit. As a result, these notes are recollections only – not quotes, and should not be relied upon. –PB)

From Movie:

WB interviewing Hank Paulson in an Omaha Business Event, saying the best summary of the credit crisis he had seen was the comment by George Bush during the Crisis: "If money doesn't loosen up, this sucker is going down. "

CM To Westlake Harvard School
"At a young age, I realized that I couldn't play six grandmasters blindfolded. So I decided to avoid the mistakes that most people make. Many think we at Berkshire have found some trick. We haven't. Instead, we ignore the lesser choices, the mistakes. It's not brilliance, it's just avoiding stupidity. Life is about avoiding mistakes, and considering opportunity cost. Most need one rabbit, one horse – they want diversification. Life is not about that. When you picked your wife, you picked the best who would take you. We should live the rest of our lives like that."

[WB & CM walk onstage]

WB: Good morning, I'm Warren he's Charlie. He can hear, I can see – we work together for that reason. In the movie, my fastball was filmed in slow motion – they tried it the regular way and you couldn't see it!

We'll announce earnings, and directors, then have questions until noon. Then until 3:30 we'll take questions again, then after we'll have the election of directors. I'm introducing directors now. Hold your applause till the end. Howard Buffett. New Director Steve Burke. Susan Decker. Bill Gates. David Sanford Gottesman. Don Keough is not here – he had an operation but is recovering very well. Tom Murphy. Ron Olson. Walter Scott.

Preliminary earnings for Q1 are up on slide. What we are seeing is that a sputtering recovery has picked up. Our industrials, like Marmon and Iscar and the railroad, are seeing good uptake. What was spotty - now trends are stronger in last few months. Not as good as previous years, but better than sputtering. We encourage you to focus on operating earnings. In any quarter, the derivatives are meaningless. We don't put down EPS on this slide, and we aren't focused on those numbers in any quarter or year. We are focused on build-up of value. We think the focus on quarterly earnings is not good for investors, but and really bad for managers. We think they might fudge if they need to hit something. There was a very interesting study a few months ago, where they took it out one further digit – past a penny. A statistically impossible number of 4s showed up [too few] – it was not an accident. They stretched for the round-up. We think in our view it is a terrible practice to report to some penny you whispered to some analyst months before. We carry this to an extreme at Berkshire, we think about building value as a whole. Charlie may want to weigh in?

CM: Well, I agree with you.

WB: We will alternate questions. Our journalists are Carol Loomis (CL), Andrew Ross Sorkin (ARS), and Becky Quick (BQ). Andrew has maneuvered for seat … we will alternate between journalists, then go around auditorium. Questions on the floor will be chosen by chance.

LOOMIS: We received an awfully lot of questions. I think 2000 questions. We won't be able to ask all of them. There were some very good questions. Warren & Charlie have been given no hints as to questions we plan to ask.

Q1 CL: Goldman Sachs. Here are four that asked a different question, and I have combined them. Every year you use clip from Solomon Crisis where you warned Solomon's employees that you will be ruthless if reputation if the firm stained. Clearly GS has lost reputation. What is your reaction to the lawsuit, its affect on your GS investment, and what advice you have now for GS based on your experience at Solomon?

WB: Abacus was made subject of SEC complaint (22pages) and I think there has been misreporting on the nature of the transaction. I would like to clarify this transaction, as it is important and frequently mischaracterized. In the Abacus transaction, there were four losers. GS didn't intend to lose but did, they couldn't sell their piece. Main loser was a very large bank in Europe named ABN Amro. Why did they lose money? They guaranteed the credit of another company ACA. ABN was in business of judging credits, deciding credit. They fronted the transaction, guaranteed it. We do it frequently here at Berkshire. Many in business will take a policy if we guarantee the policy. We've made a lot of money doing this over the years. We lost a fair amount doing this with some dishonest people in early 1970s. They were syndicates at Lloyds. In Abacus, ABN guaranteed $900m and was paid 17bps of insurance. They got $1.6m for $900m of insurance coverage. The company went broke, so they had to pay the $900m. The bank made a dumb credit deal. It is hard for me to be sympathetic for a bank that made a bad credit trade. ACA, and you wouldn't know this from the reporting, but they were a bond insurer. They started in municipal bonds, like AMBAC, FSA, etc. Many of those companies started insuring municipal bonds some 30 yrs ago, and it was a big business. But the profits were squeezed. They found new places to insure – and got into insuring structured credits. I described it a few years ago in the annual report like Mae West, "I was Snow White but I drifted". Almost all of them did it – they didn't understand it well, but made more money. Then they all got into trouble. Is it wrong? No, but you better know what you are doing. We went into municipal bond business when others got into trouble, we got paid more, and we stayed away from CDOs or RMBS. These deals were too hard.

WB: We did insure something. It will help you understand Abacus. This deal [slide up on screen of portfolio of US state bonds] we did insure. A large investment bank came to us. We insure a local power generation company, and the Nebraska Methodist hospital. We have $100m with the hospital. An investment bank came to us, with this list of names of states -- $1.1b for Florida, $200m for California. Will you insure the bonds of these States that they will pay for the next ten years. I looked at list, and we had to decide a) do we know enough and b) what premium to charge. We insured $160m for 10yrs. On other side, someone is insured that we will pay if they don't pay. We didn't come up with list. There are four reasons we were showed this trade. Lehman might own it and simply want insurance, Lehman might be negative on it – and this is a method to short, they might have a customer wanting protection, or they might have a customer negative on it wanting to short. We don't care why they wanted the insurance, it was our job to insure the bonds. If they told me Ben Bernanke was on other side of trade, it wouldn't matter. If it matters to me, I shouldn't take it. We did with the bonds what ACA did. With list of 120, ACA only accepted 50, then negotiated for 30 more. In Abacus it was a mutual negotiation. Unfortunately, all the bonds went south very quickly – it wasn't clear this would happen in early 2007. If you look at how the ABX was trading, it wasn't obvious. Now there can be trouble in these States bonds we have insured. Maybe the guy on other side knows more than me. But I see nothing, I won't complain if I lose money. I can't claim other side had superior knowledge. Central part of the SEC argument is that Paulson knew more about the transaction. In retrospect, it was just a dumb insurance decision. Charlie?

CM: My attitude is simple. This was a 3:2 decision by SEC commissioners where they usually decide unanimously. I would have voted with the minority.

WB: ACA was a bond insurer, not an investor, pure and simple. Well… simple as it turns out.

Q cont CL: And the latter half of the question, regarding your investment in GS and your advice to management?

WB: It has probably helped our investment. We have $5b preferred at 10%. They can call them at 10% of par. If we got that $5.5b in we'd put it in short term securities, which might make $20m versus the $500m per year we now own. Every day, we get paid $15 per second. I don't want those ticks to go away. Tick tick tick. They go on at night, and on weekends. I love this, I get paid when I sleep. Tick tick tick. They only agreed to this at the height of crisis, and they want them to go away. The government has been telling companies what to do about dividends and preferred shares. Government telling them what to do, and it is good for our shareholders! I was sitting here hoping that the Fed would continue to be quite tough about our preferred. I think recent developments have delayed the calling of our preferred. So we'll continue to get $500m per year instead of $20m.

We love the investment. I would expect – there is no question that the allegation alone causes the company to lose reputation and obviously the press has hurt the company, and morale. It isn't mortal, but it hurts. GS had a situation with Penn Central railroad -- that hurt forty years ago. There was a Boesky connection – it was painful at the time. But an allegation of something doesn't fall into my category of permanent damage.

My advice is that when some transgression is found or alleged -- Ron Olson was manager of team [at Solomon], “Get it right, Get it fast, Get it out, Get it Over”. It does take some delays at the time, you have to gather the information and make sure it is right. An allegation has been made. Perhaps it turns into something more serious. But I do not see anything in Abacus that looks any different than our list of municipals. The allegation does not meet my criteria of losing reputation.

CM: I agree with all of that. But every business ought to decline business that is otherwise acceptable or legal. Standards shouldn’t be what is legal, but it should be different. Every investment bank took skuzzy customers. There are too many skuzzy customers and too many skuzzy deals.

WB: Should we have done our deal?

CM: I think it was a closer case than you do.

WB: We insure about $140b of muni bonds. We aren’t bigger because we think the premiums aren’t the right price. Some people when premiums are wrong get busier – do more. We don’t, we go golfing. We think much is wrong on Wall Street. But our experience with Goldman goes back 44 years. We’ve bought more businesses through them than anyone else. We trade with them as well. We don’t use them as investment advisors – we make our own decisions. When we trade, they could be selling or buying for their own account. They don’t owe us a rationale or reasoning, nor do we owe them. They are acting in a non-fiduciary capacity when they are trading with us. If working on a transaction or financing, that is different. We have had a lot of very satisfactory business with Goldman. The first bond issue we did was 1967, on slide 2, an offering of Diversified Retailing Corp, $5,500,000. We were imaginative calling it diversified even though we only owned one business. NY Securities and Nebraska Securities were the underwriters. Usually the lead underwriter was at the top. We were having trouble raising the $5.5m. I called Gus Levy and Al Gordon at Kidder Peabody. No one wanted to give us the money. Both Gus Levy and AL Gordon said we’ll take a big piece. GS and Kidder were next largest underwriters, they asked us to leave their names off the tombstone. But they did come through for us, under an assumed name. Al Gordon died last year at 107, worked until 104. Gus Levy was a remarkable man.

Q2: Guy Hope, Portland. Financial reform, what are the good ideas, and what are the bad ideas?

WB: The bill in Congress is 1550 pages. Charlie you take first 1500 pages… I’ll take the last 50.

CM: My guess is most of the Senators have not read the bill. All in doubt about what is going to happen. One thing is perfectly clear, our governmental system which regulates banks and investment banks, was too permissive. Every big bank was going to go blooey. A system so important with this risk should be changed. People are thinking about that. Banks hate losing investment flexibility. JPM would hate to give up the biggest derivative book in the world.

WB: What would you vote today?

CM: I don't know enough about it. If I was the benevolent despot of America, I would make Paul Volcker look like a sissy. I would reduce the activities permitted if you used the government guarantee. You are defacto using government money to make a business run, and even the partners in the business don't understand balance sheet. The complexity in the system is ridiculous and counterproductive. We need a new version of Glass-Steagall that drastically limits what both commercial and investment banks are allowed to do. When we owned a savings and loan, we had a restricted repertoire. We had government [deposits], and we were limited. If you give human beings too much freedom, especially in the repo system, they will go plumb crazy, and of course they did.

Q3 BQ: What is impact of proposed derivative regulation on Berkshire, will collateral changes affect the $63b of derivatives at Berkshire and will it require keeping more than $20b of cash on hand?

WB: As I understand bill now, I think it was presented a few days ago. The requirements would be zero right now. If Berkshire was found to be dangerous to system by Secretary of Treasury, then we would be required to post collateral on past contracts. Chances of us being chosen as danger to system are unlikely -- we have 250 contracts, while others have a million. Our derivative position was called 'huge' by the Journal, but it is 1% of what other banks have. If we are 1% of total outstanding, what word would you use for 100x that position? We had 23k positions at Gen Re, and we've taken that down to a few hundred. We have no problems. If for any reason Treasury or others decide they want all past contracts to be collateralized – we would comply. But we think we would need to be compensated. We would be due substantial money. There was one price for collateralized, one for uncollateralized. If I rent a house for $100,000 I may rent it furnished for $120,000. One price is for furnished, one for unfurnished. If the government changed the law and required all houses to be rented furnished, I would want to be compensated to add the furniture. Last week we were offered an equity put contract for 10 yrs, by one of very largest banks, for $7.5m uncollateralized, and $11m collateralized. We elected to forgo about $1bil in past contracts because we didn't have collateralization. Geithner's testimony on Dec 2 – he testified on sanctity of past contracts. If it passes tomorrow, we would not have to put up a dime. Others would be dangerous ahead of us as well. There is an opportunity cost on collateral. We could put up our Coca-Cola stock, it changes nothing. We are keeping it.

CM: If collateral contracts are inserted into past contracts by government fiat, it would be like the government saying all $1mil houses will now cost $2mil. It would be of dubious constitutionality, and I don't think government is that stupid.

WB: If the law changes, we will follow the rules. All kinds of companies don't want to do it. We don't care but want to get paid for it – we are indifferent as long as paid for it.

We would not like something retroactively since we didn't take a premium for it at the time. MidAmerican has energy contracts, BNSF has fuel contracts. There might be less Congressional enthusiasm when they realize how much money would be sent to Wall Street from Middle America for collateral.

Q4: Bonn Germany – I took the railroad in 1997. Greece and future of Euro – what do we have to prepare for as investors? In past, you have warned about structural weaknesses of USD. Other European countries are now in crisis. CologneRe, MunichRe. How are you preparing BRK for currency failures, and what are your thoughts on Euro?

WB: CM and I haven't talked about Greece recently, I'm interested in his opinion. We have a lot of exposure in many countries, but we have it both on asset and liability side. We have much net worth in euro assets, but also substantial liabilities in Euro as well. When we reinsured Equitas we took on billions of liabilities around the world and we were paid in USD. If Euro depreciates we benefit with Equitas, but we lose on other areas. I can't tell you our net exposure on Euro or Sterling on any given day, we have no dramatic exposures in any currency. Doesn't mean it isn't important. Charlie will now clearly explain how important the Greek situation is and its affect on the global economy. [*laughter*]

CM: We are generally agnostic about currencies, about relative values. We are not agnostic about direction. Greece is an interesting example. Past conservatism in US gave the country wonderful credit. We used it to win World War II, help Germany and Japan in one of the most constructive foreign policy decisions in history of world. Now the US doesn't have as good credit since it has been using it so heavily. Greece is just a start. It is dangerous when governments push their credit so hard. When you have blown it in past, it's not as good today. Responsible voices are realizing we are nearer trouble from lack of government credit than ever before in my lifetime.

WB: You have to distinguish between borrowers in their own currency (like US and Japan) and those who borrow in other currencies because creditors don't trust them. When weaker credits borrow in other currencies, it can really put you out of business really quickly. They can't print USD. That has caused failures. The EU – it is a really interesting situation. Greece is sovereign but can't print their own currency – they have Euro. Euro was an experiment, and it is a test case playing out here – of a country using a common currency but is sovereign on promises to citizens. I don't know how it ends, but I'm not forecasting anything – I just try not to watch movies like that. This will be high drama. We don't make big currency plays, and we did one a few years ago and did okay. I would say this - that events of last few years make me more bearish on ALL currencies holding value over time. If you really could run deficits of 10% of GDP and do it a long time – world would have done it more, because that is really fun! Most understand it can't be kept up. How world weans itself off deficit financing will be interesting to watch. As long as US borrows in USD, there is no possibility of default. If world won't take USD debt, we have problem. You don't default when you print your own currency.

CM: Published statistics are misleading. Debts are stated in government bonds outstanding. The unfunded promises are miles bigger than bonds outstanding. They don't bind if you grow GDP at 3% per annum per person, but if you get to where growth stops, you will have enormous social strains, and god knows what the impacts will be.

Q5 ASR: On Goldman, if Lloyd Blankfein had to leave, who would you like to see run GS, were you made aware of the Wells notice, was it material, and would you have disclosed it? Have you been contacted regarding Galleon investigation?

WB: We were not contacted by the SEC about Galleon. I read about it. No contact. I can't pronounce name of the guy who runs Galleon. I've talked to lawyers about Wells Notices. When Gen Re got wells, we stuck that in 10Q or maybe an 8K I think. That was not us receiving it but certain executives receiving it from the SEC. I have been on board of at least of one well known company when they got a Wells Notice and they didn't publicize it, and it was nothing. If you regard it as material, you report it. If I had received something about Abacus, it would have been immaterial.

CM: I wouldn't have regarded it as material. If every company reported everything of low probability, reports would run to hundreds of pages. You don't want to give blackmail potential to people.

WB: I don't know what percentage of Well Notices are material to companies. Who do I want running GS? If Lloyd had a twin brother, I'd go with him. I've never given it a thought on who else should run Goldman Sachs. There is no reason to think about that. There is not a reason to worry who besides Gus Levy should be running GS in 70s during Penn Central or Weinburg during Boesky. This does not reflect on Lloyd. There is plenty of stuff we don't like on Wall Street, but it is not specific to GS.

CM: There are plenty of CEOs I'd like to see dismissed in the US. Lloyd Blankfein is not one of them.

WB: I was worried he might start naming names [*laughter*].

Q6: Chicago IL. You insure a lot of motor vehicles accidents, there are new driver feedback mechanisms. Will you bet on motor vehicle feedback mechanisms?

WB: Well we know where you stand on this item. Gates has a position on smoking, which I believe has more profound effect than auto accidents. I thought it was in the 30k range per year, not 6 million. Lots has been done to make cars safer, not sure cell phones are among them. More people die in auto accidents because of cell phones. Everybody has interest in bringing down fatalities. Geico has an active safety program. Gates has fairly specific and intelligent activities and focus. Insurance industry is working to make cars safer.

CM: Nothing to add.

Q7 CL: One of owner principles is that you will attempt to keep the Berkshire stock price rational. But every year you give more stock to foundation. Already we have seen foundation sell stock. Won't foundation selling create downward pressure on stock?

WB: There are five foundations I give money to every year, every July, as 5% declining balance. I give 1.5% of outstanding shares annually. If they sell 1.5% annually, you have 1.5% of shares being sold annually. Contrast that with 100% of shares outstanding that trade on average. I could sell 10% of company. But I don't plan to sell. If 1.5% of shares for Berkshire moves price down, it deserves to move down.

CM: I think non-event, and perhaps constructive getting Berkshire into S&P.

WB: If I owned 100% of Berkshire, it wouldn't have gone into S&P. Now seven percent of capitalization is from index funds – it has led to some extraordinary buying. If none of stock given away, don't know if stock would be higher or lower.

Q8. Overland Park Kansas. What is biggest challenge facing the US economy – what are implications of that for investing globally over next decade?

WB: Charlie? [*laughter*]

CM: Thank you for that easy problem. We haven't made our way in life with great global allocation systems. Berkshire's attitude is to concentrate on what we know, find things that seem sensible to us and let everything else fluctuate as they will. We do prefer to do more in responsible countries. More responsible countries make us more comfortable. We don't have global allocation system at Berkshire unless WB is hiding it from me.

WB: Not that one. [*laughter*]

WB: We aren't moving BNSF to China… A nuclear or biological event is pretty high probability over next 50 yrs. We have made remarkable progress in USA – it is a system that unleashes human potential. This crowd is not smarter than 200 yrs ago, and don't work harder, but boy do they live differently. System allows ordinary people to do extraordinary things over time. We don't know our own potential -- just like guys in 1790 hoping for better farm tools. We hope rest of world does well, it is not zero sum. If China and India do better, we don't necessarily do worse. I would be perfectly content to limit investments to US alone. But I'd rather have the whole world. Opportunities will be ample. I would not run from the United States.

Q9 BQ: How did the four investment mangers perform last year, did they use leverage?

WB: They did not distinguish themselves in 2008. In 2009 they did pretty darn well. It is not same four. None use leverage.

CM: One I know made 200% with leverage of zero.

WB: The list of four will move around but the portfolio manager positions are far less urgent than who is next CEO. If I die tonight, there will be new CEO within 24 hours. All directors are comfortable with that. I can go on vacation on investments. Directors wouldn't do it, but they could wait a month, 2 months – Coca-Cola won't go away. They can be leisurely. There are very able people who would like to manage money for Berkshire. That problem will get solved. The board and the new CEO can decide on the CIO. The decision is not fixed in stone. The CEO question you want answer for right now – to be prepared to implement the next day. I did just have a physical however, came out fine. It drives my Doctor nuts the way I eat, but he can't find anything wrong.

CM: I am not most optimistic of the two people up here. And yet I am quite optimistic that the culture of Berkshire will last a long, long time and outlast the life of the founder.

WB: I think we have the strongest culture of any large company, and they'll love it after I'm gone. [*clapping*] Don't clap there! [*laughter*]

Q10: Louisville, KY. I gave up box seat at the Derby to ask you a question. I thank you for that opportunity. Capital investment and high return? Substantial sums you have coming in drives decision – but can you contrast vs. intrinsic value definition. Tens of billions of dollars. -- time value?

WB: It's clear you understand the question well, and it as important a question you can ask. We are putting big money in big businesses with good economics, but not as good as when we were dealing with smaller amounts. $40m of capital required in See's and it earns much more than that. If we could put in more we would. But wonderful businesses don't soak up capital – we had $2.2b operating earnings in Q1. We have to put it out as intelligently as we can. When we find them, we'll buy them. Can we put it to work intelligently? We think capital intensive businesses we have bought are good, working well. But it can't work brilliantly, can't spend all that money and still get high returns. Aren't you better off paying it out? We are better paying it out only if we can't translate it into more than $1 of present value. In our judgment with BNSF we did it, but scorecard will only come in 10 to 20 yrs. In MidAmerican, we have done it. But it won't be a Coca-Cola – which doesn't need as much capital. I hope we don't disappoint you. If anyone expects brilliant returns from this base at Berkshire, we don't know how to do it.

CM: I'm just as good at not knowing as you are.

Q11 ARS: California. Why did you lean towards debt in the crisis, Harley Davidson debt at 15% vs. equity at $14, vs. now equity at $33?

WB: I'm not sure you would have asked that when we did the deal. I don't know if Harley Davidson stock worth $20 or $30. I like a business where customers tattoo their name on their chest - I'm not sure you can go around questioning those guys! [*laughter*]

I thought I knew they wouldn't go out of business. I knew enough to lend them money but not enough to buy shares. If Goldman had said 12% non-callable – I might have taken that. Harley paper could be sold at 120, so there was some capital gain. If I can make money with a simple question: 'will they go bust or not?" then I don't have to answer the tougher questions on the equity, where will margins go and motorcycle sales and demand...

CM: Very good response – knew enough about debt, not equity. Very often in a distressed situation, when you buy the bonds, you should look at the equity. To some extent we are constrained by our fiduciary responsibility to people who hold our stock. It is a good question.

WB: Junior securities do better, but senior securities help you sleep better. We have 60bil of liabilities, some out 50yrs. We like running it safe. We could do things when others were paralyzed.

Q12: How do you change culture of organization, how do you inculcate culture?

WB: Easier to build new culture than change one. It is tough. It would be tough to change culture of Berkshire. It is designed to reinforce a culture. Culture would reject it. If you want to walk in, it is hard to change. I would much rather start from scratch. I've had luxury of time with Berkshire. I didn't have to fight anything. As we added they became complementary. It took decades. At Solomon, I changed a culture, and I wouldn't grade myself an A+.

CM: I'm flattered someone wants to change a culture. In your position, my failure rate has been 100%. I could move out, but couldn't change the culture.

Q13 CL: Brandt, of Ruane Cuniff in NYC. Ajit Jain is important, and will National Indemnity grow float after Ajit Jain? Does it have competitive advantage tied up in Ajit?

WB: It has some advantages beyond Ajit, but he has maximized them. He has cadre of 30 people schooled in it, in such a way that would make the Jesuits look quite liberal in their methods. You can't imagine a more disciplined operation. It would be a HUGE loss to Berkshire if anything happened to Ajit. But the Reinsurance group would still be special, and act smartly and quickly. Every year I think our float has peaked. Now it is $60b and we have Equitas which is in runoff. I was ready to quit at $20bil, but now over $60b, and things keep happening. Berkshire has, in my view, become the premier insurance organization in world. I don't know how we could increase it significantly unless through some large acquisition – but there is nothing on horizon. We will have to fight to stay even from here. Various things could happen which would be valuable.

CM: I agree with you, and I have nothing to add.

Q14 Morning Warren and Uncle Charlie. 1/8th of world is in India. Why aren't you investing in India?

WB: That is a good question. We have connections there. In insurance, there are distinct restrictions at what we can do in India. As of yesterday, I agreed next March to go to India, because of what our Iscar business is doing there. India will grow, and Iscar belongs in every industrial country in world. We have good sized operation there. We don't rule out India. Posco – they have big plans for India.

CM: One trouble that India presents is that the government is causing paralysis, endless due process. Planning, approvals, zoning is hard. Wise founder of modern Singapore said that China will grow faster than India because government causes less paralysis. Countries are different, and while we kind of admire the democracy that causes the paralysis, but still don't admire the paralysis.

WB: Countries learn much from each other, and many have learned from USA. Maybe they can steal some ideas, and improve on us. We ought to figure out a lot of ways to do business in those countries. My preference is insurance which I understand. Both China and India do limit us right now, of what we can own and how much. Why put my managerial talent to work on something where we only own 20% vs 100%? People in India will be living much better in 20 yrs.

Q15 BQ: Australia. Inflation problem you talked about in 2008 letter, but you didn't mention inflation in 2009 letter. Why?

WB: I may be biased, and there has been a lot of inflation. I was born in 1930 and the dollar is down 90% since then but we've done okay. I think prospects for inflation around world have increased. Situations that governments have been forced into or allowed to embrace may cause it. Weaning ourselves from medicine may be harder than original illness, there is massive debt. I don't see any way countries running high debt to GDP over time doesn't have diminution of currency over time. I wrote OpEd in NYT last year. I would bet on higher inflation, and maybe a lot higher.

CM: Again, I agree.

Q16: New Zealand, from Whangarei. What can be done to educate children of financial management, and prevent future financial mayhem?

WB: We will see financial mayhem from time to time. People do crazy things. I would argue some of the problems were caused by the prevailing conventional wisdom taught in business schools. I'm not positive about modifying madness of man from time to time. Regarding the first part of your question, getting good financial habits early in life is important. Not everybody gets that. Andy Hayward, who did Liberties Kids, has created the Secret Millionaires Club show. If we get to 2-3% of kids with better habits it will be good for the world. We will take Ben Franklin's ideas and make them entertaining for children's stories. It is good to have smart learning at elementary level, that is better than advanced degrees at graduate level.

CM: I admire McDonalds, which I think has succeeded better as educators than a university where I recently spoke. They were not amused at the comparison. McDonald's has had a constructive effect on employees who were threatened with not making it. They teach marginal people responsibility. Employment culture of McDonald's is not appreciated enough. Come to work on time, move up the ladder, get a paycheck, and many go onto much higher paying jobs.

WB: I learned a lot from a Paper Manager at the Washington Post – he taught me, and talked to me not in a preaching way, saying 'you could do better if you did this'. Lucky if parents teach you, but anything that brings it into broader teaching environment I'm for.

Q17 ARS: Your taxes. Mr. Buffett's assistant pays higher tax rate than he does. Implication is taxes should be higher on some. But bulk of your estate will never be subject to taxation. How should the tax system should be changed?

WB: Wealth tax is like a property tax. He is absolutely correct, if you want to give away all your money, it is a terrific tax dodge. My charitable contribution line, I have an unused carry-forward of something like $7bil that I haven't gotten a deduction for. I think the money will do good AND save taxes. If we continue to spend 26% of GDP, we can't keep taxation at 15% of GDP. You couldn't have two better guys than Erskine Bowles and Alan Simpson, but in end recommendation for higher taxes and lower expenditures– and they won't be as popular as they are today. I don't think you can raise total tax by taxing lower income people higher.

CM: People who worry about your lower taxes, they can be consoled that you will leave 100%, they will say - 'he left it all'.

WB: I will never sell a share of Berkshire. I have everything in life I need, and I always will have enough. We can give away the rest. You could argue that it would be better if I gave all that money to the federal government instead of charity, but not many people in this room would agree. [*applause*]

Q18: Jeff Chen, San Francisco, CA. What are key metrics you look for on inflation, and catalysts for a future rise?

WB: You give me credit for more brainpower than I actually bring to the question. You can't look at any metric. If it gets going, it creates own dynamic and is very hard to stop. We saw it in 1970s until Volcker came in with a sledge hammer. Prime rate was at 21% and governments up to 15%. We had a demonstration project 30 yrs ago. If we continue today's policies, something like that could be possible. Trend is not destiny. We have power to control our future. We do it through elected representatives. I will go back, with what I see, currencies are poorer bet and not sure what it means for inflation. If inflation gets into saddle, faith in institutions could break down.

CM: Contribute the most to civilization and counter the effects of inflation. To outsmart others isn't the best way to do it. If you are best painter or best brain surgeon, you will always command your share of the economy around you. Talent is terrific asset to deal with it.

Q19 CL: Ben Ott. You failed us with NetJets – with a pretax loss. What errors were committed, what learned, and how prevent happening in future?

WB: I probably won't. We make mistakes, and our managers do too. Biggest mistake – we were buying planes at prices that were fictitious vs. what we would later sell them for. We didn't properly prepare for what was happening. A good bit of write-downs were planes that were too high. Operating costs got out of line with recurring revenues. I stayed in textiles for twenty yrs. Then I woke up, CM was telling me it was lousy in year one. It was a big mistake. NetJets last year posted a $711m loss. It is now operating with a decent profit, with well over $50m pretax profit in Q1. New business plan has not affected an iota of safety or service, but got things in line. Dave Sokol turned that place around like no one could.

CM: Yes, but I believe the episode should be reviewed in context. If we buy 30 big businesses and let the managers run them without interference, we have been right 95% of the time. It is not a big failure record, and it doesn't suggest we should be less easy with remarkable performance of managers who have joined us.

WB: This doesn't change our management strategy. We let managers do their stuff. And we will keep doing it.

Q20: China. BYD arguably is a technology company. How did we decide to invest? How did you increase your circle of competence to include BYD?

WB: CM gets credit.

CM: Berkshire would not have made investment in BYD if it had come along 5-10 yrs earlier. The old men are continuing to learn. Berkshire would have lower potential if we had stayed the way we were. I wasn't sure I could get Warren to do this. Dave Sokol was inveigled to go to China and the both of us helped the Chairman with the 'learning' process.

Q21 BQ: How do you determine management compensation plans at Berkshire?

WB: I try to figure out if I owned the entire business what I'd pay them. This is not rocket science. The seventy businesses we have each have different economics – we don't set a Berkshire standard compensation plan. A BNSF needs lots of capital, others could be run by chimpanzee, while others with Alfred P Sloan as CEO couldn't run them well. I try to figure out best strategy – and we find that managers stay with us. It is not rocket science. But I spend time on it, and it takes ability to differentiate. An HR dept would be a disaster, and they would have people telling them all sorts of different equations. It requires common sense and interaction with managers. We agree on measure of what they are adding to company.

CM: We have opposite system to GE and Army, and it works for us. Practically nobody is like us. It works, and makes us peculiar.

WB: I get worried when people agree with us. We have managers that will make tens of millions annually. Everyone wants to be treated fairly. Rationale should be understood, but there is no cross Berkshire rationale. It is ridiculous to put a cost of capital on each business. No difference if 40m or 43m or some other number is used in the business. The real thing is to pay managers for widening the moat that differentiates our business from competitors. I can't think of a manager who has left us over compensation.

CM: Amazing how simple it has been, how little time it has taken, and how well it has worked. Headquarters is typically hated in the field. We don't want an Imperial headquarters with charges imposed everywhere. We charge for credit, but that is it. Most headquarters charge for costs.

Q22: Winemaker from Napa, may I suggest next Gorat's meal be accompanied with the new healthfood, a red wine from Napa?

CM: Warren is helpless, but I'm with you.

Q cont.: How do you deal with ethics violations in subsidiaries, theft or the like – do you get involved?

WB: We have a complaint hotline and I get letters. I skip over the bad breath complaints. Alleged bad behavior will get investigated. Important transgressions have come to our attention – we encourage that.

CM: We care more about that than business mistakes.

WB: A letter goes out every two years, it is 1.5 pages. It asks managers who I should consider to put in charge of the place if they were no longer available and the reasons why I should choose this person. I also remind them that we have all the money we need. We don't have a shred more of reputation than we need. It doesn't hurt to repeat Solomon story. If the only reason you are doing something is the other guy is doing it, then don't. I say to call me. Most realize that if they are thinking about calling me, it's too close a call and should be avoided. We can cure any problem if we hear about it soon enough, but if allowed to fester it worsens. With 260k people I hope we hear about them fast. We care very much to protect reputation of Berkshire. We have all the money in the world, but we don't have enough reputation.

CM: Averaged out our reputation is good, that is precious to us. In a sense, you people are part of culture. Ideal is not to make as much money as can be legally made. We celebrate wealth only when fairly won and wisely used. That culture pervades the place, and we think is very helpful to us.

Q22: ARS: NYC. Regulators - need to make allowable returns?

WB: Service Transportation Board adopted 10.5% on invested capital. If major change in rates, maybe this number changes. Utilities often get 12% ROE. Railroads go to returns on invested capital. I don't think that is a crazy standard. If you behave yourself in electric utility, you will almost always make your returns. Railroads have more up and down, more downside. You want railroads to invest more than depreciation. 10.5% is inducement enough. Country and railroads have interest in not earning exorbitant profits. If Service Transportation Board says 10.5%, that is not a crazy number.

CM: Railroads of America have been totally rebuilt in last 30-40yrs, improved tracks, bridges, average train twice as long and twice as heavy. By and large a system of wise regulation and wise management allowed this. That was not always the case. Existing system has worked very well for all of us.

Q23: Ashish – India. GenRe – insurance uses complex models – how do you know not significant risk in models. What few events could cause losses?

WB: We run significant risks from earthquakes. Not sure how much in Q1 from Chile. We have 20% of SwissRe. Our peak risks are earthquakes and hurricanes, 2 biggest in frequency and severity. Risk is probably down from a few years ago. Not down because of diminished appetite, but because rates weren't attractive. If rates attractive, we would take on group of risks if something close to worst case was $5bil. We paid out $3bil in Katrina, over $2bil on 9/11. But none of this makes us uncomfortable.

CM: Our difference is that we deliberately seek out big losses occasionally. Everyone else avoids that. That is competitive advantage, a capacity to endure fluctuating annual results.

WB: People know what we do, they just don't want to do it. I think it comes close to permanent advantage. I felt no different losing $3b in Katrina. That is our game. Our edge gets wider every year. In insurance we are in business of taking other guys' desire to smooth earnings and in exchange take the lumps.

CM: WB is in a different position. Other CEOs can't look at mirror at end of year and say shareholders still love me. Amundsen, a famous businessman in Omaha – he wanted to own 100% of everything, so he could look in the mirror while shaving and say, "all my shareholders love me…"

Q24 CL: What useful function do derivatives serve? Why aren't derivatives illegal?

WB: CM may have more to comment.

CM: The usefulness of derivatives is overstated. We'd still have oats and wheat if we didn't have derivative markets. The test is not 'is there any benefit', but is the NET benefit or disadvantage useful or better without. My own view is that if we had only [exchange traded] [*Ed: another notetaker heard:* agriculture and metals] and banned the rest – the world would be better place.

WB: BNSF has diesel contracts. If I was running the place, I wouldn't hedge -unless you are smarter than market in diesel fuel. If you are you shouldn't be running a railroad, you should run a diesel trading business. If you have someone in charge of running that hedge, they will hedge it. If he thinks that will make him a better manager of railroads, then fine, let him do it, but I will hold CEO responsible for running it over time. I wouldn't condemn anyone for hedging diesel fuel. But I do think if you put up (slide4) – from Chapter 12 of Keynes General Theory – it is by far the best description of the way capital markets function. It is descriptive and prescriptive. Usually only the first two sentences are quoted, but it is better as a whole paragraph.

> *Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism – which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object.*

Wall Street is mix of casino and a very important social operation – and once academia got behind derivatives and schools taught more about how to price a derivative instead of valuing a business, the trouble began. In 1982 Wall Street allowed speculation in SP500 futures. I wrote letter to Congressman Dingle (Exhibit 5) which was published in Fortune Magazine. What I forecasted occurred then it got squared, with new ways to gamble.

CM: Warren wrote the only letter saying the idea is insane. Only difference is then not very many people listened to him.

WB: SP500 contract is taxed 60% long-term gain and 40% short term, even if you hold it for 60 seconds. Charlie do you know why this is?

CM: It is neither fair nor sensible. If someone with money and interest cares a lot and others are indifferent, that someone wins in front of the legislative bodies. As Bismarck said, don't watch sausage making or law making.

WB: Shows slide of the Protégé Partners 10yr bet, with Buffett current trailing Protégé. "Time for lunch!"

[*Lunch break*]

Q25: Whitney Tilson: How do we encourage public discussion of short ideas?

WB: There is nothing wrong with people speaking out as long as they are held responsible for statements they make. If there were two banks in town, I might hire 50 people to stand in front of other bank. You can do things on both sides which are unethical and illegal. Attacking perceived wisdom is never popular. People don't like that. Any institution will attack both the threat and the threatener. I have no problem with short selling or speaking out. Bad practices on both sides however, to spread untruth. But probably there have been more on long side.

CM: To some extent you are criticizing the wrong people, the accountants who allowed the bad accounting should be held in the dock. The accountants let this happen, and they get very little criticism, and that is a mistake.

Q26 BQ: Canada. At my local Dairy Queen, they don't accept Amex, and they still sell Pepsi. What about synergies?

WB: There are about 6000 dairy queen outlets. Company operated number 70. So 99% are franchised. At DQ we don't control what the franchisees do. Most franchisees serve Coke, the enlightened ones. [*laughter*] It is entirely their business. It seems other franchise operations have more control, but DQ goes back before McDonalds, before Burger King, before all of them, back to 1930s. Agreements were done on old rules – which have less control now than others. You should keep asking for Coke, and maybe you can cause them to see the light. Synergies come at the operational level. We don't tell them to do business with each other. The whole idea of Berkshire is that managers are responsible for their businesses and we don't tell them what to do.

CM: You [the questioner] have accurately described the way it is, and the interesting thing is that we like it that way. Warren and I would want that if we were a manager.

WB: There is some merit to it -- if you tell people to work together, they do so only grudgingly.

Q27: Vienna, Austria. If one day I apply as manager to Berkshire company, what should I work on now, and what should I do to become your successor?

WB: Probably shoot me! Managers of our subsidiaries hire their own people. I make no decisions about who gets hired. They are responsible. There is the occasional resignation. We've had only 10-12 of those over 25 yrs. We have 21 people total at headquarters.

CM: There is no indication that we would be particularly good at it [hiring] either.

WB: I wasn't going to mention that. But when you find someone outstanding, boy do they jump out! To advance generally in an organization, you want to think and work like you would if you were the owner of the place.

Q28 ARS: Tomer Malin: Re: Retained earnings. You now use 5yr rolling average, and pledge to distribute earnings that can't be effectively used. As at year end, average annual earnings in last 5yrs is $5900 per share vs. a $2500 gain in value. Are you considering a distribution? I think I know the answer, but wanted to ask.

WB: What I wrote in 1984 [in the owner's manual on this issue] was not well thought out. I pointed out that we would have flunked test in early 1970s (1974?). Every dollar left in business right now has about $1.30 of market value. Any time stock market went down a lot over 5 yrs, we still would have looked bad. And if stock market was going up, we would have looked good. I think still intellectually honest – not quite the John Kerry response when he once said "I voted for this before I voted against it." We will continue to measure ourselves against this test. If we don't meet it, we should go somewhere else.

CM: I like people who parse through a long document, find an error, and rub my nose in it, especially your error Warren.

Q29: Ohio. We need hope and jobs. Can you help?

WB: We will hire people when we have something for them to do. When BNSF carrying 173,000 loads per week (vs 150k before)., we need more people. In our carpet business we are still down 6,000 from peak, but there is no reason to hire people if you have nothing for them to do. Get someone in textile mill who is 55 yrs old, they speak Portuguese – it is hard to retrain them. If you believe in creative destruction, you better have a social safety net. We have a pretty good one in this country, a lot better than 30 yrs ago. It isn't going to go away. Society owes some minimal living standard to people looking for work. But I don't think Berkshire Hathaway should be the social safety net.

CM: If Berkshire tried to hire make-work jobs to raise hope, the net effect over time would be to reduce hope.

WB: I believe the same, but rather Charlie say it.

Q30 CL: Why is car insurance business not expanding globally? Why not China?

WB: We've known for a long time that there is no shortage of drivers around the world. In China and India, we can only own a 24.9% stake, so we'd rather have our managers work hard on 100% than 24.9%. We have gone from 2.5% to 8% market share in Geico. We don't think we can build those advantages in other markets in any reasonable time. I agree with Tony's decision that now and probably for a long time to come that there is so much opportunity here in the US that we aren't as interested in other places. Though we keep looking, and are well aware of possibilities. We didn't not go because we didn't know there were cars there.

Q31: I am from Beijing, China, studying at Kansas State. What is most important thing you learn from China [Ed. Note: maybe she said "from Charlie?"-- it was difficult to understand]?

CM: China has some very rare people in BYD. No other lesson is as important as that one.

WB: Sprite outsells Coke 2:1 in China. Amazing economy, growth will last a long time. In 1790, there were 4mil people in the US, and 290m in China. And there was very little growth in quality of living in China over those 200 years through 1990. They have major resources of land and minerals. Potential of Chinese is huge. Charlie and I are going over there at the end of September. They haven't taught me how to eat Chinese food.

CM: I always knew Chinese people had potential for huge and rapid progress. I could see in Chinese Americans. They came to America as coolies or slaves, and they rose so fast. I underrated how fast it could happen – they are setting record for advancement of human civilization.

Q32: Alabama. In the Annual Reports, look-through earnings, and unaudited financials, are no longer included. Why has it changed?

WB: On financials, we do break out four ways which we think makes it clear. We don't want to break out into 70 different groups. Too much information obfuscates. It is divided into regulated, insurance, and so on. Now look-through earnings – some of that I don't repeat every year. We try to run at 12k words, if you extend it too much… well, let's just say that no one has told me it is too short. Every other year I may break down operating and investment look-through earnings. I am writing it to my two sisters, very intelligent and interested people, but not familiar with all the lingo. I want them to understand how I am thinking about the business and by definition, how I think they should think about it. And to answer questions that I think would be in my mind.

CM: Details can change as facts change. Undistributed earnings of shares we own but don't control are much less important now than they used to be. They aren't more than 15% of reported earnings – they used to be much higher percentage. People understand Coca-Cola and Amex aren't included in earnings.

Q33: Indiana: What about Roth IRA conversions?

CM: I have an IRA which I am going to convert to a Roth IRA.

Q34 ARS: Are you still down on newspapers? Ipad and other e-reading technologies – will it end up with contraction in earnings retained by content provider or by distributor?

WB: When money at newspapers came from advertising – it was on average about 75%, they used to be only game in town, and what a difference that makes, when you aren't the only game in town. It is very tempting, without substantial circulation, but the math is tough – printing costs are high and distribution is tough. But I don't understand it, and I can't make an affirmative decision. [ABC] puts out Fast Facts, I look at circulation of many papers. In Buffalo we were down less than many places. SF Chronicle was down 20%, Dallas too – many people are dropping the paper. World has changed about the essential value of newspapers. Nothing looked more bullet proof than daily newspapers 40 years ago, and that has melted away. It is a form of news and entertainment that has lost its immediacy, it is not the essential place to get information. You looked for stocks and weather and sports – advertisers were there because it was best and only microphone. The problem is self-reinforcing, subscribers leave and advertisers leave too.

CM: Independent newspapers due to accidents of history became dominant in their towns. The world was better because they were strong, because they kept the government in check – they were called the fourth estate. We are losing something that we have no substitute for. I don't have the faintest idea what to do about it.

WB: Our newspaper hit 300k at peak on Sunday, and now down 100k. Philadelphia, was down 40k in a single year. The advertiser doesn't need you. Your ability to price evaporates. We met Lord Thompson who owned paper in Council Bluffs. We asked him, "Have you ever been there?" "I wouldn't dream of it" he said. We asked, "You seem to increase price every year. What can they do about it?" He replied "Nothing, I tell my US managers to price to make 40% pretax and above that it may be gouging.

CM: Politicians are not behaving better as newspapers are weakening. We are going to miss the newspapers' power.

Q35: There are a record number of 'value' investors here this year. Are there fewer $100 bills? Should I go to run a business instead of being a value fund manager?

WB: There will always $100 bills, but less at times. There are always conflicts. Asset gathering can be more important than asset managing. There will always be opportunities to outperform. People still make the same mistakes. Charlie has a company called the Daily Journal Company. I own 100 shares. I got their annual report, and in fiscal year 2009, they bought $15m of stock, and it is now worth $45m. They sat on cash for a long time, but opportunities come around. You have to be prepared to grab them. Definitely it is possible with moderate amounts of money. Charlie will be more pessimistic.

CM: Take the high road, it is far less crowded.

WB: "Those who take the high road in Washington are seldom bothered with traffic."

WB: Money management – it is easy to scale up. It would have been harder for me to work as a plant manager. I wouldn't want to become superintendent right about the time they are going to give me a gold watch.

Q36 CL: Muni bond defaults you described in 2008 -- they haven't materialized. Should investors worry about getting higher returns?

WB: Harrisburg PA defaulted on a bond recently. Harrisburg may get stuff worked out, but [Assured Guaranty] now paying interest. I think it is hard for federal government to turn away a state having fiscal difficulties. Not sure how to tell governor of State X you were going to stiff arm him after you supported GM. You worry about correlation and contagion in bond insurance. Most insurers have enormous obligations based on their capital. I think they have had a very optimistic attitude. I thought I was getting paid fairly 1.5yrs ago, but not now. So we'll let someone else do it.

CM: I would try to invest in places that were prosperous and disciplined. As Ben Franklin said, it is hard to hold an empty sack upright, and integrity matters.

WB: Taxpayers in disciplined areas won't put up with it all.

CM: Bad behavior is contagious. I would rather be with the disciplined.

Q37: Florida. In 2008 you highly recommended buying US stocks. What is your opinion on market going forward? What is reasonable rate of return?

WB: I write articles on general level of market itself rarely, only 4 or 5 times in forty years. It turned out I was pretty premature in Oct 2008. But I felt it would be way better to own bonds or cash. I thought I would be eventually alright. I have no idea what the stock market will do this week or next year. I do think I'd rather own equities than cash or 20yr bond over the long term. This is partly because I am unenthusiastic on alternatives. I think there will be a modest positive real return over time.

CM: Equities are best of a bad lot of available opportunities. I think you are right, and people should get used to ordinary real returns – not exciting.

WB: We like owning businesses. They do beat holding cash or 5, 10 or 20yr bonds.

Q38 ARS: Ratings agencies. Moody's stake is being sold, has the investment case changed?

WB: We won't discuss what we will or won't do with our securities. Agencies have a wonderful business. Good pricing power, no capital required. People will need ratings agencies. They succumbed to same mania that infected everyone – it is hard to think contrary to the crowd. They couldn't see a world where residential housing countrywide could collapse. Incentive may have been bad, but also it is just difficult to think contrary to the crowd. If structure doesn't change, it is a pretty darn good business. You can't shop pricing. We however have never paid any attention to ratings. If we can't do it ourselves, we don't do it.   If model doesn't change, it's a good business.

CM: Ratings agencies in present form and present incentives have been a wonderful influence for many decades. Cognition faltered, and drifted with stupidity of the times. Part of it was asininity of American business education, their over-belief in models. I haven't heard a single apology for their huge contribution to our present difficulties.

Q39: San Francisco. You speak frequently about future prosperity. How about oil – when it runs out. Isn't it like trying to satisfy a drug addict with Coca-Cola?

WB: Titusville 1853 changed the world. There are 500k producing wells in the US. It contributed to the prosperity of the world. The world will not be dependent on that windfall for next 100 yrs. There will be other free lunches available, whether it be solar or other. Don't give up on humans' ability to innovate to face problems that seemed insoluble. We haven't really started. If you could a point in time to be born, I would pick today. CM will give you something more dire.

CM: 150 yrs ago they needed the oil to get ahead. We can get ahead without the oil if we have to, we are advanced civilization. We need gas, coal and oil for chemical feedstock, not warmth or motor vehicles. Freeman Dyson has pointed out that we could go off oil. It doesn't mean because we couldn't do it before that we can't do it in future. If it doesn't bother Freeman Dyson, it shouldn't bother you too much.

WB: He's always pulling that one on me too. [*laughter*]

Q40 BQ: Kraft, how would you grade Kraft board and compensation. CEO's $23m?

WB: I didn't like the Cadbury or pizza deals. We've made our share of dumb deals at Berkshire. But even though the odds are that is dumb -- doesn't mean it will be dumb. We get mad when other people do dumb things with our money. Sold $3.7b pizza business, and the other guy paid that, but Kraft received $2.4b net of tax. Pizza was earning $280m pretax in prior year. In 2009 it earned $340m pretax for sales that were growing faster. They didn't get a great price. Cadbury is growing slowly. Karft quoted last year's earnings for pizza and next year's earnings for Cadbury. Giving up $340m pretax with sales growing faster than Cadbury was particularly dumb when Kraft had already shown they understood how to do an efficient deal like Post Cereals. I don't do that [speak up] too often, but we owned a lot of it. I wanted to stick with pizza and skip Cadbury. Present price for Kraft is still well below the price the constituent pieces like Koolaid, Jello, and Oscar Meyer brands would sell for independently, particularly if valued the way Kraft valued Cadbury. I didn't like them paying so much to buy Cadbury. In terms of compensation, we have a system which is rational. Many companies have different compensation systems. [*laughter*]

CM: People at the top of a business, they think they are smarter about strategy. They often tire of the fierce competitors in the business they are in and dream of something else, where [competition is imagined to be less] – so they want to do a deal.

WB: And they will have lawyers, consultants, investment banks and others in who get paid for deals, telling them to do a deal.

CM: We have avoided a slight subset of stupidities, and they are important.

Q41: Germany. Does management love what they do, or the money? How do prices change management?

CM: The crisis was started by lack of integrity. Fortunately some of them are now gone. Pope Urban said it about Cardinal Richelieu – if there is a god, Cardinal Richelieu has much to answer for. But if there is no God, he's done rather well. Integrity is important. But everyone mouths the integrity even when it is lacking. Professing it is not same as doing it.

WB: Everyone else doing it is the problem. In 1993 stock options were going to be expensed. Accounting standards board backed off, and Senate voted 88-9 in support. Accounting Standards Board suggested doing it one of 2 ways, with first way preferred (expensing options through income statement). 498 companies chose #2. 2 companies took the preferred way. I spoke to many CEOs, and they said "I can't do it, because the other guy isn't doing it. I would be penalizing my shareholders if I report less than I can earn." Situational ethics problem is huge. A study showed how rare it is to find a 4 in the third digit of EPS. Many find that 1/10 of a cent to round it up. We try to find ways to avoid inducing that behavior. There is no Berkshire budget. Many subsidiaries use them. But if they submit to me, temptation is to fudge to match it in some way. If others thought others were doing it, they would do it. You want structures that eliminate bad behavior, that minimize human weakness.

CM: So much of bad behavior comes not from malevolence, but from the subconscious justification of poor decisions as being just part of the system. Best cure is that people that make the decisions bear the consequences. No one felt any responsibilities on Wall Street, for making bad loans sold on to someone else. It is deeply immoral to create systems like this. Who do you see apologizing for our recent mess? People think they did fine.

Q42 CL: Past market declines. This was an opportunity, but in thick of the action, I was too scared. We aren't totally out of the woods now. How did you assess this current opportunity?

WB: It wasn't the greatest. We have seen the edges when things are screaming cheap and sometimes they are overheated, but 90% of time we are in between. The business about being scared -- I don't know what you do about that. If you are scared when others are, you won't make money in securities. If you didn't look at quotations, wouldn't that be better? Farm or apartment, you don't look at quotes. We love it when stocks go down, we buy more. Ben Graham wrote about it, but if you can't get yourself in that mental attitude. If you get courageous when others tell you to be then you will get scared when others tell you to be… you'll be a broker's friend.

CM: I developed more courage when I discovered I could handle hardship. Maybe you should get your feet wet with a little more failure.

WB: How liquid is my farm? I'm not expecting prices to tell me what to do. There is a lot of interest in investing. What counts is buying a good business at a decent price and forgetting about it for a long, long time.

Q43: YouTube video re BYD and solar energy. Roofing companies, energy companies? Solar in these companies. Synergies?

CM: Solar solutions are coming because they are so obviously needed. I never pass on an opportunity to not put them in, because they will get cheaper.

WB: That's long term thinking!

CM: I have to think of long term. And I am going to miss you terribly when you're gone. It reminds me of the old quote, Husband: "Will you still love me if I lost all my money?" Wife: "I will always love you but I will miss you terribly." What would modern civilization do if we had no alternative to fossil fuels? Cities are choking on themselves. More renewable energy is the answer. It is a stunningly stupid idea to grow corn with fossil water and fossil fuel. I am enormously optimistic about the new energy grid, and we will be way better for it. It is not all that important if solar power costs twice as much as we are used to – it is a blip in the economic future. Immediate business decisions, frequently the right answer is counterintuitive. Wait, they will get cheaper.

WB: I have nothing to add. [*laughter*]

Q44 BQ: My husband believes price of your stock will do well, because of all your smart purchases last year. I'm not so sure. What percentage of portfolio represented by those stock purchases in the crisis last year?

WB: The degree of undervaluation in our portfolio is not great. I regard our portfolio as reasonably valued, we have a lot of good businesses, and we don't waste a lot of money at the top.

CM: I can't solve the domestic problem, but in my own day I simply accepted the other point of view.

Q45: I hear a sense of reserve today. Increased regulation, debt, reduce expectation of investment returns. But children will live better? Can you explain your optimism?

CM: Having solutions to the main technical problems of civilization which are energy related, they are on the horizon. That is not a small benefit, it is a huge benefit. I am optimistic about the culture that pervades in Berkshire. I have pleasure to see people rise through hard work – rising rapidly in China and India. There are problems. But it is much easier to be happy when expectations are lower. I am optimistic, and if I can be optimistic when I am nearly dead, surely the rest of you can handle a little inflation! [*laughter*]

WB: I really have nothing to add to that. [*laughter*]

Q46 ARS: American public benefits from media exposure, is it good for shareholders?

WB: Probably not. But there are a lot of things I do that aren't. I play 12 hrs of bridge a week, and that isn't good for shareholders either! If you want a record of things, I would much rather have a record on Charlie Rose where people can go back to it. I like the idea of being judged by my own words, rather than someone trying to write a few words and summarizing me. That versus a one hour interview where reporter is shopping for a few quotes to fit – I prefer TV. I like the accuracy of the reporting. Best of use of time? It works fine. One story however, because TV isn't perfect – you have to be careful on a broadcast. Charlie Rose did interview and taped me on Friday morning. During tape they were showing great railroad scenes, including a montage of railroad movies with Marilyn Monroe in Some Like It Hot and Grace Kelly. Then he asked me some question – and I said I would have paid more [for BNSF] if they included Marilyn Monroe and Grace Kelly. But the recording ran 106 minutes and they took out the montage of Grace Kelly and Marilyn – but left in my response -- it looked like I had come up with this out of the blue!

Q47: Thanks for meetings. Berkshire has best and most loyal investors. How do you attract and retain a shareholder base when same tendencies produce fleet footed shareholders elsewhere?

WB: If you are running public company, you can have Osama Bin Laden and the Pope as shareholders. You don't elect them, they elect you. If you want shareholder body to be in synch with you, you have to let them know exactly what kind of institution you plan to run. To some it says come in, to others it says stay out. Phil Fischer once wrote – restaurant says French food, and inside serves French food – all good. You can't have hamburgers on the sign outside and French food inside. That's when you run into trouble. We want people who think like we do. If you think earnings qtr on qtr are important, you will be disappointed. We try to advertise what we are, and we try to deliver. We think we have best shareholders that want to buy the business and partner with us and we'll treat them like partners. In turn they give us comfort.

CM: Warren and I started managing money for family and friends. Then we morphed into a public company. That is how we treat them still. That is not put on, that is what we do. Many shareholders are hostile force putting undue pressure on managers. We stayed with it, and we got into this by accident.

WB: We also did not have investor relations department. It is ridiculous, to cater to expectations of people which you can't do. Someone will own your shares in the end, they won't be unowned. Get the ones who will be in synch. Tell them accurately.

CM: We shouldn't be as critical of people who came up a different way.

WB: We'll give up being critical for 5-10minutes then. *[laughter]*

Q48 CL: Low interest rates?

WB: Very difficult for many with such low rates. People talk about easy money, but it's not easy on the people who have money. If you invested at these rates when Columbus landed, and didn't pay taxes, you'd have doubled your money by now! It won't go on forever, but I'm very sympathetic with people living on a fixed income. Purchasing power is getting eaten away. This will end at some point. I would not want to be Chairman of the Fed. It won't work forever to run big budget deficits and have easy monetary policy. When we run into trouble the blame doesn't go to the Fed, it goes to Congress.

CM: In some sense, the reality of our situation is depressing, stocks are up because running fixed income returns are so lousy. But if it does last, we won't like it – just like Japanese. We will be mired in stagnation. This is a very easy message. [*laughter*]

WB: The pressure of extremely low rates can't be underestimated. Afraid of everything else, pressure to put other prices back up will be enormous as fear gets resolved. You shouldn't underestimate the degree to which the last year of stock prices is result of agony of very low interest rates. We have seen a lot of that, and we'll see what happens when rates go up.

Q49. Kansas. 1999 investor, unfortunately I learned buy and hold the hard way and don't fret about price fluctuations and margin of safety. I got my feet wet with failure early.

CM: Join the club.

Q cont: Seems like it boils down to simple things, valuing business, and margin of safety.

WB: Very very good question. I started out not knowing anything about valuing companies. Ben Graham taught me a way to value certain type of business, but the selection of available companies dried up. Charlie taught me about durable competitive advantage. Not how big circle of competence is, but knowing where the edges are is most important. Think about businesses in your own home town. Ask questions about the businesses. Which do you want to buy into, which are hard to compete with, talk about businesses with people. What is working, what is not? You have to ask. Remember margin of safety. Recognizing limitations is most important. 6-7yrs ago I looked at Korean stocks, and I could see a number of businesses that met margin of safety. I bought 20 and diversified.

CM: Obviously if you want to get good at something which is competitive, you have to think about it and practice a lot. You have to keep learning because world keeps changing and competitors keep learning. You have to go to bed wiser than you got up. As you try to master what you are trying to do – people who do that almost never fail utterly. Very few have ever failed with that approach. You may rise slowly, but you are sure to rise.

WB: When did you start valuing businesses?

CM: I never took a business class, except accounting. When I was a boy, there was a man who came to the club every day at 1030am. I asked my dad about him – he had such a good life! My Dad said, "He gathers up and renders dead horses." I learned from that. Many businesses are sold under distress. Life is hard to get near top, and hard to hold position once attainted. I think you could predict that Kiewits would win, they cared more. I would not have bet on anyone else. Half Dutch half German – and that is coming from me, I'm named Munger. I was automatically doing it – what was working and what wasn't. If you have that temperament, you will gradually learn. If you don't have that temperament, I can't help you.

WB: Avoiding the dumb things is the most important. Learn more, know limitations, avoid the dumb things. Charlie often thought about his client's business. He was incapable of thinking about a business without noticing the fundamental economics.

CM: I had a client who sold a Caterpillar dealership business for a crazy price to an oil business. The oil business had consultants and a concept and a strategy!

Q50 BQ: Which of your businesses has the best returns on capital? How important is the capital in a business, which businesses have best returns?

WB: You could run Coca-Cola with no capital. There are a number of businesses that operate on negative capital. Great magazines operate with negative capital. Subscriptions are paid upfront, they have limited fixed investments. There are certain businesses like this. Blue Chip Stamps - it got float ahead of time. There are a lot of great businesses. Apple doesn't need very much capital. See's needs little capital but it can't get that large -- we can't get people eating 10 lbs of boxed chocolate every day. Great consumer businesses need relatively little capital. Where people pay you in advance (magazines, insurance), you are using your customers' capital. But the rest of the world knows this and they get expensive. It can be competitive to buy them. Business Wire – it doesn't require capital. Many service businesses require little capital. When successful, they can be something.

CM: Nothing to add, the formula never changes.

WB: If you could own one business in the world, what would it be?

CM: You and I got in trouble many decades ago for this, naming the most fabulous business. High pricing power, a monopoly – we don't want to name it publicly!

Q51: Glenn Tongue – What is your outlook on more M&A? Is the phone ringing?

WB: Hurdle now is $75m or 100m pretax, so not many calls, if we get a three or four calls a year, that is good. We are as interested as ever. We wrote a big check and shares for BNSF. I would love it if Monday morning a deal came in.

CM: Amazing we have been as successful as we have. It is human revulsion which drives this, they don't want to sell to another place which is fee driven. We have a screening device protecting us from wrong sort of people. We get offered things from people who wouldn't sell to anyone else.

WB: When I heard from ISCAR – I had never heard of them before. They wanted to sell to Berkshire or nobody. Another business we own, the competitor wanted to buy them– to dismantle something he spent 30 yrs building. It was probably worth more to the competitor. The other option was a leveraged buyout firm (they call them private equity now) and he didn't want his place as a piece of meat to be resold. I don't come to you because you are attractive but you are the only one left! They want a permanent home. Periodically that comes up – we are logical place. We are ready to act when it happens. If it is a $10bil deal I'll do it.

CM: It isn't over. It may be slower, but it isn't over – and not so bad since we are all so much richer than the earlier days.

Q52 ARS – What questions don't you get asked, that should be?

WB: Last year we improved quality of the questions, and many commented on it – so we kept it. I'm turning that one over to Charlie.

CM: I don't have a comment about things that should be done differently. I think it is quite interesting that we got into BYD. It is surfing along on the developing edge of new technology. We have bragged about avoiding that, yet here we are. We have shown capability for learning. I think BYD will work out very well. I think it will give pleasure to shareholders, and I think they will solve significant problems of the world. BYD – company tries harder, and is more self-disciplined. It is a pleasure to associate with those types of people, and we have found our own kind except they are better. We wouldn't have felt comfortable with a bright young man with an idea.

WB: No way.

CM: They had accomplished things which seemed impossible, but that they had done them. We wouldn't have gone in with a VC deal in the past. That won't the be last unusual thing we do. And I think we will succeed. BNSF we did – though even when we did it we knew it would be better for their shareholders than for ours, but we also thought good for our shareholders. We thought satisfactory for us. Middlewestern culture, constantly improving the place – we are getting a fair amount engineering in Berkshire – and we hope you people are happy with where we are going.

WB: Can you keep using all the capital you are generating for a long time? There comes a point where it gets too hard. In 10-12 yrs, capital accumulated and generation of capital will make it hard to generate more than $1 for a dollar. We have thought that however for a long time and we've gone farther than we thought we would – but there is a limit. There will come a time when we can not intelligently use 100% of the capital we generate internally. Then we will do whatever is best for shareholders.

CM: I think we will get into Berkshire on the investment side people who have some promise of being decent approximations of Warren, with some abilities Warren lacks. We will get people in on the investment side sooner than many think. [*Editorial note: my bet is that he is alluding to a female money manager*]

Q53: I am starting a business, and I want it to be successful. Aristotle, when asked definition of wealth, said it is he who spends less than he earns.

WB: I predict you are going to build one. If you start with that principle you enunciated, and there are similar principles. There is nothing like following your passion. Managers -- some went to business school, some didn't. The common factor is they love what they do. You have to find that in life. It was dumb luck my Dad was in securities business. I got entranced with that. If you find something that turns you on, you'll do well in it. There isn't that much competition. There won't be many that run faster than you in the race you ELECT to run. If you haven't found it yet, keep looking. We had 70 managers, and some didn't go to high school. Mrs B didn't do a day of school in her life. NFM is 78 acres, 400m of sales, largest furniture store in USA, with $500 of capital paid in. She couldn't read or write and never went to school a day in her life. In her 90's she invited me over to her house for dinner, which was very unusual. The couches and tables in her house - they all had price tags – it made her feel at home! "The power that lies within you is new in nature." Emerson. Find your passion and don't let anything stop you.

Q54: Many things you and Charlie do are opposite from what many do and expect. Not a lot of compensation. Grown very fast. Do not like sushi. [WB: That's the key] What is fundamental reason – there appears a central philosophy, but where is the beef? What is central theory, your unified principle?

WB: In ten words or less. [*laughter*]

CM: Pragmatism. Partly we do it in our different ways because it suits us, and partly because it works better. It is just that simple. We've had enough good sense when something working well, keep doing it. The fundamental algorithm of life: repeat what works.

Q55: Barrington, IL. The meeting has been great, and we appreciate all the work your team puts in.

WB: Everyone at home office (21 people) work on this, including our CFO. We don't have a department for this. Very rare for market cap of $200bil.

Q cont: Rail business – does our country need high speed passenger rail? Private or public?

WB: By its nature, it is non-economic when competing with auto and air. We don't have point to point density to produce economic return. If it gets done, unless heavily subsidized, it won't meet test for private economics.

CM: I know little, but I am at least as dubious as you are. It would be competing with a system that works. The cost of a high speed rail in a densely populated place is enormous – a bottomless pit of cost and trouble in LA.

WB: If it is high speed, it can't stop very often. It can't spoke easily. They are considering a trolley system in Omaha – it will cost several hundred million dollars, and revenues are something like $400k, not including operating expenses. The math gets to be staggering. Money is from federal government so costs are shared, and it was done in Buffalo – and costs are huge – it would be cheaper for society as a whole to give everyone a cab ride. It is tough in a country of 3mil square miles. It is hard to make math work. If it becomes a huge project of government, then maybe it will work. But it won't happen with money that wants a return.

Q56 BQ: What would be impact on portfolio of a Chilean size earthquake in LA or SFO?

WB: Fire following SFO quake was major cause of damage. In the industry they call it shake and bake – how much shake and how much bake? We think hard to get over $100bil. Big quakes in Pacific Northwest – possibility of high quake, new Madrid Missouri was well over 8 scale. I tend to think, when I think about quake exposure, I think $100bil. Northbridge caused more damage than San Francisco. Berkshire is totally prepared. I think in terms of $250bil worst case. And my guess is that Berkshire would still have positive earnings of some substantial amount in that case.

CM: A lot of fire in SFO in 1906 caused the damage, a lot of damage in an earthquake is uninsured. Earthquake insurance is not universal like fire insurance. Recent quakes didn't cause much fire. Fire or wind catch people worse than earthquakes. Chile I think 40% of cost was tsunami, and 60% quake.

WB: We have so much earning power outside insurance business. We have 3-4% of all earthquake insurance on $250bil, or $10bil dollars, and our pretax earnings are more than that. Everyone else gasping, and we'll be okay.

Q57: Arkansas. Thanks for your integrity dealing directly with shareholders. We saw credit crisis and gross overuse of credit. What is our exposure on global financial meltdown. $8bil on the states you mentioned earlier, etc etc. Could we get AIG situation?

WB: Assuming a full meltdown, we would be hurt badly. But we bet government could solve panic. In 2008 many thought yes they could, but would they? Or would it get muddled up in Congress? We went all in, and government succeeded. If we talk about a massive nuclear attack, who knows. But if we have something huge, it won't be because of our insurance business. Berkshire can withstand it. There could be situation where world might paralyze. Government now better understands the situation however. They did move quickly. Things will work in the US unless the system is destroyed. Land doesn't go away, people don't get less innovative, the productive resources are still here. We don't see that happening. Things do correlate on the downside, but we are built to withstand.

CM: I'm not worried about it.

WB: Huge amounts of debt won't do us in.

[End of Meeting]

Editors Notes:

1) *Reinforcing the fact that these notes should not be relied upon, they don't contain the quote attributed in WSJ 5/2/2010 to CM regarding a tiger and tiger keeper– I didn't hear this line. WSJ: "When the tiger gets out and starts creating damage, it's insane to blame the tiger, it's the idiot tiger keeper."*
2) *Edits were made to mine with reference to notes by Patrick Quinn, Roger Farley, Rick Schmidt.*

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