Annual General Meeting

Company Participants

- Charlie Munger, Vice Chairman
- Greg Abel, Chairman and CEO of Berkshire Hathaway Energy
- Unidentified Speaker
- Warren E. Buffett, Chairman, President & Chief Executive Officer

Other Participants

- Analyst
- Andrew Ross Sorkin
- Carol Loomis
- Greg Warren
- Jay Gelb
- Jonathan Brandt

Presentation

Warren E. Buffett {BIO 1387055 <GO>}

Good morning. Before we start, there are two very special guests that I'd like to introduce, have stand up.

The first, even though he was on tour, he took a quick detour to Omaha to be here today. And will my friend, Paul Anka, please stand up. Paul?

With all the talk that had been around about my succession, I thought it was probably a good idea to try and hook up with someone famous that might give me a shot at a second career here. So we're available for weddings and funerals and bar mitzvahs.

We actually had one offer the other day. I thought it was kind of insulting. They offered $1,000. And, I mean, for me and Paul, that really seemed a little ridiculous. I told the people that and they said, "Okay. We'll make it $10,000 if just Paul comes."

Now we have one other very special guest. This affair does not just happen by itself. And there's a young woman who had a baby, a young boy named Brady, in September. And she has marshaled together 400-plus of the people from our various companies and put on the show you're witnessing today.

And I just want to say a special thanks to the woman we all love, and especially me, Carrie Sova. Carrie? Please stand up. There she is.

Okay. Now we get down to the minor players and we'll introduce the Board of Directors. We're going to have the -- we'll have the Board meeting or the shareholders meeting, I should say, after the Q&A, which will end at 3:30. And then we'll recess for 15 minutes. And at 3:45, reinstitute the or begin the shareholders meeting.

But for those of you who won't be around at 3:45, I'd like you to have a chance to meet the directors now. So I will introduce them one at a time and ask them to stand. Hard as it may be, withhold your applause until they're all finished standing, and then you can go crazy.

So, doing it alphabetically, and if you'll stand as I give your name. Howard Buffett, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guyman, Don Keough, my partner Charlie Munger, Tom Murphy, Ron Olson, Walter Scott, and Meryl Witmer. And that is the board of directors at Berkshire.

We have just a couple of slides and then we'll move right into the questioning, which will go on until roughly at noon. We'll take a break at noon and come back about 1:00, and then we'll continue till 3:30, at which point we'll adjourn and then have the annual meeting at 3:45.

But, there are just a couple slides. We released our earnings yesterday. And I've always emphasized -- we try to release our earnings always after the market's closed, and preferably, after the market's closed on a Friday, so that people will have a full weekend to digest the information, because there's a lot of information about Berkshire every quarter. And it's contained, primarily, in a 10-Q that we make available for you to read over the full weekend. So we always urge you not to just look at the summary figures but take a look at the 10-Q. It's great reading. And absorb all that by Monday morning.

But here we have the summary for the first quarter. And as you can see, our operating earnings were down a bit. And that was more than accounted for in insurance underwriting. And you should understand that insurance underwriting from quarter to quarter really doesn't mean that much.

For one thing, it can be quite affected by changes in foreign exchange, which really don't have anything to do with our insurance business. But -- or at least in the reality of interim results. Our insurance business now has a float of $77 billion. And that $77 billion is ours to invest. And whether it costs us anything or not is determined by whether we have an underwriting profit.

So even though our underwriting profit in the first quarter was quite satisfactory, but nevertheless down from the first quarter of last year, the insurance business is marvelous for us. And if we even break even, that $77 billion, which is subtracted from net worth, I mean, it's a liability on the balance sheet, but if it's cost free, it really does us about as much good as net worth itself does. So it's a very remarkable business. And frankly, if we average an underwriting profit over the years, I'll be very happy and you should be very happy with what our insurance business does for us.

But it was down in the first quarter. And, like I said, that more than accounted for the decline in earnings. We always advise you to pay little -- pay no attention, really -- to quarterly or even annual realized gains or losses in securities because we make no attempt to time the sales of securities to produce earnings in any given quarter. We just try to manage the money as well as we can. And we let the chips fall where they may, in terms of whether those actions produce gains or losses in the short term. We hope that they produce a lot of gains over the longer term, and they have. But they should be ignored in attempting to interpret our shorter-term earnings.

With that, I would like to give you a little preview of a vote that has taken place and which we will talk more about when we get the shareholders meeting. But it's so remarkable, that I wanted to put it up for all of you to look at now.

As you know, we had a shareholder resolution. Yes, it's up there. We had a shareholder resolution, rather elegantly stated, that suggested that we pay a dividend. And with the sort of subliminal suggestion that we weren't paying it because I was so rich that I could live in this grand style to which I've become accustomed, without a dividend, but that the shareholders were out there essentially bereft of the necessities of life because we were holding all the money here in Omaha.

So this gentleman put this on the ballot. And if we'll go to the next slide, you'll see some remarkable figures. Bear in mind that, you people get these proxies at your home or at your office. And you can mark anything you want. We hire no proxy solicitation firms. So we are making no calls. We make no attempt to influence how anybody votes. We just count them as they come in.

And as you'll see at the top, among the Class A shares, the vote was roughly 90-plus-to-one, against the dividend. But you might suspect that I stuffed the ballot box, which I did. And so I took my vote out. And you'll see down below, the vote was a little less than 40-to-one among the untainted shareholders of A against receiving a dividend. And then you may say to yourself, "Well, those are Warren and his rich friends, all the plutocrats. And easy for them to say."

So let's go onto the next slide. And you will see there that among the B shareholders -- and we believe we may have as many as a million B shareholders. We don't know the exact number. We don't even know an approximate number very well. But it's not a bad guess that we have a million or so shareholders. And remarkably, by a vote of 45-to-one -- these are people -- we're not making any phone calls to get their vote or anything -- by 45-to-one, our shareholders said, "Don't pay us a dividend."

I'm not sure that there's any company in the world that would get quite that vote. And now you go to one more slide and that'll be the end. But this is the rather disturbing part of that vote.

If you go to the next page, you'll see again, among the B shareholders, that -- I've got that same vote up there, and if you look down below, you will notice that almost the same number of people voted against, or withheld their vote for me, as voted for having a dividend.

So from that you can only deduce that if the shareholders are ever forced with the choice -- or I should say, if the directors are ever forced with the choice of paying a dividend or getting rid of me, it's a close vote. So you can see why I'm rather reluctant to bring up the dividend question with the directors.

The vote, actually, up until two days earlier, before these final figures, the vote was actually just virtually a dead heat. The number of people that wanted to have a dividend and the number of people that wanted me to get out of the place were running neck in neck. So it -- again, it's a rather unusual voting arrangement.

Well, with that, we're going to do the questioning, as we always do. We have journalists on this side. We have financial analysts on this side. And we've got a wonderful group of shareholders in the audience. So we're going to alternate among these groups. And we will keep doing that until noon. And then we'll pick up where we left off at 1 o'clock, then continue doing it. And we will start off with Carol Loomis of Fortune Magazine.

Questions And Answers

A - Warren E. Buffett {BIO 1387055 <GO>}

(Question And Answer)

Q - Carol Loomis {BIO 7137249 <GO>}

Good morning. I'll make my two or three sentence introductory remarks. First, Becky and Andrew and I get hundreds, if not thousands, of questions, and we can only ask a few. So if we didn't get to your question, please excuse us.

Secondly, Warren and Charlie got no hint of what we were going to ask, though they read the news like we do, and that may explain that they would sometimes get a thought about what they were going to get asked. And that will explain my first question.

The question is from Will Elridge [ph] of New York City. And he says, Mr.Buffett, this is a question about Berkshire's holdings in Coca-Cola. This spring, Coke asked shareholders to approve a magnanimous stock option program for its executives. Asked about it by the press after the vote, you said the program was excessive. Yet, you did not tell the world prior to the Coke shareholders meeting that you believed the program to be excessive, a disclosure that, had it been made earlier, might've made shareholders vote against it. And in fact, you did not vote Berkshire's shares against the plan. You only abstained in the voting. I guess you had your reasons. I must say, I don't expect to agree with them. And I cannot see how they can stand up under examination. But I still would like to know why you engaged in this very strange un-Buffett-like behavior. So why did you abstain rather than voting no against a corporate action that deserved to be shouted down?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, some people, incidentally, think that strange and un-Buffett-like are really not quite right. Strange is frequently Buffett-like. The proposal was made by a shareholder who'd owned shares for a long time and was opposed to the option program. His calculations -- and I probably should explain this in a minute -- but his calculations of the dilution were wildly off.

And we did not care to get into a discussion of that or anything else. But we did talk -- or I did talk -- to Muhtar Kent. And I informed him that we were going to abstain. I told him that we admired, enormously, the Coca-Cola Company. We admire the management. And we thought the compensation plan, although it was very similar to a great many plans, was excessive.

And Muhtar and I had a very good discussion right here in Omaha, as a matter of fact, as well as a couple of telephone discussions. And then immediately after the vote, I announced that we had abstained, and gave the reasons that we thought the plan was excessive.

And I think that in terms of having an effect on the Coca-Cola compensation practices, as well as maybe having an effect on some other compensation practices, that, that is the most effective -- was the most effective way of behaving for Berkshire. We made a very clear statement about the excessiveness of the plan. And at the same time, we, in no way, went to war with Coca-Cola. We have no desire to go to war with Coca-Cola.

And we did not endorse some calculations that were wildly inaccurate, and joined forces with someone that I had really no contact with him. I received several letters in the mail after they'd first been given to the press.

So I think you have to be -- I don't think going to war is a very good idea in most situations. And I think if you're going to join forces in going to war with somebody, you'd better be very sure about what that alliance might mean. So I think the best result for the Coca-Cola Company was achieved by our abstention. And we will see what happens in terms of compensation between now and the next meeting with Coke. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think you handled the whole situation very well.

A - Warren E. Buffett {BIO 1387055 <GO>}

And Charlie remains Vice Chairman. Charlie, incidentally, was the -- Charlie was the only one with whom I talked over the vote before -- or the abstention -- before I did it, I called Charlie and told him about the plan. And we agreed on the course of action.

I should point out one thing. And in fairness to David Winters who may -- who led the war, he took figures from the Coca-Cola proxy statement. So it's hard to fault him for that. But for those of you who would really -- would like to know how to think about calculating dilution, Coca-Cola has regularly repurchased the shares that are issued through options. And the share count has, thereby, come down just a small bit at Coca-Cola. Not anywhere near as much as if they hadn't issued as many shares, though, in repurchased shares.

But Coca-Cola has a plan that involves 500 million shares. And they say in the annual report that they expect to issue these over approximately four years. And then they have a further calculation between performance shares and option shares, but I'll leave that out. Make this a little simpler. And that's a lot of shares.

Let's assume for the moment that Coca-Cola's selling around $40 a share now, which it is. And that when -- and that all the options are issued at $40. And that the -- when they're exercised, we'll say the stock is $60. Now, at that point, there has been a $10 billion transfer of value. $20 a share times 500 million shares, a $10 billion transfer of value.

Now, the company, when that is done, gets a tax deduction -- and at the -- for $10 billion. And at the present tax rates, that would result in $3.5 billion less tax. So if you take $20 billion of proceeds from exercise of the options, and you add $3.5 billion of tax savings, the Coca-Cola Company receives $23.5 billion.

And if they should buy in the stock at $60 a share, which it would be selling for then, they would be able to buy 391,666,666 shares. So, in effect, the Coca-Cola Company, net, would be out a little over 108 million shares. And that's on a base of 4.4 billion. So the dilution -- assuming all the proceeds from the option exercise and the tax refund were used to buy shares, the dilution would be 108 million shares on 4.4 billion, or about 2.5%. And I don't like dilution and I don't like 2.5% dilution. But it's a far cry from the numbers that were getting tossed around.

It's a long explanation, but I've never seen the math written about. I mean I've seen people throwing out claims and all of that. And you can change my supposition from 55 -- 60 to 55 or 65. It doesn't change things very much.

Jon Brandt?

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi, Warren. Thanks again for having me back. My first question is as follows. Berkshire has a track record of buying successful companies and leaving them alone. 3G has a more hands-on strategy with its acquisition. Its zero-base budgeting would seem to offer the potential to improve margins at any non-insurance business.

Is there a way for Berkshire to use 3G's methods to boost profits without violating promises made to selling shareholders or breaking faith with Berkshire's decentralized culture? Would it be consistent with Berkshire's culture to hire a 3G alumnus to run a Berkshire subsidiary after an existing manager retired? Or alternatively, how hard would it be for a non-3G alumnus to learn and implement their management process? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I don't think the two blend very well. But I do think that we -- I think 3G does a magnificent job of running businesses. And I've watched them in the past from afar and I've watched them more recently up close. And there's no question that it's a different style than Berkshire. And I don't think it would pay to try and blend the two. But I certainly think that we will see more opportunities to partner with 3G. And we're very likely to jump at those opportunities, because I think they're as able as anybody I've seen in the management of businesses.

And to get a chance to join with them -- and in addition to that, they're marvelous partners. They're more than fair in everything they do with us. So we will, as I've put in the past, I think we're very likely to partner with them, perhaps in things that are very large. But I do not think a blending of the two would work very well. We've got a system, works very well for us.

And managers, when they join Berkshire, are joining into a large business that's unlike virtually any large business that's around. They really can't find a home exactly like Berkshire. And that's a huge corporate asset. It's one that's grown over time. It'll continue to grow. And we want to maintain that with a very clear message that it goes well beyond my lifetime. But we welcome the chance to join with 3G. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think we've ever had a policy that loved overstaffing.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I would only slightly disagree with that. We certainly never had a policy that allows for overstaffing at the home office. We only feel happy when people are sitting in other people's laps. I mean, you have to understand this. But the -- but we have not enforced, or attempted to enforce, nor would wish to enforce, a strong discipline on every subsidiary as to whether they have a few too many people or not. A great many don't. In fact, I mean, most of them are -- overwhelmingly, they're managed on a lean basis. But that's not true of everyone we've been involved in over the years. And it probably won't be true of everyone in the future. We encourage -- I mean, we encourage, just by example. But we do not encourage it by edict, particularly. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think a lot of great businesses spill a little just because they don't want to be fanatic. And that's all right. I don't think you have to have the last nickel out of the staffing cost.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. We'll go to the shareholder in station 1, up on my far right.

Q - Analyst

Yes, hello. My name is Doug Merrill. [ph] I'm from Denver, Colorado, the home of Peyton Manning.

A - Warren E. Buffett {BIO 1387055 <GO>}

Omaha, Omaha.

Q - Analyst

Awesome. The president's approval rating is at 40%. Steve Wynn said Obama is the biggest wet blanket to the economy. Other countries are lowering taxes and reducing debt. You have Obama's ear. The train's going in the wrong direction. Can you conduct Obama to change the train's direction?

A - Warren E. Buffett {BIO 1387055 <GO>}

Doug, I think I'll let you communicate with him directly. I don't agree with a number of things you've said there. American business is doing extraordinarily well. The -- many of the American people are not and I think Obamacare is more about doing something for them than many other people would. But we're going to have a difference of opinion on politics. And I'm not going to convince you, and you're not going to convince me. But I will say that anybody that thinks American business is doing -- is not doing well should just look at corporate profits.

Anybody that thinks our corporate taxes are too high should look at a chart of corporate taxes as a percentage of GDP since World War II, and it's come down from 4% of GDP to 2% of GDP, while many other forms of taxes have, obviously, increased.

And American business earnings on net tangible assets, which is the way to measure profitability overall, it's basically the envy of the world. I mean, we have extraordinary returns on tangible assets -- net tangible assets in this country. And our tax rates now for corporations are far lower than when Charlie and I were operating. And American business actually was doing pretty good then. But for much of our life, taxes were at -- corporate taxes were at either 52% or 48%.

But I don't want to try and convince you, because I don't want you to try and convince me. So we'll call a truce on that and I'll let Charlie comment.

A - Charlie Munger {BIO 1406508 <GO>}

I'm going to avoid this one.

A - Warren E. Buffett {BIO 1387055 <GO>}

And people complain about me abstaining. Okay, Becky Quick.

Q - Analyst

This question is from Manolo Salseda. [ph] And I'll preface it by saying he says that he is a true admirer of Buffett and what he stands for, so please don't confuse my bluntness and straightforwardness with a lack of admiration or empathy with this amazing person and his master creation. With that disclaimer --

A - Warren E. Buffett {BIO 1387055 <GO>}

But.

Q - Analyst

His question is, you've stated several times in the past that if management, you, wasn't capable of delivering a better return than the index, then management wasn't doing the job. Then you said that the yardstick should be any five-year period. You've just missed your five-year period comparison. How come you didn't tackle the issue in your annual shareholder letter? Are you changing the yardstick, and what's next?

A - Warren E. Buffett {BIO 1387055 <GO>}

No, we're not changing the yardstick. But I would point out that we said, actually, in the 2012 report, and it's in the upper half of the first page. We pointed out how we do worse in very strong years and better in poor years. And I said then, if the market continues to advance in 2013, our streak of five-year wins will end. I didn't say it might end, or could end, or anything. It was obvious that if you have five strong years in a row, we will not beat the S&P. And that will be true in the future, for sure.

And of course, last year was -- I think there were two years in the last 40 or so that the market was up more than it was last year. So despite the things mentioned about President Obama, the stock market seems to have done quite well. We will underperform in very strong up years. We'll probably, more or less, match in moderate up years. We'll do better than average in even years or down years.

And I have said, and I'll continue to say, and it's been true that over any cycle, we will -- I think we will overperform. But there's no guarantee on that. But it was clearly said. And like I said on the first page of the 2012 report that if the market went up, we would have a five-year streak of underperformance. And that's exactly what happened. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, we should remember that Warren's standard talks about net worth of Berkshire increasing, after full corporate taxes, at roughly 35%. And the indexes aren't paying any taxes. And so Warren has set a ridiculously tough standard and has so far met it over a long period of time. In the last couple of years, the net worth of Berkshire, after full corporation income taxes, went up about 60 --

A - Warren E. Buffett {BIO 1387055 <GO>}

Something like that, yes --

A - Charlie Munger {BIO 1406508 <GO>}

$60 billion --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Pre-tax, probably $90 billion in --

A - Charlie Munger {BIO 1406508 <GO>}

Yes. And so, if this is failure, I want more of it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Jay Gelb.

Q - Jay Gelb {BIO 21247396 <GO>}

Warren, this question is on Berkshire's intrinsic value. In the annual letter, you appear to strongly signal that Berkshire's shares are undervalued, especially relative to intrinsic value. Aside from share buybacks, what actions can Berkshire take to narrow the discount between the current share price and intrinsic value? For example, would you ever consider an IPO of Berkshire's individual operating units?

A - Warren E. Buffett {BIO 1387055 <GO>}

The answer to the last part is no. But the -- I think we try to explain -- my guess is I've never seen an annual report that uses the term intrinsic value or even talks about the intrinsic value of its units or business, as much as Berkshire does.

So, Charlie and I really devote considerable effort to explaining which of our businesses -- where there's really a significant discrepancy between what carrying value is, or book value -- call it carrying value and the true value, or the intrinsic value, of the business. And I got very specific in the case of GEICO in the past year, for example.

And I said that GEICO, which is carried at about 1 billion over tangible assets, may be worth as much as 20 billion over tangible assets. And I wouldn't be surprised if five years or ten years from now that, that figure itself will be a lot larger. So we've talked about it. We said we are willing to buy -- not only willing, but eager to buy stock at 120% of book value. Well, with book value being close to 230 billion now, that obviously means we think that at $45 billion, roughly, over that figure, we are getting a bargain, in relation to intrinsic value.

But we're never going to try and put out an exact number, because we don't know an exact number. And it's -- A, it changes from day to day. And -- although not a lot day to day, but certainly changes over the quarters and over the years. And the second reason is, if you ask Charlie and me to write down a figure as we sit here as to the intrinsic value of Berkshire, we'd probably be within 5% of each other. But we might very -- we probably would not be within 1% of each other.

And so we will continue to try to give shareholders information about the important units. It isn't -- the small ones are not unimportant to us, but they are -- they do not have a big impact on the overall intrinsic value. We've got a few businesses. I mean we have some businesses that may be carried at a few hundred million that might be worth a billion or maybe 2 billion, even. But that isn't where the big, undisclosed by the balance sheet, values are. They're in the railroad, they're in the insurance business, they're in our utility business.

And we -- they add up to some pretty big numbers. We try to tell you exactly the numbers and, really -- and use the words that we use when we're thinking about those businesses ourselves in terms of estimating their value. But we don't want to go further than that. The 120%, obviously, is a loud shoutout as to a figure that we think is very significantly below intrinsic value, or we wouldn't use it to repurchase shares. We only believe in repurchasing shares when we can do so at a significant discount from intrinsic value.

Some companies talk about -- Coca-Cola does. They talk about buying in shares to cover options. That actually isn't the best reason to buy in shares. I mean, the stock could be overpriced, and even though you issued on options, you shouldn't be buying it in. But that's become sort of a mantra throughout corporate America, that if you buy shares to cover the option exercises that you've negated the dilution to shareholders. But again, if you buy shares -- if you buy a dollar bill for $0.90, you're doing your shareholders a favor. And if you buy it for $1.10, you are doing them no favor at all. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't believe we've ever wanted to get the stock way over intrinsic value so that we can issue it to other people and get an advantage for ourselves and a disadvantage for them. And I think the people that want the stock up very close to intrinsic value, or higher, really want egg in their beer, it's okay if it's a little below.

And we're not in the game of ballooning our stock up as high as we can get it so we can issue it more at a profit to ourselves. I think over the long term, our system will work pretty well. And I think the stock will eventually go above intrinsic value, whether we like it or not.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. But we have -- we really watched a lot over the years of certain managers attempting to get their stock to sell for way more than it was worth, so they could use it to trade for other companies. I mean that was all the rage in the late '60s. One of the reasons that I wound up my partnership was that, that activity was going on so much and it affected all other values.

And it was really a game. And it was a game that some people played sort of halfway honestly, and other people really cheated like crazy. Because if you're trying to get your stock to be overpriced, you're very likely to cheat on your earnings and cheat on projections, cheat on everything. And it works, incidentally. It doesn't work indefinitely, but it works. Some companies, whose names you know, were, to some extent, built on that principle.

That's a game that we not only don't want to play, we really found it very distasteful, because we saw a lot of these people in action. And it comes in waves. And we just -- we don't want to come close to playing it.

Unless I'm careful, Charlie will name names, so we'd better move on to shareholders. Well, let's go to station number 2.

Q - Analyst

Hi, Mr.Buffett and Mr.Munger. My name is Masato Luso [ph] and I'm from Los Angeles, California. Berkshire is known to buy into whole companies for many, many years. But earlier in your careers, that was not known. And typically, acquisitions of other companies is very disruptive. Employees fear losing their jobs as a redundancy. And managers really have to think twice and be diligent about it. So my question is, what do you do to gain the trust of founders or owners of the companies you have bought out in the past?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we've kept our word to them. And now we have to be very careful about what we promise, because we can't promise, for example, never to have a layoff in a business we buy, because who knows what the world holds. But we can promise that we won't sell their business, for example, if it turns out to be disappointing, as long as it doesn't run into the prospect of continuing losses or having significant labor problems.

But we keep -- we are keeping certain businesses that you would not get a passing grade at business school on if you wrote down our reasons for keeping them. But the reason is, we made a promise. And we put that -- we not only make the promise, we put it in the back of the annual report now. We've done it for 30 years or so, where we list the economic principles. And we put it there because we believe it. But we put it there, also, so that the managers who sell us their -- the owners who sell us their business know they can count on it. And if we behave differently, the word would get around. And it should get around.

So we can make promises. We can't make promises we'll never change employment. We can't even make a promise that we'll keep a business forever. But we can promise what we do promise, which is that if it turns out to be somewhat disappointing on earnings, but does not promise, sort of, unending losses, or if we have labor problems, we can keep that promise. And we have kept that promise. We've only had to get rid of a few businesses, including our original textile business.

We promise the managers that they are going to continue to run their businesses. And believe me, if we didn't do it, the word would get around on that very quickly. But we've been doing it now for 49 years. And we've put ourselves in a class that is hard for other people to compete with, if that's important to the seller of a business. A private equity firm is going to be totally unimpressed by what's in the back of our annual report. They don't care. And that's -- there's nothing wrong with that. That's their business.

But for somebody that's built up their company over 20 or 30 or 40 years, and maybe their father or grandfather built it up even before that, some of those people care about where their businesses go. They're very rich, they've accomplished all kinds of things in life. And they don't want to build up something which somebody else tears apart very quickly, because they're handing it over to a few MBAs who want to show their stuff.

So we do have a unique -- close to a unique asset at Berkshire. And as long as we behave properly, we will maintain that asset. And really, no one else will have much luck in competing with us. But it doesn't solve all problems, but -- and it -- and frankly, it's the way we want to operate anyway. So it's -- we're comfortable with it. The sellers that do come to us that care about their businesses are comfortable with it. And I think it'll continue to work well. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, obviously, we behave the way we do, because we like doing it. And number two, it's worked pretty well and we're unlikely to stop. Okay?

A - Warren E. Buffett {BIO 1387055 <GO>}

You can tell that he doesn't get paid by the word. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Warren, this is a tough corporate governance question. I probably received about a dozen of them this week, some polite and some less polite. This --

A - Warren E. Buffett {BIO 1387055 <GO>}

Use one of the polite ones.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

This is probably one of the more polite ones. Your son Howard serves on the Board of Coke and voted to support its CEO pay package proposal, which you have said was excessive and you were against. You have said Howard will become non-executive chairman of Berkshire after you step down, as it's quote Protector of Culture, to uphold the morals that you and we all hold so dear. Given his role in the Coke vote, how can we count on Howard to defend the culture of Berkshire and ensure that the future management of Berkshire does not benefit at the expense of its shareholders?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, I think, as I mentioned in at least one interview, I voted for not -- I'm not referring to Coke here necessarily, but as a director of various companies, I not only voted for comp plans that were far from what I would've come up myself, but I voted for acquisitions that I didn't think make much sense. I voted against a few. And they attracted a lot of attention. But they were big ones, where I really think -- where I thought it really made a difference.

But the nature -- and this is something worth exploring, generally, because the nature of boards is such that they're part business organizations and part social organizations. And people behave in some ways with their business brain and they behave to some extent with their social brain. And I would say and I said this that in 55 years of being on corporate boards, and 19 companies aside from Berkshire, I don't think I've ever seen a comp committee report come in and get a dissenting vote. And the social reason for that is that the board organizes itself in a way whereby certain activities are delegated to a smaller portion of the board, one being a compensation committee.

And that committee presumably meets for a few hours the day before the meeting, or maybe the morning of the meeting. And then they go into a board meeting. And the comp committee reports on its activities. And you've delegated that activity, as a board member, to that group. It's almost unheard of to question that -- I'm not saying that maybe it shouldn't be questioned, but I'm just saying that, that is the way it works.

Now bear in mind that the so-called independent directors on such a board are probably receiving maybe $200,000 a year, maybe $300,000 a year. Believe me, they are not independent. They're independent as measured by some standards, perhaps, at the SEC, but they -- how would you feel about having a job that required you to go to work four or six times a year, pleasant company, certain amount of prestige attached with it, and on top of it, you get paid maybe $300,000 a year and you kind of hope to get another job like that. That is not independence.

So you get a group coming in like that from the comp committee. And in those 19 boards, I was put on the comp committee exactly once. Charlie might be able to tell you exactly what the result was that time. They do not look for Dobermans. They look for cocker spaniels. And then they make sure that the tails are wagging. But that is -- don't condemn it too much because you and I are doing similar things in other parts of our lives.

The social dynamics are important in board actions. My son Howard, in fact my other two children as well, if they were involved, they would have a dedication, and do have a dedication to the culture of Berkshire, which is clearly defined. It's one of the reasons I want it clearly defined. And it's reinforced by the behavior and it's reinforced by results.

And incidentally, their job would not be to set the compensation. I mean, the non-executive board chairman is not there to select the compensation of the CEO or others. He's not there to select the CEO. He is there to facilitate a change if the board of directors decides a change is needed. And that can be important. Very, very, very unlikely to be important in the case of Berkshire. But it's a nice, little, extra safety valve. And Howie is the perfect guy to carry that out.

And like I say, I voted for comp plans at various places, including way back, at Coke that were far from what I would've designed myself. And the ones I designed myself would have worked. But that is the way boards work. I was made chairman of one comp committee, and Charlie can tell you a little about that.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. Warren was totally voted down at Salomon Inc In fact, people acted like, what in the hell is he doing? How could he be disapproving compensation on Wall Street?

And I think the general idea that a person should just shout disapproval all day long of everything he disapproves of is very suspect. In the world in which we inhabit, people accomplish more if they pick their spots for public disapproval.

And knowing both Howie and Warren Buffett, I don't think you have to worry that they're going to go crazy or be soft and foolish, just because they don't shout all the time about everything they disapprove of. If we all did that, we wouldn't be able to hear each other.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. If you're in any social organization and you keep belching at the dinner table, you'll be eating in the kitchen before very long. And people won't pay any attention to you. I mean, you really have to -- you not only have to pick your spots, you have to pick how you do it.

I mean, you -- that could even be -- I mean, sure, Charlie gives the marital advice around here, as you noticed, in the movie, but it's not even a bad thought to keep in mind in marriage, I mean, in terms of attempting to change the behavior of others, which is -- you'll have a very limited ability to do, in any event. It's not helped by shouting a lot.

A - Charlie Munger {BIO 1406508 <GO>}

I offend more people than you do. And I'm quite satisfied with your level of disapproval.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Gregg Warren of Morningstar. Gregg, welcome.

Q - Greg Warren {BIO 4325523 <GO>}

Thank you. Warren and Charlie, on behalf of Morningstar, I want to thank you for having us on the panel this year. I may not be an accredited bear, but hopefully, I ask probing questions that add value for shareholders.

My first question relates to the measurement of management performance. For Morningstar, the ultimate measure of success is not just whether or not a firm can earn more than its cost of capital but whether or not it can do so for an extended period of time. Berkshire has historically done a good job of generating outsized returns. But as you've noted in the past, the sheer size of the firm's operations, which continue to grow, will ultimately limit the returns that Berkshire could generate.

With that in mind, what do you believe Berkshire's cost of capital is? How much do you think that this hurdle rate is increased as you've acquired more capital-intensive debt-heavy firms? And how much confidence do you have that future capital allocators at Berkshire will be able to generate returns in excess of the firm's cost of capital, acknowledging, of course, the fact that Berkshire's days of outsized returns are most likely behind it?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, there's no question that size is an anchor to performance. And we intend to prove that up to the point where it starts really biting. But it -- we cannot earn the returns on capital with well over 200 -- well, with a market cap of 300-plus billion. It just isn't doable. Archimedes, he said he could move the world if he had a long enough lever, didn't he, or something like that, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes, he did.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I wish I had his lever, because we don't have that lever at Berkshire. So we -- well, we'll answer two questions there. In terms of cost of capital, Charlie and I always figure that our cost of capital is the -- is what could be produced by our second best idea. And then our best idea has to exceed that. We think -- I have listened to so many nonsensical cost of capital discussions, that --

A - Charlie Munger {BIO 1406508 <GO>}

I've never heard an intelligent one.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. It's really true. I mean -- and that's another thing. I've been on boards and the CFO comes in and explains why we're doing this and it always gets down to, it exceeds our cost of capital. And he doesn't know what the hell his cost of capital is, and I don't know. And -- but I don't embarrass him. So I just sit there and listen to this stuff and apply my own thing, and then still end up voting for it, probably, if I don't like it, although there have been a few exceptions to that.

The real test, over time, is whether the capital we retain produces more than a dollar of market value as we go along. And if we keep putting billions in and those billions, in effect, are worth in terms of present value terms, in terms of what they add to the value of the business, more than what we're putting in, we'll keep doing it.

We bought a company a day before yesterday, I guess it was. And we are spending close to $3 billion U.S. It's a Canadian company. And we think we will be better off financially, because we did that and we thought it was the best thing that we could do with the $3 billion on that day. And those are the yardsticks that we have.

And what I do know is that I've never seen a CEO who wanted to do a deal where the CFO didn't come in and say it exceeded the cost of capital. It's just -- it's a game, as far as we're concerned. And we think we can evaluate businesses. And we know the capital we have available. And we have things that we can sell to buy. Not businesses, but marketable securities that we can sell to buy businesses if we like.

And we are constantly measuring that opportunity cost that Charlie talked about in the movie. It's an important subject. And one that I think has had more nonsense written about it than about anything. But I'll turn it over to Charlie to go over --

A - Charlie Munger {BIO 1406508 <GO>}

Well, a phrase like cost of capital, which means different things to different people, and often means silly things to people who teach in business schools, we just don't use it. Warren's definition of behaving in a corporation, so that every dollar retained tends to create more than a dollar of market value for the shareholders is probably the best way of describing cost of capital. That is not what they mean in business schools. The answer's perfectly simple. We're right and they're wrong.

A - Warren E. Buffett {BIO 1387055 <GO>}

I look good compared to him, don't I? Okay. Station 3.

Q - Analyst

Good morning. My name is Jonathan Fye [ph] and I'm from Denton, Texas, just up the road from the new Nebraska Furniture Mart that's going to be located in The Colony. My question relates to your original acquisition of that business from the Blumkin family in 1983. Based on the data you provided in this year's annual report, it appears you were able to purchase this business for roughly 85% of book value, or roughly 2 times earnings. Can you comment on the factors or the environment in Omaha that enabled you to purchase this wonderful business for such a wonderful price?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I wish we had bought it that cheap, Jonathan, but no -- we paid at the time, as I remember, probably 11 or 12 times after-tax earnings. It was not a discount from book value. I'm not sure where those numbers -- well, we bought 80% of the company. It was bought on the basis, as I remember, of $60 million of purchase price. So we -- actually there was a second transaction involved in it. But $60 million was 100% value. We ended up with 80%.

The $60 million would've been more than book at the time. Not way more, but more than book. And it would've been a multiple of 11 or 12 times earnings, as I remember. Sales were about 100 million. Pre-tax margins were in the 7% range. So it was about 7 million pre-tax. And 4.5 million probably after-tax. That's ballpark.

So it was not a bargain purchase. It was a great business. It was a wonderful opportunity to join as fine a family as I've ever met. But it was -- and incidentally, there was another company, I believe, from Germany, that was trying to buy it at the time. And believe it or not, Erskine Bowles of Simpson-Bowles was representing them, my friend Erskine. I didn't know this at the time. And then I went out on my birthday, August 30, 1983. And had that contract, which is in the annual report. And I gave it to Mrs.B. And she didn't read, but Louie, her son, told her what was in it.

And I never asked her for an audit. I just asked her if she owed any money. And I asked her if she owned the building. And she said yes. And we made the deal. But it was not a bargain purchase. Now, if you want to talk about bargain purchases, we should talk about going out to the Nebraska Furniture Mart.

So far, in the three -- in the days of this annual meeting, our sales which were a record $40 million for the week last year, are up about -- I think they're up about 7% now. And last year, of course, it was a record. And on Tuesday, which was the first day, we did $7.8 million.

And Berkshire owns the largest home furnishing store in Sacramento, California. We own the largest one in Boise, Idaho. We own the largest one in Salt Lake City. We own the largest one in Las Vegas, largest one in Reno. Our sales at the Furniture Mart on Tuesday were larger than the monthly sales of any one of those stores I've just named, being the largest ones in places like Sacramento. So it is a remarkable organization.

And the good news is there's still time for you to avail yourself of those prices. I would like to put in a plug for the Dallas store, where -- I was down there a week ago. And it's a plot of land like you wouldn't believe. It's a store like you wouldn't believe. It is 1,800,000 square feet under one roof. Over 40 acres. It will do more volume, I predict, than any other home furnishing store in the world. And I wouldn't be surprised if I could add to that by a factor of at least 2. It's a remarkable store.

And I toured around it. And we're putting in streets. We're -- site preparation, utilities, racking, all these things. This wonderful woman, Michelle, who showed me around. And the Blumkins later told me that she had started -- worked for Nebraska Furniture Mart as a cashier. And she is in charge of this, many hundreds of millions of dollar project. It's really -- it's the good thing about America.

And at the end of the tour, she'd had this number two person working -- walking around with us, who -- she was explaining some things to us, too. And I learned at the end of the tour that number two was Michelle's husband. Interesting pillow talk? How many cubic yards did you move today, honey?

Okay. Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question comes from Jason Rothman [ph] of Oklahoma City, who was the first shareholder to ask a question that subsequently was framed by a number of other shareholders as well. In my mailbox, this was the most popular question asked.

Mr.Buffett, you state in your annual letter to shareholders that in your will, you have given instructions to the trustee who will be acting for your wife's benefit to put 10% of the cash given her in short-term government bonds and 90% in a very low-cost S&P 500 index fund. My question is why are you advising the trustee to put 90% of the cash into an S&P 500 index fund instead of into Berkshire shares?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well --

Q - Carol Loomis {BIO 7137249 <GO>}

This might imply that you expect the index fund to outperform Berkshire in the future when the company is run by a new CEO and chairman. Please clarify.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I'll be glad to clarify that. That letter didn't come from Vanguard by any chance. They -- when I die, incidentally, then all of the When I die, incidentally, then all the Berkshire shares I have at that point will go to five different foundations. Every single share. I mean, there are no shares that have not been designated, mentally, to charity. A good many of them have been designated specifically to, in numbers and all that.

But -- and they will be distributed over the 10 years after my estate is closed. So figure over 12 years. And I tell my -- I tell the trustees that will be holding these shares, you know, "don't sell any Berkshire shares until they have to be sold."

So my views, on Berkshire at least through 12 years after my death are as bullish as anybody could possibly come up with. And incidentally, without those kind of instructions, anybody would say, "You know, you're crazy to keep many, many billions of dollars all in one stock." I can't think of anything better to do it over those 12 years.

In terms of my wife's situation, you know, that is not a question of maximizing capital. It's just a question of total 100 percent peace of mind on something that cannot get a bad result. And, like I said, there's way more money for her than she'll ever use. As a matter of fact, those of you who know her, may feel that I've added about three zeros too many.

But it is not designed for her to get even larger amounts of capital. And there'll be capital, loads of capital left over on that part of it. On the part that I care about maximizing, I have instructed the three trustees to not sell a single share until it has to be sold. So, that's good for 12 years after I die, as to my best advice as to what I want them to hold.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Warren is a little peculiar in the way he distributes money in the family. And I think he's entitled to do what he damn pleases. Speaking of-- (multiple speakers)

A - Warren E. Buffett {BIO 1387055 <GO>}

Do I hear my children applauding. Do I hear my children applauding.

A - Charlie Munger {BIO 1406508 <GO>}

Vice Chairman: Berkshire Hathaway Inc:} And I've never had this feeling, I had to starve the family to down to a few trifles. And Warren really -- and Susie, when she was alive, was the same way. He really is a meritocrat. He's really quite extreme in wanting to let most of his money go back to the civilization in which it was earned. I like being associated with it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Jonathan.

Q - Jonathan Brandt {BIO 17988091 <GO>}

The BNSF has done very well since Berkshire acquired it in 2010. But its western competitor of Union Pacific has actually grown its earnings more. And at the moment, the UP seems to be operating more smoothly for its customers. Could you shed some light on the service challenges Burlington has experienced recently and perhaps discuss any differences between the two railroads in end markets, geography, and strategy that may have led to the divergent result?

Would it be fair to say that, in trying to aggressively sign up new business volume last year, that the railroad did not allow for a sufficient margin of safety in terms of what its capacity could handle, should there be a harsher than normal winter or other adverse circumstances?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We've handled more volume, actually, than in the past. I mean, in 2006, we had a peak of 219,000 carloads of it. That was in the late fall. But no question that we've had a lot of service problems, particularly on our northern route. We have been spending more money than Union Pacific, and they spent a lot, in terms of attempting to anticipate the kind of problems that can occur when you get a big increase in volume, on that one route particularly, from the boom in the -- particularly the Bakken shale oil. We've got a lot of unit trains that are running over those lines that weren't running five years ago.

I think I've got Matt Rose here, right, I think somewhere in the front. And he might address some of the problems of cold weather. I mean, want to get -- there were a lot of days where it was 15 below or worse. And in terms of sending people out to work on problems, under those circumstances, it can be really -- it can be life threatening.

But Matt, do you have -- oh, there he is. Okay. Could you shine a light down on him, please, too? So he's right here in the front. In the front.

A - Unidentified Speaker

Warren. So last year, the industry grew at about 820,000 units. BNSF handled 53 percent of all those units. And it's not what we wanted to take or what we didn't want to take. Quite frankly, it's the geographic nature of our franchise. And the oil came a lot faster than we were expecting and we've been spending money at a rapid clip to try and build into it.

The second issue was, you know, I had previously, prior to this past year, been in the CEO role for 13 years, and I have never seen a weather -- a winter weather like that. We had 83 inches of snow in Chicago. We had multiple days, over 30 days, where it didn't get to zero in the Minnesota area. So, you know, we know this is an outdoor sport. We get it, on the weather. But quite frankly, when we get to about 0 to 10 degrees below, things just don't work.

The weather's getting better. Last week, we handled 206,000 units. No other railroad has ever handled 205,000 units. So the railroad's coming back. And we're making the significant investments to be able to handle all the business that's out there.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thanks, Matt.

We will spend $5 billion on the railroad this year. No railroad's ever spent that kind of money, or even very close to it. But I got a call or I got a letter from a fellow in North Dakota, and they were having a problem getting fertilizer. And I called and talked to him. And they sent it down to Matt.

But we've now put on -- I think we're going to have 52 unit trains of fertilizer. And they will get there in time for the planting, and that's important. I mean, we take it seriously. But cold in winter or floods in the summer, I mean, we're now really functioning a lot better and our earnings will be, in my view, are very likely to be a lot better.

But the thing that could disrupt that is, if for some reason, you had incredible floods. You're dealing with 22,000 miles of track. And if you get weak links, one of which, always, for all four big railroads, is Chicago, because that's where things get interchanged and that's where a lot of bottlenecks have been this year, and that's where weather was tough as well.

But you're right, Jon, in the comparative financials in recent months. And believe me, Matt's paying a lot of attention to them and Carl's paying a lot of attention to them, and I even pay a little attention to them. So I have a feeling that they will be getting better over the remainder of the year.

Okay, station 4.

Q - Analyst

Rosal Kerkhove [ph]. I'm from Omaha, Nebraska. My question relates to our company's use of natural gas to generate electricity. This past winter, natural gas in storage has declined substantially.

In the future, how do our companies assure that they have an adequate supply of natural gas to generate electricity? And if the price of natural gas increases in multiples, how do our companies assure that they can sell the electricity at a satisfactory return on investment? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We've -- I'm going to ask Greg Abel to be more specific on this. But we are the largest alternative generator of using alternative sources I think, in the country. And I think by the end of 2015, we will be capable of producing 40 percent of our needs in Iowa through wind, which will be unlike any other company you can find in the country.

But I think I'll have Greg answer the specifics of any natural gas-dependent generating units we have. I'm not worried about that thing, about what you raised, but Greg would know a lot more about the mix on natural gas and the opportunity to shift to coal. And exactly the profile of the generating capacity.

Greg? Now, let's get a light down on him, if you can.

A - Greg Abel {BIO 1416724 <GO>}

I think it's -- okay, there it is.

A - Warren E. Buffett {BIO 1387055 <GO>}

There we go.

A - Greg Abel {BIO 1416724 <GO>}

Sorry. So like Matt touched on, obviously, we had a very cold winter in the Midwest. So our systems, for the first time, were challenged in a significant way, but very proud of how the resources were managed.

So if you look at the question around natural gas, and specifically the gas availability, there was substantial gas available to be utilized both to heat homes and produce the energy, because ultimately, we're worried about both, the -- keeping the furnaces on and, equally, keeping the lights on.

So when you looked at the balance of supply, there was gas there. But clearly, we have to continue to look at the unique situation as we continue to move towards using more gas in the United States.

Warren touched on an important point. This past year, as he highlighted -- he highlighted 2015, but if you look at just what we produced on the renewable side in Iowa, that was 39 percent renewable, i.e. wind. And that will only get larger. So as we continue to manage these multiple resources, there's clearly a way to meet the needs of our customers. And we're meeting it in an extremely cost-effective fashion.

I'd also highlight that when you think through the cost recovery side of it, we've got very unique mechanisms within our utilities. When the underlying cost of gas goes up, where we have to purchase more than we had anticipated, we've got clear pass-throughs back to our customers. And we've negotiated those across each of our states. So we're well positioned to service our customers long term, and equally protect the fundamental financials of the underlying businesses. (Multiple Speakers) Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

The company that Greg runs has many subsidiaries. And our gas pipeline subsidiaries move about 8 percent of the gas in the United States. And I think you said you were from Omaha. And the gas that comes into this area, comes through a pipeline that we own. And we just renamed the company to Berkshire Hathaway Energy, from MidAmerican Energy. We changed it to Berkshire Hathaway Energy.

But, it's a point of some pride to us that that company, Northern Natural Gas, which originally came from Omaha, when we bought that from Enron a decade or so ago -- actually, Dynegy had it in between -- but its origin then was Enron. You know, they'd skimped on maintenance, done all kinds of things. And it was ranked number 42 out of the 42 ranked pipelines in the United States at that time. And last year it was ranked number one.

So it went from last to first under Greg's management. And I tip my hat to him.

And number two was our other pipeline, current pipeline, so we're running one, two at the moment. Becky?

Q - Analyst

This question comes from This question comes from Fred Ireman [ph] in Richmond, Virginia, and it's addressed to you, Warren.

He says that, "during the past several years, much has been written and many have speculated about your successor. I shall not even go down that path, as it would cause you to repeat yourself. However, has there been any discussion at your board meetings about a replacement for your partner, longtime friend, and co-chairman, Charlie Munger?

Has it been determined, Berkshire will continue to be led by a similar dynamic duo? Two magnificent investor minds, each providing a unique point of view, have been a major reason the business has performed magnificently over the decades and has delighted the shareholders.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, Charlie is my he's my canary in the coal mine. Charlie turned 90, and I find it very encouraging, how well, he's handling middle age. So, I hope to be able to do the same thing myself.

You raised a point, which is -- I hadn't thought about, but I'm a little sensitive now that you raised it. They always talk about replacing me, but they never talking about replacing

Charlie.

I do think -- I think it's very likely, incidentally, that whoever replaces me as CEO probably has, over the years certainly, developed -- they'll never be able to develop another Charlie, but they'll develop somebody that they work with very closely. It's a great way to operate. Berkshire is better off because the two of us have worked together than if either one of us had been working individually, there's no question about that.

And -- but I do think, you know, we saw it with Roberto Goizueta and Don Keough at Coke, we saw it with Tom Murphy and Dan Burke at Cap Cities. I mean, these were magnificent companies.

And I think that in both cases that I just named, I think that they accomplished far more because they had two incredible people running them who admired and worked well with the other. And they were complimentary, in terms of the talents they brought. In many ways, it's a great way to operate. You can't will it to somebody.

But I would be very surprised if, a few years after my successor takes over, or maybe sooner, that there isn't some relationship, a partnership, that enhances the CEO's not only -- not only achievements, but the fun they have. And -- but so far, nobody's brought up, in the meeting, any successor to Charlie. And frankly, I have a lot of trouble thinking of anybody that could be a successor to Charlie.

Charlie, you want to comment? I've got to give you a chance.

A - Charlie Munger {BIO 1406508 <GO>}

I don't think the world has much to worry about most 90-year-old men are gone soon enough.

A - Warren E. Buffett {BIO 1387055 <GO>}

The canary has spoken. Okay. Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

I have a question on succession planning as well. Matt Rose recently shifted his role from CEO of the Burlington Northern unit, to executive chairman of Burlington. Does this change affect who will be the next CEO of Berkshire? And what is the succession plan for Ajit Jain of Berkshire's reinsurance unit?

A - Warren E. Buffett {BIO 1387055 <GO>}

The only succession for Ajit would be reincarnation. We will we not get another Ajit, but fortunately we won't have to, for a very, very long time. The situation with Matt, which was at Matt's suggestion, was designed to fit specifically, the succession situation that BNSF and the wishes of certain people. It doesn't have any implications for Berkshire.

I have letters from every one of our managers, telling me what I should keep, and these are private. I don't share these with the board even, telling me what I should do if something happens to them tonight. So, I have their ideas, in some cases they talk about more than one person. Some cases, they tell me the strengths and weaknesses of the people, but the -- I would not try to make any judgments about the succession plans at the parent company, from what is done in terms of succession planning at any of the subsidiaries. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. I always say I'm not the least bit worried about it. I wish my main problem in life was the fear about succession problems at Berkshire. I think we're in very good shape.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Section 5.

Q - Analyst

I am Bill Melvin from Northfield Minnesota. At the 2009 annual meeting, Mr.Buffett, you said that if you were required to invest your total, net worth in one company, that company would be Wells Fargo. So in 2014, I ask the same company -- or the same question. If you were required to invest your total net worth in one company, what would that be?

A - Warren E. Buffett {BIO 1387055 <GO>}

When the question was asked in 2009, did you exclude Berkshire? Because I think I would have answered Berkshire. But I wouldn't quarrel, Wells Fargo was a marketable security outside of Berkshire at that time. Well, I guess he's checking his notes on --

Q - Analyst

The question is, other than Berkshire--

A - Warren E. Buffett {BIO 1387055 <GO>}

--other than Berkshire

Q - Analyst

-- what would you invest in today?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, now. It's a great question, but it's not going to get an answer. Charlie, do you want to answer it?

A - Charlie Munger {BIO 1406508 <GO>}

No, no. I think you've given exactly the right answer.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I'm sorry to disappoint you, but we've disappointed others, when they've asked that question. Okay, Andrew.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Thank you Warren. This question comes from Dave Hitchey [ph] from Auburn. It's a long question, he says He says "as a shareholder for about a dozen corporations in addition to Berkshire, I always see a number of proxy statements each year. In all, except Berkshire, the summary compensation table has the compensation listed for at least five or more of the highest paid executives. Berkshire lists three, Warren, Charlie and Mark.

I assume that since Berkshire is a holding company structure, that's the way it is. I think it would be instructive to include at least two of the highest paid executives from the wholly-owned subsidiaries in the summary table, Ajit, Tony, or Greg, or Matt, to give the shareholders, your partners, a sense of how Berkshire compensates its strongest and highest-paid leaders, as other companies do.

This would be particularly valuable since two-thirds of the current listees, Warren and Charlie, only receive nominal salaries of $100,000 per year, a figure that is vastly below the value they bring to the company. Would you, in the spirit of transparency, be willing to add at least two of the highest-paid subsidiary officers in the table in future years? And how much do you think the next CEO of Berkshire should be paid?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, the answer to the last is, he certainly will be entitled to pay -- get paid a lot. But their decision as to how much they accept is another question. But I'm going to write about that very end question next year in the annual report, because it has a lot of interesting ramifications.

We, obviously, are following the SEC rules, which I can't recite, in terms of the officers required to be in the proxy statement as to their pay. But, you know, Andrew, in my sporting mood, I would say that Comcast probably has some people in employ, that make a lot more money -- not at CNBC, we're not --but -- that would exceed the salaries of the people that they list in the proxy statement as well.

And there's a real question as to whether it's in the interests of the shareholders of the company to start listing, you know, how much the person who's the anchor of the nightly news or whomever it might be, gets paid because it might have a very negative effect, in terms of negotiating salaries with other people within the organization. I would say that the -- I would say the shareholders of Comcast would be hurt, actually, if you published the five highest salaries paid at the subsidiaries or at Comcast itself.

And certainly, if you carried it to every subsidiary there was. I mean, if you were to publish the five highest salaries at CNBC, I don't think the salaries overall would go down the following year. So, I think that is a -- I think that's a good reason for not -- for us not publishing the salaries of, you know, say, our top 10 managers of the company.

At Salomon, we mentioned that a little early -- everybody -- virtually everybody -- was dissatisfied with what they were getting paid. And they were getting paid enormous amounts of money. But they were disappointed, not because of the absolute amount. They were disappointed because they looked at somebody else in the place and it drove them crazy. And as a matter of fact, the first big crisis we had in compensation was when the management made a -- what was regarded as a secret deal, with the ARB group, as I remember, whereby, John Meriwether and his crew got paid a lot of money, which I would argue they earned. I mean, I think they deserved it.

But as soon as that happened, it made compensation, which had always been a terrible problem, an even greater problem because of the jealousy that broke out among the people that weren't in John Meriwether's group. I think it's been -- I think it's very seldom that publishing compensation accomplishes much for the shareholders.

In fact, you can argue that much of what's going on in Corporate America -- well, I would put it this way: corporate CEOs, as a group, would be being paid a lot less money if proxy statements hadn't revealed how much other people were getting paid.

It is only human to look at a whole bunch of proxy statements and say, "Well, I'm worth more than that guy," and negotiate that way, and a comp committee is going to respond to that. So, American shareholders are paying a significant price for the fact that they get to look at that proxy statement every year and see how much those top five officers are earning.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

In the spirit of transparency, you're asking for something that wouldn't be good for the shareholders. And it's not going to happen unless the SEC makes it happen.

We're way better off without adding to the culture of envy in America.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, there's no one that looks it -- there is no CEO that looks at other proxy statements and comes away thinking, I should get paid less. I mean -- we haven't seen -- have we ever seen them?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we're not old enough.

A - Charlie Munger {BIO 1406508 <GO>}

I would say that envy is doing the country a lot of harm. And our practices are envy dampeners.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, Greg.

A - Greg Abel {BIO 1416724 <GO>}

Thank you. As you know, Berkshire's cash balances are an issue for some investors. Especially with excess cash being in the $25 to $30 billion range the last couple of years, and Berkshire having a more difficult time, it had historically reinvested in capital as quickly as it comes in.

Although, Berkshire did provide $3.5 billion of the $3.6 billion of cash that was used to acquire NV Energy last year, with MidAmerican funding the remainder with debt, was there something that kept Berkshire from providing all of the capital for the acquisition, perhaps via inter-company debt?

And on a separate note, can you provide with us some insight into the decision to allow MidAmerican to retain all of its earnings, while Burlington Northern, which spent $3 billion on capital expenditures last year and is on pace to spend $5 billion this year, continues to pay a distribution to Berkshire, all while it takes on additional debt to help fund capital spending?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, Mid-America now renamed Berkshire Hathaway Energy -- we'll call it BH Energy -- we'll have multiple opportunities, I hope, and we've seen two of them in the last 12 months, to buy other businesses.

And, as you noted, we spent a substantial amount of money on NV Energy and then two days ago we agreed to buy transmission lines in Alberta. So, we will -- we hope we will -- and so far we've been able to come up with really large businesses to buy at BH Energy.

That will not -- at BNSF, we will spend a lot of money to have the best railroad possible. But we're not going to be buying other businesses. So, we distribute substantial money out of BNSF and we will continue to do so because it will earn substantial money. And it can easily handle the debt that it has and will incur.

Whereas, at Berkshire Hathaway Energy, we have pretty much the appropriate level of debt at both the subsidiary and the parent company level. So as we buy things, we need not only the retained earnings that we have, but occasionally we need some money from the shareholders.

And there are three shareholders of BH Energy. Berkshire owns 90 percent and then Greg and Walter Scott have the balance. And so, if we make a large acquisition and we need a little more equity, we will have a pro rata subscription, which the other two shareholders are welcome to participate in. But if they don't -- if they decided not to, it wouldn't hurt them. They'd still have an improvement in the value of their shares. So those two companies are quite different that way.

I hope that more possible deals for Berkshire Hathaway Energy come along. And I think they will. So we may invest many, many, many billions there. We will invest billions at the railroad, but it'll all be to improve the railroad. It won't be to buy additional businesses.

So far this year, if you think about it, counting yesterday -- now, two of these deals started last year -- but we've spent 5 billion on acquisitions, roughly.

And, of course, in the first quarter, we spent another 2.8 billion on property, plant, and equipment. But we are finding -- we are finding things to do that tend to sop up the cash.

We always will have $20 billion around Berkshire. We will never be dependent on the kindness of strangers. It didn't work that well for Blanche DuBois, either. But in any event, the -- we don't count on bank lines. You know, we don't count on -- we don't count on anything. There will be some time in the next 100 years, and it may be tomorrow and it may be 100 years from now, and nobody knows. You know, where we cannot depend on anybody else to keep our own strength and to maintain our operations.

And we spent too long building Berkshire to have that one moment destroy us. I mean, we lent money, as you probably know, to Harley-Davidson at 15 percent. And we lent it at a time when short-term rates were probably a half a percent.

Well, Harley-Davidson is a fine company -- but it, like Goldman Sachs and General Electric and a bunch of other companies -- we lent money to Tiffany's -- they -- you know, they needed -- when you need cash, you know, it's the thing -- it's the only thing you need. And it's because other people aren't coming up with it.

I've always said that, you know, cash is -- available cash or credit is a lot like oxygen: that you don't notice it -- the lack of it, 99.9 percent of the time. But if it's absent, it's the only thing you notice. And we don't want to be in that position. So we will keep 20 billion. We will never go to sleep at night worrying about any event that's taken place that could hurt our ability to keep playing our game. And above 20 billion, we'll try to find ways to invest it intelligently. And so far, we've generally done it, I mean, right. You know, we always had something above that.

But, you know, we've spent a fair amount of money so far this year. We'll probably spend more later in the year. So -- so far, I feel we could get the cash out at reasonable returns. We never feel a compulsion to use it though, just because it's there. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think we're very lucky to have these businesses that can employ a lot of new capital at very respectable rates. And if -- earlier in the history of Berkshire, we didn't have such automatic opportunities. And now that we're so affluent, we really are way better off having these opportunities.

It's a blessing. I mean, who would want to get rid of MidAmerican and the Burlington Northern Railroad? Nobody in his right mind. I mean, we love the opportunity to invest more capital intelligently in a world where short-term interest rates are half a percent or lower.

A - Warren E. Buffett {BIO 1387055 <GO>}

And we love the opportunity to go in with 3G and Heinz and then --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

--employ significant capital. We'll get the chances to use capital. Eventually, compound interest will catch up with us, and it certainly dampened things, but it hasn't delivered its final blow yet. Station 6.

Q - Analyst

Hi, Warren, Charlie. John Norwood from West Des Moines, Iowa. Thank you so much for the annual meetings and please don't move it to Dallas or some other place. I've got my system worked out here.

A - Warren E. Buffett {BIO 1387055 <GO>}

We won't.

Q - Analyst

Thank you. Hey, two, quick questions. One is allocation of capital and how you wrestle with the operating companies and how much cash comes up to the operating companies or comes up to the mother ship versus the operating companies. And you and Charlie, do you ever fight or argue and any lessons over the years for how you manage your partnership of two? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie and I have never had an argument. We met in 19 -- when I was 29, he was 35. We're a little older now. And in those years, 55 years, we've disagreed on a lot of things and it's just never led and never will lead to an argument. We argue with other people, but it just -- it hasn't occurred. I called Charlie on the Coca-Cola vote -- and then said what the proxy statement said and everything, that what are you thinking? We thought alike -- and sometimes, we don't think alike and we never go away in the least bit mad, if we don't.

A - Charlie Munger {BIO 1406508 <GO>}

But most of the time, we think alike. That's one of the problems. If one of us misses it, the other is likely to too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I would say that -- well, there's no question. If you look at the really bad mistakes we've made, I've made them. I'm probably a little more inclined toward action than Charlie. Would you say that's fair, Charlie? Or--

A - Charlie Munger {BIO 1406508 <GO>}

Well, you once called me the abominable 'no' man.

A - Warren E. Buffett {BIO 1387055 <GO>}

Now we've missed -- what's the -- what was the first part of the question?

Q - Analyst

Capital allocation? How do you decide how much cash comes up from the operating companies from the mother ship?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, that's pretty simple in that we don't really care too much where that 20 billion minimum is. We wouldn't -- we don't count the money in a regulated -- well, in the energy business or the railroad.

So we really count the money that we could make a phone call and get. With interest rates at these levels, we sit around sometimes with -- every one of our companies, I would say, probably has more cash in it than if some other large conglomerate was running the place.

They would probably have sweep accounts and all of that. And we may get around to that at some point, but it just doesn't make that much difference, because if we had it at the parent company, we'd have it out at five basis points. And if it's at the -- if it's down at the subsidiary, it's probably getting five basis points.

So we're not -- it's not something we think about on a day to day or week to week or month to month basis. I know where the cash is. And I know when we're going to need cash and I know what I'm thinking about doing, or may possibly do in the next few months, that maybe something's a 50-50 probability of happening. And anything I am committing to do, I know where the cash is coming from.

But it doesn't mean that we try to get it all in the parent company, day by day or week by week like many companies do. We could change that procedure someday. Maybe a sweep account would make sense at some point, probably would. But we're not big disciplinarians of our subsidiaries day by day. We don't want them to feel that way.

And there's one company I'm thinking of, where I've never been there. Probably, only talked to the fellow who runs it three or four times in 10 years. And there's a lot of cash around, every now and then he sends me some. And if I really need it, I mean, I know where it is, and he'll give it to me. But it doesn't really make much difference, you know, whether it's sitting there or whether it's sitting at Berkshire.

I don't want to encourage to our managers of our other subsidiaries who are listening to this, a new way of behaving. But, I sort of adapt to the companies, except when we really need the money, and then I grab it. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

That's just fun.

A - Warren E. Buffett {BIO 1387055 <GO>}

Carol?

A - Unidentified Speaker

This question comes from an astute fellow named Richard Sercer of Tucson, who spotted an opening and is going for it. And it actually reminds me of a question that you, Warren or Charlie, could've thought up yourself.

"In an interview on April 23 2014 about the Q&A session, Warren said, quote, "I hope we will get questions that probe at our weak points. My question is, what is our weak points and what can be done to address them?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, that would spoil all the fun for the journalists. They're the ones that are supposed to look for the weak points. We have a lot of weak -- we point them out. You know, I've just pointed out one.

Probably, I would say if you'd --if we'd executed a sweep account for all our subsidiaries some years ago, you know, we would have a few more dollars than we have now. You know, it -- who knows what they're doing with some of those balances in terms of -- we wouldn't -- it wouldn't be because we do riskier things. But we -- we are very disciplined in some ways. And by ordinary business standards, we're sloppy in other ways.

And, oh, well, a clear weak point of mine would be I'm slow to make personnel changes. I mean, I like the managers we have. And Charlie and I had a wonderful friend who couldn't have been a greater guy. And, you know, we were slow to make a change there. We loved the guy, and it wasn't killing us in our business. And how long would you say we went beyond where somebody else would've acted in that case, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't know exactly.

But that, turning to the sweep account system, reminds me of a friend I had when I was in the Air Corps and he was a very skinny man, and he decided to give blood. And they put the needle into his arm and the blood stopped flowing.

And the nurse just started stripping his arm as though it were the udder of a cow. And he got the impression that he was going to -- they were going to get that blood, whether it took all he had. And he fainted. It was a very unpleasant occurrence. And I don't think a sweep account is all that pleasant to sit there and just -- every little dollar comes in, somebody sweeps it away. (Multiple speakers) I like the tone of our business.

A - Warren E. Buffett {BIO 1387055 <GO>}

Our managers are listening here. I mean, don't give them that illustration to use when I ask for money.

A - Charlie Munger {BIO 1406508 <GO>}

But, you know, I've seen people subject to -- Teledyne and Litton, those people, swept every dime every day, basically. And it was a little more economic, but it created a tone in the company that -- which I think is less desirable than ours.

A - Warren E. Buffett {BIO 1387055 <GO>}

We've waited too long a managers though sometimes, Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

Well sure you and I participated in taking one man directly from an executive chair into a Alzheimer's home. There was no--

A - Warren E. Buffett {BIO 1387055 <GO>}

You're hitting a sensitive subject here, Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

We'd arranged that he could do no harm, and we loved him well enough, so that we just made it easy for him. I've never regretted it, have you?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. Not at all. Not at all. It--

A - Charlie Munger {BIO 1406508 <GO>}

On the other hand, I want to be pretty careful.

A - Warren E. Buffett {BIO 1387055 <GO>}

We will be slow. And we -- there will be times when what you might call our lack of supervision over subsidiaries, you know, we'll miss something. Now, we think that giving our managers the degree of freedom that they enjoy will also accomplish a lot.

So someone will come along someday and say, "If you'd had many more checks and oversight and all of that sort of thing," you know, something -- well, something will happen at Berkshire and they'll say, "That wouldn't have happened if you'd followed the procedure that some other company followed." And they'll be right. But what they won't be able to measure is how much on the positive side we have achieved with dozens and dozens of people, because we gave them that same sort of leeway.

I mean, we operate differently in terms of the level of control and supervision. You know, we don't have a general counsel's office at Berkshire. We don't have a human relations department at Berkshire. And that would be almost unthinkable to other companies. And we're not saying that's a 100 percent benefit in all ways. We think -- but we think on balance, it's a benefit.

But when the down side of such a procedure shows up, people will say, "Well, you should of done it differently and you should've been spending lots of money over the years and restricting the activities more of your subsidiary managers," and so on. And our reaction will be that they are wrong. But we will look bad in that individual case.

Wouldn't you say that's true, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. By the standards of the rest of the world, we over-trust. And so far, our results have been way better because we carefully selected people, because they were going to be over trusted. And it's worked very well for us. And, I think a lot of places work better when they create a culture of deserved trust. And that's been our system. And some people regard that as a weakness. And this modern accounting treatment, when everybody's measured on internal controls, I think it's going to do more harm than good.

A - Warren E. Buffett {BIO 1387055 <GO>}

Jonathan?

Q - Analyst

See's Candy is obviously small in the context of Berkshire's currently expansive operations, but has long been one of your favorite businesses. And no wonder, given that its pre-tax profits grew consistently from less than $5 million in 1972 when Berkshire acquired it, to $74 million in 1999. However, since 1999, profit growth appears to have stalled. Can you explain why See's was able to grow its profits through the '70s, '80s and '90s, but not so far in this millennium?

Did something change about the business, for instance, the growth and demand for boxed chocolates or its market position? Could you or Brad Kinstler discuss whether the relatively recent geographic expansion could help reignite See's growth? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, the boxed chocolate business is, basically, not growing. I mean, if you go back 100 years, the -- each city of any size was characterized by lots of candy shops. Chicago was a big leader. New York was a big leader. Believe it or not, the predecessor company to Pepsi Cola was the -- a company with the most -- it was a company called Loft's, that had the most candy shops in New York City. It was a candy shop company, originally, that a fellow that -- what was his name?

A - Charlie Munger {BIO 1406508 <GO>}

Guth.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, what was it, Frank?

A - Unidentified Speaker

Guth.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. He acquired Pepsi for a few thousand bucks, stuck it in Loft's. And the corporate -- the corporate name, if you go all the way back on Pepsi, is Loft's. So there were loads of candy shops around everyplace. And including in Omaha.

Boxed chocolates have lost position dramatically. Primarily, I would guess to salted snacks of one sort or another, various things. See's has done remarkably well, far better than any chocolate company in the country. Russell Stover did very well for a while. Very well, with a different business model. But, you know, they ran into their problems as well. So, we can't do much about increasing the size of the market. And we've tried a lot of ways. And we've tried moving out of our strong geography, multiple times.

I mean, Charlie and I looked at what we were earning in California in the '70s and said to ourselves, "If we could do this in 50 states instead of one, you know we'll get very rich." So we tried it and we didn't get very rich. It doesn't travel that well.

A - Charlie Munger {BIO 1406508 <GO>}

Well, sometimes it does and sometimes it doesn't. And you figure out whether it's going to work by trying it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And we've tried it many times. But so far, it's interesting. Two-thirds -- people in the East prefer dark chocolate, two-thirds to one-third. In the West, they prefer milk chocolate, two-thirds to one-third. They like miniatures in the East. They won't eat miniatures in the West. There's a lot of different things. But in the end, there isn't a lot of boxed chocolates volume.

And we've done very, very, very well in See's. And it not only has provided us with earnings that we've used to buy other businesses, so we've added lots of earnings power through See's, beyond the earning power we've added at See's.

But it opened my eyes to the power of brands and probably you could say that we made a lot of money in Coca-Cola, partly because we bought See's, or at least in my case, bought See's, because I'd understood brands to some degree, but there's nothing like owning one, and sort of seeing the possibilities with it as well as the limitations, to educate yourself about things you might do in the future. And in 1972, we bought See's. And in 1988, we bought Coca-Cola. And I wouldn't be at all surprised, if we had not owned See's, whether we would've owned Coca-Cola later on.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. There's no question about the fact that its main contribution to Berkshire was ignorance removal. And it's not the only big contributor to ignorance removal. If it weren't for the fact we were so good at removing our ignorance, step by step, Berkshire would be practically nothing today. What we knew originally wasn't enough. We were pretty damn stupid when we bought See's. We were just barely smart enough to buy it.

And if there's any secret to Berkshire, it's the fact that we're pretty good at ignorance removal. And the nice thing about that is we have a lot of ignorance left to remove.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, that's what happens when I call on him. Station 7.

Q - Analyst

My name is Ben Ottenhoff and I'm from Washington, D.C. I was wondering if you could talk -- I've read recently that the Bank of America investment, you changed it so they can now treat it as tier one capital.

A - Warren E. Buffett {BIO 1387055 <GO>}

Right.

Q - Analyst

Can you explain a little bit why you did that and what benefit, if any, there is to Berkshire's shareholders? And also, does it give you any pause that they can't calculate their tier one capital requirements properly?

A - Warren E. Buffett {BIO 1387055 <GO>}

Really -- it came about some -- really, a good many months ago, that Brian Moynihan called me and asked me whether we would be willing to change our preferred stock, five billion of it, from a cumulative preferred, to a noncumulative preferred.

Now, a non-cumulative preferred has certain defects, obviously, compared to a cumulative preferred. As, for example, the shareholder -- the preferred shareholders -- of Freddie Mac and Fannie Mae are finding out. Noncumulative preferreds, Ben Graham wrote about them in the 1934 edition of "Security Analysis" -- they're a terribly weak form of security.

But, partly because they are that weak form of security, they count different in capital with banks. So Brian asked me to do that and then he said, "If you will do that" -- and this requires approval by their shareholders and everything but he said, "If you'll do that, we would be willing to make your preferred noncallable for five years." Now, in a world of five-basis money -- five-basis-point money, practically nothing -- no returns. I was very willing to make that trade-off. It was -- they felt it was good for them and I felt it was good for Berkshire.

So, I get five years at Berkshire of non-call of a 6 percent preferred, which I can always use as payment for the warrants we have. So, I don't have a problem of being locked into it forever, into a noncumulative committed preferred, and the BofA gets the benefit of using it in their calculation of capital.

That was all done before this recent -- I mean, a long time ago -- before the recent, you know, week ago or so when they had the miscalculation involving some structured notes of Merrill Lynch. That error they made does not bother me. I mean, it -- we work on our figures. You know, we've got that 20,000 page-plus tax return. We have 10-Ks, 10-Qs, going in and out. You do the best you can. But I -- that error did not affect their GAAP reported numbers or anything of the sort. And they wished they hadn't made it. And they'll pay a penalty, in the sense of their capital plan, because they did make it. But it doesn't change my feeling about the Bank of America or its management one iota.

And I do think that this -- they were going to pay the dividend anyway. I mean, the probabilities that going to non-cumulative hurts us are very, very low. And the probability that making it noncallable for five years is a real plus to us. So, it was an exchange I was happy to make. And I think that it was good for us and good for them.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Berkshire's vice chairman:} Well, I agree with you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Becky.

A - Unidentified Speaker

This question comes from Frank Robinson in Madison. And he asks, "Ten years ago, NetJets was mentioned at the annual meeting each year as an exciting growth opportunity for Berkshire. Five years ago, there were some problems which seemed to have been addressed since they're no longer mentioned." "What are the current prospects for NetJets? Is it a substantial contributor to growth and revenue and earnings?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, it's not a big grow --it's a very -- it's a perfectly decent business. The number -- it peaked in new unit volume more or less coincident with what happened in the stock market in 2007 and 2008. I mean, there were a fair number of people whose income was dependent on stock market behavior, particularly hedge fund managers, but other -- a lot of others. And they gave us quite a boom in sales. And not only did their demand fall off, but when their contracts ran out -- and they tended to run out in, like, 2011 and 2012 -- a lot of them did not renew.

Until the last -- won't be totally accurate on this -- but until the last six or eight months, net ownership in the U.S. was declining just slightly. And that's turned around now. Net ownership is growing month by month. But it is not a huge growth business at all. I mean -- it's a very large-size business. I mean, we are, you know, probably 60-some percent of the industry and there's nobody remotely close as a second. I mean, we are the premier product.

But I don't see the market being double or triple the present size. We are going to China very soon. But that's a very, very long-range play. We are in Europe and that is not -- that still is declining a little bit in unit volume.

Now, the flight hours have picked up a fair amount. So the owners are using the planes more in the last six months to a year, and that fell off a lot in the 2007-2008 period. So I would not characterize NetJets as a big growth opportunity. But I would -- but I'm glad we own it. And I think it's very -- it's a very satisfactory business.

But it is not one I would expect to see a whole lot of growth out of.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I demonstrated my optimism by buying 25 more hours.

A - Warren E. Buffett {BIO 1387055 <GO>}

He was a tough sell, too, I got to tell you that. I can think of a few more comments, but I won't make them. Jay.

Q - Jay Gelb {BIO 21247396 <GO>}

This question is on acquisitions. How large of an acquisition is Berkshire comfortable targeting currently? And to what extent are Berkshire's major equity investments in Wells Fargo, Coke, American Express, and IBM realistically a potential source of funds for deals?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, they could be a source of funds. But it's very unlikely they will be. But -- the -- our goal is to buy really good businesses, and big businesses, and businesses where we like the management, and businesses that we think we can grow over time.

I mean, Berkshire is about building earning power. When we buy, as we did a day or two ago, or agreed to buy that transmission line in Alberta, I mean, I'm looking at trying to add earning power to Berkshire. And we try to do that every day or every week or every month. And we don't get opportunities that often.

But if the opportunities were large enough and we needed to raise some money, you know, we can dip into a huge reservoir of securities and still have huge investments thereafter. It hasn't come to that. You know, when we got 40-some billion of capital -- or cash -- and I'm willing to take it down to 20, you know, we've got a fair cushion there.

But if I needed to, we would do something, if it was attractive enough, and big enough, that required us to. So, that could happen. That could happen this year, could happen 10 years from now. You never know.

Charlie, do you have any thoughts on that?

A - Charlie Munger {BIO 1406508 <GO>}

Well, no, I think the -- our acquisitions have been irregular in the past. They'll be irregular in the future.

I do think we'll get more, sort of, automatic, intelligent redeployment of capital from our railroad and our utility subsidiary than we had in the past. And I think that's good, good for the shareholders.

A - Warren E. Buffett {BIO 1387055 <GO>}

I think people may think that what we get turned on is by finding some stock we'd like to buy. That's fine.

But what really -- there's no comparison -- what really turns us on is finding a business that we want to buy, and that fits well for Berkshire, and that'll be earning money for Berkshire 10 and 20 and 50 years from now. That's what we're -- that's what we've been trying to build for 49 years.

And marketable securities have played a big part in that, because the profits that we've made from them have helped do that, and it's a great place to deploy capital on -- you know, it's easy to do there.

But if you -- what we're really thinking about, at least Charlie and I -- we've got Todd and Ted thinking about marketable securities -- what we're really thinking about is buying businesses. And that's what it'll continue to be. We're in no hurry to sell any of those stocks you mentioned.

There probably would be other stocks -- if we were going to go out to raise five or 10 billion from stocks, they would not be the names you mentioned.

Okay. Station 8.

Q - Analyst

Hello Warren, Charlie. My name is Stefano Grasso [ph] and I come from Genova, Italy, all the way from there. It's a pleasure to be here today with you.

I have a question about increasing leverage for Berkshire in this day. This question is really to trigger a discussion and to hear your thoughts on that. And also, this question was triggered by the fact that following the acquisition of BNSF, few years ago, which was partially financed by Berkshire stock, shortly after, there was plenty of cash around.

There could be different advantages for Berkshire to wisely increase leverage these days. Some generally true for all the companies, some Berkshire specific. And the Berkshire specific, most important one for me as a shareholder, is that the investment decision made to invest the funds would be made by the present team, you and the other managers.

Question is then, why not go out and ask for several billions in bonds with a long maturity, and maybe even with some earlier endorsement or callable options embedded at Berkshire discretion, and good -- and make a good use of it? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, what you say makes great sense.

And it's the kind of thing Charlie and I use -- I think if you'd asked Charlie and me 40 years ago, that if we were looking at the present set of interest rates and we had some wonderful businesses that were making a lot of money, whether we would have gone out and borrowed a whole lot of money for the long term. We would've said yes, right, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Wouldn't have been a hard decision.

A - Warren E. Buffett {BIO 1387055 <GO>}

But, we've got several reasons. We -- A, we do have a good way of generating funds other than through equity: through float. And we've done that to the tune of 77 billion.

And we don't like the idea of operating a very conservatively-leveraged company, and then changing courses so that the people who bought bonds that were rated double-A, sort of find themselves with much lower rated bonds of the sort.

We don't have any problem leveraging up the utility or the railroad. They deserve to have even a lot more debt than they do, but we keep it sort of in line with what the rating agencies think should be conventional ratios.

But they're -- if you look -- if you analytically look at them, both of them could withstand a fair amount more debt. At the parent level, looking back on the BNSF deal, we borrowed some money that time and we used some equity.

I think using equity helped us make the deal. But it was, you know, it was not a smart thing to do, basically. I should -- and I could've always gone to the market and repurchased a bunch of stocks subsequently, and that's probably what I should've done on that.

So I understand your point. I completely -- you know, another 30 or 40 billion of debt at Berkshire would be nothing and it would cost very little. We don't actually have great places to put it now, as evidenced by the fact that we've got 25 billion or so of excess cash.

We'd be -- we are reluctant to leverage it up a lot at the parent now, since we have these other sources of money that are really pretty attractive.

We are selling what we call structured settlements, for example, that have a very long duration. And they actually have an interest cost to us, of less than if we were to sell bonds. So we are doing certain things that are along the lines you urge, but not nearly as aggressively as you urge.

And you probably are right. And you're certainly right if we saw a $50 billion deal and we passed on it for some reason, because we were unwilling to take on some debt. If we see a really good $50 billion deal, we'll figure out a way to do it.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think we'd welcome it. We're -- even though what you suggest is intelligent, we're probably not going to do it in advance.

A - Warren E. Buffett {BIO 1387055 <GO>}

You caught the last two words there.

Andrew.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Question comes from Rory Holscher in Galena, Illinois. This question is about Berkshire's investments in climate change. "On one hand, Berkshire's utilities have large commitments to wind and solar power. Berkshire also has an investment in BYD, an innovative transportation company that may be comparable in some ways to Tesla.

On the other hand, Burlington Northern hauls a lot of coal. You point out in the 2013 annual report that its profits could shrink if coal burning was curtailed. And then there's the reinsurance business.

How do these and other Berkshire investments align with your understanding of the risks and opportunities posed by climate change? How should we think about this as investors?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I think that you've stated the facts on a whole bunch of businesses. And, I mean, if you own a railroad that's carrying a lot of coal, it'll carry a lot of coal for a long period. A very long period. But it'll probably carry less at some point. I don't think --I think that's very likely, too.

But, I get all these questions from people who tell me they want me to fill out lots of forms and everything about how it'll affect our insurance business. It doesn't -- it just doesn't operate in that -- in that time period.

I mean, we are not making -- when Ajit and I talk about what we'll charge for catastrophe insurance, you know, whether it's hurricanes in Florida, or whether it's earthquakes in New Zealand, or whatever it may be, the year-to-year change in probabilities on that are, at least in our view, extremely low.

I mean, it doesn't come close to being anything that affects your prices in any material way in any given year. And, you know, we will continue to develop alternative sources of energy. We'll continue to use coal in our coal generation plants until the utility commissions under which we operate tell us that we should do something different. We have no choice about that.

We, incidentally, have no -- I mean, we're happy to carry the coal, but beyond that, we are a common carrier. I mean, we might love to turn away chlorine or ammonia or something like that because of the dangers in carrying it. And we can't get compensated adequately for that.

But we are a common carrier. So, we -- by law, we're required to carry the freight that is offered to us. So I -- I don't think in making an investment decision on Berkshire Hathaway, or most companies, virtually all of the companies I can think of, that climate change should be a factor in the decision-making process. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, I think a lot of the people who think they know how climate change is going to change weather patterns and hurricanes are over-claiming. We're sort of agnostic. It isn't that there isn't some global warming, because there plainly is. But the people who think they know exactly what's going to happen and if people are going to die from tropical diseases and so forth, are mostly talking through their hats. I think there's a class of people who like the idea they've got a calamity to worry about. And --

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, but -- and when you say it, I mean, just in terms of being an economic variable in making a decision, this--

A - Charlie Munger {BIO 1406508 <GO>}

No. We're not thinking how can we structure our whole investment program to take into account what we think we know about climate change. But I think we're very well located long term, no matter what happens.

I think that transmission lines and more or -- we're going to have to produce a lot more electricity directly from the sun or indirectly through things like wind. And, we're beautifully positioned. It's just like GEICO made a lot of money when the internet came along, that they didn't really plan on. I think we'll make a lot of money as more and more electricity is produced more directly from the sun.

So I think we're in a very good shape. But I don't think we deserve any great credit for it. We just stumbled into it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Gregg?

Q - Greg Warren {BIO 4325523 <GO>}

Since Berkshire started to transfer some of the responsibility for the company's investment portfolio over to Todd Combs and Ted Weschler, the two men have gone from managing around $3 billion each in early 2012, to managing more than $7 billion each earlier this year.

That said, this still represents less than 10 percent of the equity portion of your investment portfolio, with big legacy positions in Wells Fargo, Coca-Cola, American Express, IBM and Proctor & Gamble, overshadowing the rest of the holdings.

Can you give us an update on how much money each of your lieutenants is now running and how much you see that growing into over the next five years? And given that both men have seemingly been involved in things beyond their roles as portfolio managers the last couple of years, how much do you expect their roles to expand over time?

And on a completely separate note, at what point can we expect to see Todd and Ted join you and Charlie up there on stage to talk about their efforts managing Berkshire's investment portfolio?

A - Warren E. Buffett {BIO 1387055 <GO>}

I got through college answering fewer questions than that. They are managing about --it's a little over 7 billion now. We will change that periodically and it will always be upward. But we don't change it month by month.

I mean, their portfolios may change in value month by month. But they will be handling more money in the future than they are now. I think, to some extent, they, as well as I -- you know, I've had the unpleasant experience of handling more and more money as the years go by -- they are seeing that it does get a little more difficult as the sums get larger.

But it's still far better to keep moving money over to them and away from me as time passes. And that'll continue to be the case. They're both terrific additions to Berkshire, beyond their investment skills in that they know -- they each know -- a whole lot about business. They know a whole lot about management.

And there are a lot of things that come across the desk at Berkshire that I get an idea on, but I just don't feel like carrying out myself, because they might involve a lot of time, particularly if they get involved in negotiating small points and that sort of thing.

So Ted and Todd have both, as I mentioned in the report, been very helpful in doing things beyond their investment management duties that have added a significant value to Berkshire. And I think it's a cinch that that will continue. They want to do it. They enjoy doing it. They don't ask for extra compensation, at all, because they do it.

They're 100 percent attuned to Berkshire. They know how I think. And if I tell them, you know, "Here's a deal that I think makes sense if you can get it done," they'll know why it makes sense, and they'll know how to get it done, and they'll spend the time to do it.

So it's been a big, big plus for Berkshire to bring them onboard. And they'll be more important factors as the years go by. Okay.

Charlie? I'm sorry, I'm --

A - Charlie Munger {BIO 1406508 <GO>}

Nothing to add.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 9.

Q - Analyst

Good morning, Warren and Charlie. My name is Jason. I'm from Toronto and my question relates to the general financial markets.

We've been in an environment of virtually zero interest rates now for many years. In recent times, prolonged periods of low rates have led to asset bubbles, such as the housing bubble and, potentially, now a bond bubble. If you were running the Fed, what would be your policy with respect to interest rates? Do you see a need for a hike? And what would be your time horizon for such a change? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, since it's -- you're right about the -- who would've guessed five years ago that you'd have had rates this low for this long? You're -- I would say that I'm surprised at, really, how well things are going.

I don't think I would be doing much differently. And I particularly say that because it's worked so well so far. So I would like to say that I would've done exactly the same thing and take credit for it. I've been surprised at how well this worked. But as I said last year, this is really an interesting movie because we haven't seen it before. And what makes it interesting is also we don't know how it ends. But, I think Ben Bernanke was a hero, both at the time of the crash -- or the panic -- and subsequently. I think he's a very smart man. I think he handled things very well.

What was interesting to me was when the minutes of the Fed from the period in 2007 and 2008 came out, it was interesting to me how a number of the members of the Fed were not getting it, as to what was happening.

That was really fascinating. It wasn't -- there were a lot of them that didn't really understand, it seems that way, or some of them that didn't understand just how serious things were.

And so I give particular credit to Bernanke, considering the fact that he was really not getting a cons -- certainly not a unanimous view from those surrounding him, that the kind of actions he knew were necessary, were really necessary.

And yet, he went ahead with them. And in my opinion, did a masterful job. And from everything I've seen of Janet Yellen, I feel the same way about her.

We will see how this movie plays out. You know, I do not know the answer as to what happens if you keep rates close to zero for a very, very long time. And keep absorbing more and more of the debt issuance of the country, because so far, we've tapered, but we're still buying.

I'd be interested to hear Charlie's thoughts on it.

A - Charlie Munger {BIO 1406508 <GO>}

Well, nobody, for instance, in Japan would ever have anticipated that interest rates would go way down and stay down for 20 years. And nobody would've expected common stocks to decline by huge amounts and stay down for 20 years. So strange things have happened. And they're very confusing to the economics profession. In fact, if you're not confused, you really probably don't understand it very well. And at Berkshire, what I noticed is there aren't many long-term bonds being bought.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We -- well, you know, in 2008, I wrote an article saying, you know, that everybody was saying cash is king. Well, cash may have been king if you used it, but cash was the dumbest damn thing you could possibly own, you know, if you weren't going to use it. And people cling to cash at -- usually at the wrong times.

But it is -- a zero interest rate policy has had a huge effect, both in rejuvenating the economy and -- and in terms of asset prices. It is not, in my view, produced a bubble. That doesn't mean it can't produce one. But this is not -- this is not a bubble situation at all that we're living in. But it's an unusual situation that we're living in.

Any further thoughts, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No, I'm as confused as you are.

A - Warren E. Buffett {BIO 1387055 <GO>}

Oh good. Good. That's why we get along so well.

Carol?

Q - Analyst

This question concerns another uncertainty. It's from Chris Gotcho [ph] of Gotcho Capital Management in New York City.

"You've been looking for a credentialed bear to ask questions at this meeting. I'm not it. In fact, selling short on Berkshire would be quite silly. However, in the long term, Berkshire has a business model of owning over 70 non-financial, unrelated businesses -- bricks and chocolate, for example, which is a model that has almost universally not worked well in the past 100 years of American business. The model has worked well for you two, Mr.Buffett and Mr.Munger, who are uniquely talented. But the question is, the probabilities do not seem likely to be favorable that their successors will be able to have it continue to work nearly as well."

So that is my question.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Actually, that's interesting. The model has worked well for America. I mean, if you look at all these disparate businesses in America, they've done extraordinarily well over time.

So if you want to look at the Dow Jones average as one entity -- now, it was a changing group of companies over a 100-year period but, you know, any business unit that goes from 67 or 66 to 11,497 while paying you out a fair amount of money every year, actually is a model that's worked pretty well. But it hasn't been, of course, under one management.

But owning a group of good businesses is not a terrible business plan. A good many of the conglomerates were put together to perform financial magic of one sort or another. They were based upon -- you know, if you go back to the Litton Industries and the Gulf and Westerns and just -- you could name them by the hundreds. They were really put together -- Ling-Tem, LTV, and -- on the idea of serial issuance of stock, where you issued stock that was selling at 20 times earnings to buy businesses that were at 10 times earnings.

And it was the idea that somehow you could fool people into continuously riding along on this chain letter scheme, without the primary thought being given to what you were actually building in the management. I think our business plan makes nothing, but great sense to own a great group, a group of great businesses, diversified, outstanding managers, conservatively capitalized.

And with one enormous advantage, which people don't really understand. I mean, capitalism is about, in an important way, it's about the allocation of capital. And we have a system at Berkshire where we can allocate capital without tax consequences.

So we can move businesses from See's Candy, to generate surplus capital, to other areas. It doesn't hurt See's in the process, and we can move it, as the textbooks say, to places where capital can be usefully employed, like wind farms or whatever it may be.

So we are -- you know -- there's nobody else really better situated to do that than Berkshire Hathaway, and it makes perfectly good sense.

But it has to be applied with business-like principles, rather than with stock promotion principles. And I would say a great many of the conglomerates have been -- have had, as their underlying premise, stock promotion.

You know, you saw what happened with Tyco or -- the serial acquirers were usually interested in issuing a lot of stock. I think if you had to look at one of the primary indicators of what sort of species you're viewing, you would see whether somebody's issuing -- if they're issuing stock continuously, one way or another, they've probably got a chain letter game going on. And that does come to a bad end.

I think our method of acquiring for cash, and acquiring good businesses, and building many, many sources of growing earning power, I think, is a terrific model.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think there're a couple of differences between us and the people who are generally thought to have failed at a conglomerate model.

One is we have an alternative when there's nothing to buy in the way of companies. We've got more securities to buy in the insurance company portfolios. And that's an option which most of the other conglomerates didn't have.

Number two, they were hell bent to buy something rather quite regularly. And we don't feel any compulsion to buy. We're willing to just sit until something makes sense.

We're quite different. We're a lot more like the Mellon Brothers than we are like Gulf and Western. And the Mellon brothers did very, very well for what, 50, 60, 70 years. And they were willing to own minority interest, they were willing to grow companies, they were a lot like us. And so I don't think we're a standard conglomerate. And I think we're likely to continue to do very well, sort of like if the Mellon brothers had just kept young forever.

A - Warren E. Buffett {BIO 1387055 <GO>}

Now you're talking.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

Jonathan.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Forest River is one of Berkshire's better performing acquisitions. Since Berkshire purchased it in 2005, its sales have grown considerably faster than those of its principle competitor, Thor. And I believe it has taken the number one spot at retail for recreational vehicles.

Can you explain what Forest River is doing differently from Thor? And tell us whether Forest River is accepting lower operating margins than Thor's 7 percent to gain the share. Does Forest River have any sustainable, structural advantages over Thor that will help it maintain its number one position?

Also, with three companies now accounting for about 80 percent of the share in the RV market, are there greater barriers to entry than in the past, or can a feisty upstart like Forest River, in its day, still come out of nowhere and gain a lot of share?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We bought a company called Forest River, run by a fellow named Pete Liegl, I'd say about 10 years ago or so. And it's interesting. Pete, who is not an MBA type at all, he's a terrific guy, he built up a --

That was not a statement, that was an observation. Pete built up a very successful, but much smaller, RV business. And he sold it to a private equity firm in the mid-1990s. And they promptly started telling him how to run it. And he, very shortly thereafter, told them to go to hell.

And, not very long after that, it went broke, which is not unusual -- I would've predicted that. So, Pete then bought it out of bankruptcy, and rebuilt it, and then came to see me about ten years ago.

And in one afternoon -- we went to dinner that night. He brought his wife and his daughter, and we bought the business. And he made me a couple of promises then. He's very limited in his promises. I told him what I'd do. And we've lived happily ever after.

I've never been to Forest River. It's based in Elkhart, Indiana. I hope it's there. I mean, maybe they're just making up these figures -- you know?

I could see that. Some guy saying, "what figures shall we send Warren this month, you know, ha, ha, ha." Pete does a terrific job of running the company. We made a deal at the time he came, on incentive comp and base comp. He's never suggested a change, I've never suggested a change. He's built the company to where it'll do over -- I think it'll do over $4 billion of business this year. I've probably had three or four phone calls with him in the whole time. It's his company. And he does a sensational job.

I don't know about the Thor-Forest River situation in terms of how tough it is to go in to compete with him. I think it'd be tough to compete with Pete under any circumstances. His IT department, for a $4 billion business, consists of six people. He just knows what's going on in the place. And the important thing is that it's his company. I couldn't run an RV company, and we don't have anybody at headquarters that could run one.

It's a tough business. And you do work on narrow margins, to get to your point on that, Jonny. The --it's a business that runs with maybe 11 or 12 percent gross margins, and probably 5 to 6 percent of SG&A. So, you know, your margins are in that 6-or-so percent range.

We have a very good -- both from his standpoint and from our standpoint -- we worked out an incentive comp. Like I say, we worked it out that afternoon in Omaha when he came by. And it's worked for him. It's worked for us. You know, it couldn't be a better arrangement. I wish we had 20 like it.

And probably, most of our shareholders don't even know we own Forest River. But that is a company that will do 4 billion of business this year, and I'll bet will do more business over time. It's the leader in its industry. The industry's not going to go away.

And, you know, maybe we can even sell a little insurance on RVs. So that's the story on Forest River.

Station 10.

Q - Analyst

Hi, Warren, Charlie. My name is Vishal Patel. I'm visiting from Toronto, Canada, and my question is about the oil sands. Can you please share with the audience your view on the oil sands industry and their impact on Berkshire Hathaway?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, in terms of --are you thinking of the oil sands or are you thinking of shale production?

Q - Analyst

I'm thinking oil sands, Alberta.

A - Warren E. Buffett {BIO 1387055 <GO>}

Alberta, yeah.

Q - Analyst

Keystone XL.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's not a huge impact. We have a crane business at Marmon that does a lot of business in oil development, generally. But, certainly, is active in the oil sands.

We will soon have a transmission operation that will cover 85 percent of Alberta. Alberta's a big place. It'll have 8,000 miles, or something like that, of transmission lines, for example.

But the oil sands business is -- I mean, you know, oil sands are huge. And we own some ExxonMobil, and they've got an operation in the oil sands, obviously.

One thing you might find kind of interesting, you know, we are moving 700,000 barrels a day of crude oil on our railroad. We've got -- probably got -- maybe, nine unit trains, now Matt can correct me on that -- you know, that carry 100 cars or so.

And each one has 650 barrels, or so, of oil so that -- oil, you may find interesting, not only is there a significant advantage in terms of the flexibility of where you take it, so that spreads are different in different places, and you can move it to refineries that you might otherwise have trouble moving it. Rail's flexible that way.

But rail, actually, you know -- mentally, you think of oil gushing through pipelines. But rail is probably, I would say, close to twice as fast in moving oil as is -- as are pipelines.

But we recently bought a company from Phillips 66. We got it in an exchange for our Phillips stock. We bought a specialty chemicals company.

And its main product is a chemical additive that causes oil to move through pipelines about 10 percent faster than it would otherwise. So it may take a day off of a trip.

So we're actually in the pipeline business in a small way -- the crude pipeline business -- in a small way, through that. I don't think -- I think the oil sands are an important asset for mankind, obviously. There's a huge amount of oil there. They're an important asset for mankind, you know, in -- over the centuries to come. But I don't think there's -- I don't think it will dramatically change anything at Berkshire.

Matt might have a different view on that. I'll ask Charlie to talk. And then if Matt would like to say anything, I'd be glad to hear from him, too.

A - Charlie Munger {BIO 1406508 <GO>}

Well, but, a lot of the oil sand production uses natural gas to produce the heavy oil. So it's a very peculiar thing. It's economic only if oil stays at a very high price, and it's delightfully economic only if natural gas is too cheap. So it's a very peculiar business. And it is good for mankind. But whether it's a great investment or not, I haven't the faintest idea.

A - Warren E. Buffett {BIO 1387055 <GO>}

Matt, would you -- do you have anything to add on the crude situation there?

Okay. We're at noon. I promised a group -- some people six years ago I made a bet for charity on how an index -- Standard and Poor's 500 index fund -- would compare in performance to a group of hedge funds. And a firm in New York took me up on the bet.

And I promised that every year I would give the up-to-date results on how we're doing. And it's getting to be more fun to give these results every year.

We're now six years into the bet. And it's interesting, because the people who selected these funds are very decent people and smart people. And, obviously, the fund of funds gets paid based on the per -- they get paid a fee, naturally. But they also get paid an additional performance fee based on how the hedge funds they select do. So they have every economic incentive to come up with a wonderful group of hedge funds.

And underneath these fund -- five funds of funds that are involved in the bet -- there are probably, at least, 200 hedge funds that the fund of fund managers have carefully picked in order to enhance their own income. They got the ultimate motivation going for them.

So we are now five years -- six years -- into the bet. And the first year, the fund of fund groups, in a down market, did considerably better than the S&P. But as you can see in the five years subsequently, the S&P has been running away, to some degree.

Interestingly enough, we bought -- we each put in 350, or something, thousand dollars, and we bought zero-coupon bonds so there would be a million dollars in 10 years.

We bought 10-year treasury, zero coupon. And we bought a million dollars principal, each put up 350. Well, the way interest rates changed after a few years to practically zero rates, it meant the bonds, even though they had no coupons attached to them, practically went to par.

So, a year or two ago, we sold the bonds at about 95 or 96, we got almost to $4 million. We put that all in Berkshire stock. I guaranteed them that they would have a million dollars at the end of ten years, no matter what happened. And so the prize looks like it's going to be quite a bit more than a million dollars when the ten years comes around, so. So, so far, everyone's happy.

We'll come -- we'll come back at one o'clock and we'll move on from there. Thank you.

Okay, let's get ready to proceed.

We never get any precise figures, because people come and go from the meeting. But I did know that we sent out about 11,000 more tickets this year than any other year, and we had all the overflow rooms filled. We're using space in a room over at the Hilton and everything, so clearly this year. We have substantial more attendance than any year in the past, and I hope the spending patterns reflect that.

So with that, we'll go to Becky. Assuming she's here.

Q - Analyst

I am, I'm here.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

Q - Analyst

Let's see, this is a question that comes, and I hope I pronounce your name correctly, Michael.

It's Michael -- Michael Locheck [ph] and he says, "Energy Future Holdings' likely bankruptcy is a consequence of unexpected and dramatic decline in prices of natural gas prices caused by a revolution in drilling technology. To what extent do you believe other assets held in Berkshire's portfolio, debt, equity, et cetera, may be subject to disruptive technological or other changes that erode business models and barriers to entry?"

"For example, changes in consumer behavior and regulation could affect Coca-Cola. Revolution in payment systems could affect American Express, ever-increasing rate of change in technology and competitive landscape could affect IBM, wireless delivery of media content and urbanization could be disruptive to DirecTV.

"Could you also comment on whether participation of some sponsors of Energy Future Holdings, which include the very best of private equity, contributed to your decision to invest? Was it the degree of crowd mentality at play, and what lessons are to be learned from the experience?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, well. I would be unwilling to share the credit for my decision to invest in Energy Future Holdings with anybody else. I would think that's very unfair of anyone to insinuate that they had anything to do with that decision. That was just a mistake on my part. It was a big -- it was a significant mistake, and we will make mistakes in the future.

All businesses should constantly be thinking about what can mess up their business model. And with Energy Future Holdings it was a fairly simple assumption that was made that just turned out to be wrong. I mean, the assumption there was that gas prices would stay roughly as high as they were or go higher, and instead they went a whole lot lower.

And at that point the whole place toppled. They had a lot of reserve holdings and they had some futures positions which kept them alive for a while. But that was a basic error.

We look at all of our businesses as subject to change. A classic case would be GEICO. I mean, GEICO set out in 1936 to operate at low costs and pass on those low costs to the customer through lower prices for something that was a necessity, auto insurance. And they originally did it by mail offerings, U.S. Postal Service, two people who were government employees. That's where the name comes from, GEICO, Government Employees Insurance Company.

And they had to adapt over the years, and they adapted first to widening classifications. But they went from the U.S. mail, primarily, to the telephone, and later went to the internet, and onto social media. But in there they stumbled one time too, as they went to adapt, and they -- when they left the government employees classification, at one point they became too aggressive about expanding and they almost -- they really did go broke.

So there's -- change is going on all the time, and it's going on with all of our businesses. And we want managers that are thinking about change, and what can -- what's going to be needed for their business model in the future. And we know they're not going look the same 5 or 10 years from now. I mean, BNSF, something as basic as railroads, is looking big at LNG for its locomotives. Everything is going to change.

Our businesses generally deal from strength and they're generally not subject to rapid change. But they're all subject to change, and of course, slow change can be much harder to perceive, and can lull you to sleep easier, sometimes than when rapid change is clearly in sight. So I would say, in answer to that question, A) I will make mistakes in the future. I mean, that's guaranteed.

We do not make anything like "bet the company" decisions that will ever cause us real anguish. That just doesn't happen at Berkshire. But you're not going to make a lot of decisions without making some significant mistakes.

And occasionally they work out very well. Charlie and I, and Sandy Gottesman, in 1966, bought a department store in Baltimore. Now, there's probably nothing dumber than buying a department store in the mid-1960s. There were four department stores on the corner of Howard and Lexington Street in Baltimore in 1966, and none of them are there. And the number one store, Hutzler's, went broke a little later than our store went broke.

But fortunately Sandy did a great job of selling it, so the $6 million invested in that department store became worth about $45 billion in Berkshire Hathaway stock as we did other things with the money as we went along.

So you do have to be very alert to what is going on in your businesses, and we want our managers to do that. But actually, it's something that Charlie and I, and our directors, are going to think about, as well as our managers. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, I spoke earlier about the desirability of removing your ignorance piece by piece, and there's another trick, which is scrambling out of your mistakes. And we've been quite good at both, and it's enormously useful.

Imagine Berkshire, a textile mill sure to go broke because of power costs in New England were about twice as high as they were in TVA country, a sure-to-fail department store, and a trading stamp sure to be forced out of business by change in mode. Out of that comes Berkshire Hathaway. Talk about scrambling out of mistakes, I think of what we might have done if we'd had a better start.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. The point was driven home to me -- my great-grandfather started a grocery store here in Omaha in 1869. And my grandfather was running it in 1929, and he wrote my uncle who was going to be running it with him. And the letter started out, this is in 1929, "the day of the chain store is over." And that is why we ended up with one grocery store, which went out of business in 1969.

It -- you really have to face facts around you, and the wish being father to the thought was, unfortunately, what overcame my grandfather.

okay, Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

This question is on the Heinz transaction. Berkshire's 50 percent ownership in Heinz is included in Berkshire's results, which can be meaningful to its earnings over time.

What is Heinz's current normalized earning power, after the substantial restructuring of the business, and what do you anticipate Heinz could earn within a few years?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, Heinz will be filing its own 10-Qs. In fact, I guess its first quarter would be -- they went to a calendar year now -- first quarter would be about due now. So you'll get to see Heinz's figures.

And I will say this, that Heinz was actually a very reasonably run food company with about 15 percent pre-tax margins for many years, and that's not an unusual operating margin in the food business. And I would just invite you to look quarter by quarter and maybe next year, too, I think the margins of Heinz will be significantly improved from those historical figures. What Bernardo Hees and his associates have done there is -- they've just restructured the business model.

And I think that the brands, which are all-important, are as strong as ever. And I think the cost structure is going to be significantly improved without cutting into marketing expenditures.

So I think you'll see a significant improvement, but I don't want to name a number on that. You'll find it out soon enough.

Okay. Station 11.

Q - Analyst

Hi, Mr.Buffett and Mr.Munger. My name is Dev Kantesaria and I'm a fund manager from Philadelphia. You've touched on some of this already today, but I wanted to ask, if you could expand on how you think about comparing investment opportunity. In the past, you haven't been afraid to make a single position, a large portion of your portfolio, such as Coca-Cola.

So when there is a chance to buy more of your favorite names, as in 2008 and early 2009, how did the case of buying more of companies like Coca-Cola or even a Moody's, which had dropped from 75 to 15, as examples, compare with other things that you actually did? Could Berkshire have achieved its historical returns with a more simple, concentrated portfolio of your favorite names with positive characteristics such as durable, competitive advantage, pricing power, strong organic growth, et cetera, versus the larger, more complex collection of businesses which exist today? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, depends which favorite name we might have hit harder back in the 2008 and 2009 period.

In the first instance, I spent a considerable part of our cash reserves too early, looking back, too early in the 2009 panic. The bottom of that was reached early in March in 2009, and that bottom was quite a bit lower than September and October of 2008 when we spent 16 or so billion.

Now, we were committed to finance Mars for 6.6 billion, and that commitment had been made many months earlier, so we didn't really have much choice in terms of the timing of that. But we did fine on the expenditures we made during that period, but obviously we didn't do as well -- remotely as well, as if we'd kept all of the powder dry and then just spent it all at once at the bottom.

But we've never really figured out how to do that, and we won't figure out how to do that. So, the timing could have been improved dramatically. On the other hand, as late as the late fall of October 2009, when the economy was still in the dumps, really in the dumps, you know, we were able to buy BNSF, which will be an enormous part of our future.

So, overall we did reasonably well going through that period. But looking back, the most money would have been made just by buying a bundle of stocks.

When we were buying Harley Davidson bonds at 15, looking back we should have been buying the stock. But that'll always be the case.

Overall, we would love the idea -- what really we want to do at our present size and scope, and with the objectives we've got for our shareholders, is we want to buy big businesses with good management at reasonable prices and then try to build them over time.

I mean, when we start 2014, we've got a really good group of businesses, some of them very big. Those businesses will earn more over time, and then the -- what we're trying to do is add onto them and make sure we don't issue any shares in the process. So it's not a complicated process.

And looking back we'll always be able to do it better than we've done it. That's just the nature of things. But I don't -- I feel the game is still a very viable one, and will be for some time. It won't be forever, it can't be forever. But it's still got some juice left in it. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, what's happened, of course, is the private businesses that we control have gotten to be a bigger and bigger percentage of the thing. For a great many of the early years, we had more in common stocks than the total value of the company. And so we were -- it was like a big portfolio of common stocks and a lot of businesses thrown in as extras.

And now, of course, the private companies are worth way more than the stocks. And, I would guess that that will continue, wouldn't you Warren?

A - Warren E. Buffett {BIO 1387055 <GO>}

Sure, it'll continue. And the difference is when we're right about stocks, it shows up in market value and in net worth.

When we're right about businesses, it shows up in future earning power, which you can see, but it doesn't jump out at you the same way changes in stock values do. So it's a different sort of buildup of value, and one is somewhat easier to see than the other. But the other is more enduring and does not require going from flower to flower. And they're both fine, but we've moved into phase two. Say that's fair, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, well, if you're just investing moderate amounts of capital in the middle of some panic, you take the bottom tick, it's a very attractive price. But no significant volume of the shares could have been purchased at that price. And so when we buy these businesses, we can get huge chunks of money into things. And now if we'd wanted to go much heavier into Moody's, we couldn't have bought that much anyway.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, no.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, so, we are sort of forced by our own past success, more into these bigger positions represented by the private companies.

But really, that's in the advantage of all of us, I think.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

I love it when we buy transmission lines in Alberta. I don't think anything horrible is going happen to Alberta. And nor do I think transmissions --

A - Warren E. Buffett {BIO 1387055 <GO>}

If it does, we won't know it.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, right, right. And -- no, I think we've adapted pretty well to changes in our circumstances. And that, again, is part of life. I mean, since change is inevitable, how well you adapt to it is terribly important. And I would say the changes that many of you, who have watched in Berkshire over the years have been very much in our interest, and then there may be future changes that are just as desirable.

A - Warren E. Buffett {BIO 1387055 <GO>}

We bought a fair amount of Wells Fargo, for example, really over the last few years. And because the economy came back, really, the most money, if you were buying at the bottom, came from buying the banks of lesser quality because they -- their weaknesses drove them down even further in price, and they needed a good economy to come back.

But they were kind of like a marginal copper producer or something, that you make more money if copper goes up, not if you buy the best copper company but usually if you buy the worst one, because it -- they have the highest marginal cost, but that gives it the biggest kick on profits.

To some extent that's been true, for example, the banks. But we felt 100 percent comfortable buying Wells Fargo, and we might have felt 50 percent comfortable buying some others and so we went where we were comfortable.

Looking back, you can say we should have just bought them all. And in fact, bought the ones that had had the worst record going into 2008 or '09, because they had the greatest recovery possible, simply because they'd fallen so far. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

And it has to do with the future as well, and it relates to GEICO. And the questioner asked, "Could you, and perhaps Tony Nicely, please explain how you think about usage-based pricing, tracking drivers electronically and charging premiums accordingly, and how that will affect the auto industry -- auto insurance industry in the U.S. in the next decade, and how these changes impact the moat at GEICO?

I'm also sure you've studied the potential impact of self-driving cars on GEICO. Google says it's now five years away. What does this mean to the future of the profit machine that is GEICO, and if the analysis showed a challenging future, would you ever sell?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, the answer to the very last question is no. The usage-based pricing is something that's popular with some companies that have done a lot of work on it. Probably the one most identified with it is Progressive, doing something called "Snapshot."

And there's no question that knowing how customers drive, or policy holders drive, and how they use their cars is a valuable input to assessing the proper premium to people. And insurance is all about comparing the propensity of loss to achieve or evaluating the propensity of loss to establish the proper premium.

And it's very easy to understand in life insurance. I mean, if somebody is 90, they're more likely to die than 20, despite Charlie -- situation. Even at 83, they're more likely to die than somebody at 20.

The -- so you know, that's obvious. Females live longer. That's not quite as obvious, but it's been established.

So there are various variables in insurance, and you try to assess those variables and set the proper price for the policy holder. If you lived in a state, for example, where the population of the state was one instead of, you know, 100 million, there'd be a whole lot less chance of an accident, you know, than -- because of the lack of density of driving and so on. There's all kinds of variables.

And through studying usage, by various methods, Progressive being probably the best known on it, they're attempting to look at some variables and hope they get better information about the propensity of that particular driver to -- or the likelihood of that particular driver -- to be in an accident.

And we look at lots of variables, they look at lots of variables. We think we've got a pretty good system, and so far I think that's been proven correct. But we'll continue to look at many variables.

I feel very, very, very good about GEICO, GEICO's management, and its ability to evaluate risk. And I think there are plenty of other people that are good at it, but I don't think there's -- in my view, there's nobody better at it, in terms of auto insurance, than the GEICO people.

So -- but we ought to keep asking ourselves, "Can we do it better?" And we do ask ourselves that.

Now, when you get to the self-driving car, that is a real threat to the auto insurance industry. I mean, if that proves successful and reduces accidents dramatically, it will be very good for society and it will be very bad for auto insurers.

So you know, that can happen. I don't know how to evaluate over how long a period that might take or what percentage of cars might be affected with that. But it certainly could happen and it would not cause us to be thinking for one second about selling GEICO. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, some of these things happen a lot more slowly than you might think. I went to a program at Harvard, oh, at least 30 years ago, describing how color movies were going come to the house on demand, and they were just around the corner.

Well, they've come, but it was 30 years later. I have a feeling that self-driving cars having a huge impact on the market may take quite a while. And so I'm not --

A - Warren E. Buffett {BIO 1387055 <GO>}

That would be my guess, but we could be wrong, you know.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, it could be wrong.

A - Warren E. Buffett {BIO 1387055 <GO>}

But --

A - Charlie Munger {BIO 1406508 <GO>}

But --

A - Warren E. Buffett {BIO 1387055 <GO>}

But if we are wrong, we'll be wrong together. It is hard to figure out how it could have a major impact in 10 years, but it may not work at all, who knows?

But GEICO will be doing more business, a lot more business, in my view, five years from now than now, and ten years from now. You know, 30 years from now, you're young enough to find out, and I will go away peacefully without knowing. Okay.

Gregg.

Q - Greg Warren {BIO 4325523 <GO>}

Thank you, Warren. You've been pretty explicit about your acquisition criteria over the years, and some years ago, perhaps around the time of the ISCAR deal, you mentioned at one of the annual meetings that a concerted effort was being made to make non-U.S. companies more aware of Berkshire's positive attributes as a preferred acquirer.

Yet, despite the higher proportion of large family-owned businesses in places like Europe and the fact that over half of the world's listed market cap currently comes from outside of the U.S., Berkshire has deployed very little capital outside of the U.S. with just ISCAR, and more recently AltaLink, coming to mind. Is the U.S. truly that much more attractive a destination for capital, or is there some other reason why the firm has not deployed serious capital outside of the region?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, no, we've never turned down a chance to make a significant acquisition outside the United States because of any feeling we'd much rather be doing something in the United States. We just -- you know, you mentioned the Alberta deal.

But we have not had as much luck getting on the radar screen of owners around the world as we have in the United States. Our best bet, by far, in buying a business is to buy it from the family of a founder or the founder himself or herself. So we've, you know, that's our strong suit, and in the United States I think almost anybody that fits in that category with a business of size thinks of us. And a fair number would prefer us.

I don't think that same -- I think there's some recognition outside the U.S. Certainly when we heard from ISCAR, that was in 2006, Eitan Wertheimer said, he wrote me a letter, I'd never heard of him before, I'd never heard of the company. And he said the family had thought about it, and we were the only company to which they wanted to sell, and if they didn't sell it to us, they weren't going to sell it.

So, there's some awareness. But I've been a little disappointed in that we haven't had better luck outside the country. And we'll keep working at it and see what happens. Incidentally, I just talked to Jacob Harpaz, who does an incredible job of running ISCAR. I talked to him yesterday when I was touring the exhibition hall.

They set a new record in April. Now, that won't be the last new record they set. But that may have some slight meaning, in terms of how world business is doing, because they sell, you know, these tiny little cutting tools, and so on, that go into basic industry all over the world.

And people don't buy those because they -- you know, they're going look pretty in their offices or anything else, they buy them because they're using them up. And, it was a record in April. March had been extremely good, too. So they are seeing strength in the business that certainly would make it hard to believe there's weakness going on throughout the industrial world.

ISCAR's been a wonderful company for us. The people have been sensational. The business is extraordinary. It just is -- it fits us so well that I just wish I could find a few more like it out there.

But this year, aside from the one we announced yesterday, we have not been contacted by any significant ones that made sense. We have heard from people over the last five years, I mean, fair number. But nothing that really makes sense. But we'll keep trying.

okay, station 1, we're back -- here we are.

Q - Analyst

Hello, Mr.Buffett, and hello, Mr.Munger. Thank you for being extremely generous with sharing your wisdom. My name is Chander Chawla, and I am visiting from San Francisco. In the past, you have said that people should operate within their circle of competence. My question is, how does one figure out what one's circle of competence is?

A - Warren E. Buffett {BIO 1387055 <GO>}

Good question. Some of the people in the audience are identifying with it, I can hear them.

It's -- it is a question of being self-realistic, and that applies outside of business as well.

And, I think Charlie and I have been reasonably good at identifying what I would call the perimeter of that circle of competence, but obviously we've gone out of it. I would say that in my own case, I've gone out of it more often in retail than in any other arena. I think it's easy to sort of think you understand retail, and then subsequently find out you don't, as we did with the department store in Baltimore.

You could say I was outside of my circle of competence when I bought Berkshire Hathaway, although I bought it, really, to resell as a stock, originally. I probably was out of my circle of competence when I decided that I should go in and buy control of the company. That was a dumb decision, which worked out.

The -- being realistic in appraising your own talents and shortcomings, I think -- I don't know whether that's innate, but some people seem a whole lot better at it than the others. And I certainly know of a number of CEOs that I feel have no idea of where their circle of competence begins and ends.

But, we've got a number of managers who I think are just terrific at it. I mean, they really know when they're playing in the game they're going win in, and they don't go outside of that game. The ultimate was Mrs.B, at the Furniture Mart. She told me that she did not want stock, in terms of the Berkshire Hathaway deal. Now, that may sound like it was a bad decision. It was a splendid decision.

She did not know anything about stock, but she knew a lot about what to do with cash. She knew real estate, she knew retailing, and she knew exactly what she knew and what she didn't know, and that took her a long, long, long, long way in business life.

And that -- that ability to know when you're playing the game in which you're going to win, and playing outside of that game, is a huge asset.

I can't tell you the best way to develop a great sense of that about yourself. You might get some of your friends that know you well to offer contributions. Charlie's given me a few contributions occasionally, saying, "What the hell do you know about that?" That's one way of putting it, of course.

But Charlie, do -- can you help him out?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't think it's as difficult to figure out competence as it may appear to you. If you're five-foot-two, you don't have much of a future in the National Basketball League. And if you're 95 years of age, you probably shouldn't try and act the romantic lead part in

Hollywood. And if you weigh 350 pounds, you probably shouldn't try and dance the lead part in the Bolshoi Ballet. And if you can hardly count cards at all, you probably shouldn't try and win chess tournaments playing blindfolded, and so on and so on.

A - Warren E. Buffett {BIO 1387055 <GO>}

You're ruling out everything I want to do.

A - Charlie Munger {BIO 1406508 <GO>}

But competency is a relative concept. And what a lot of us need, including the one speaking, is -- what I needed to get ahead was to compete against idiots, and luckily there's a large supply.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, Carol.

Q - Carol Loomis {BIO 7137249 <GO>}

This question comes back a little to a question asked earlier about your annual performance, standard that you comparison.

"Mr.Buffett and Mr.Munger, I think of you as running a rational company. But when I look at your annual comparison of Berkshire's book value per share versus the S&P average, I don't see any rationality in that at all."

"What is the logic of comparing a stock market index against the rise in an operating company's book value? And an operating company is predominantly what Berkshire is these days. So, why do you annually make this irrational comparison?"

A - Charlie Munger {BIO 1406508 <GO>}

Let me answer that one.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

A - Charlie Munger {BIO 1406508 <GO>}

The answer is you're totally right, and we do that because Warren wants to make it eccentrically difficult for himself. So if you don't understand people who like to wear hair shirts, you'll never figure out why anybody would do such a thing.

It's a ridiculous way to make a comparison, but it makes it hard for Warren to look good. And he likes to climb mountains that are difficult. But it's insane, you're right.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, yeah. Normally when he goes all wishy-washy like that, I like to clarify, but I don't think I'll try.

Okay. Jonathan.

Q - Jonathan Brandt {BIO 17988091 <GO>}

The multiple of pre-tax profit that Berkshire paid for minority interests in Marmon and ISCAR in 2013 were considerably higher than the multiples Berkshire paid for earlier purchases of majority stakes in those two firms. Can you please explain why the valuation formulas changed, why the multiples weren't fixed for future increases in Berkshire's stake, which at least in Marmon's case were always contemplated, and why Berkshire was willing to accept meaningfully lower returns on the more recent purchases, not so many years after the first purchases?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, well, the multiple with ISCAR was actually determined precisely on the basis of which the original purchase was made. In other words when we made the deal in 2006, we took multiples of earnings and allowed for cash and a few things.

But -- and then we took that formula and we stuck that in as both a put and call option for the family or Berkshire. They had the put, we had the call. And we stuck that in to govern things for, you know, between now and judgment day, and so that there's no variation from the original formula.

We would never -- shouldn't say never, but we had -- our style would not be ever to call that from the family, even though we had the right to do it.

The put and call were at the same price, or at the same -- following the same formula. But the family elected to put it to us, but they put it to us exactly on the same basis as what was involved in the original purchase of the 80 percent.

The Marmon deal is entirely different. The Marmon deal was an installment sale, and, in effect, to make the deal and buy the originals turned out to be 64 percent, we intended it to be 60 but gave them the option to do more.

That was simply an installment sale, and we looked at the consequences of the formulas being applied in the future. The family would not have sold us the 64 percent, which they did on the original piece, unless they had the formula applying to the second and third piece that was embodied in the contract.

And we looked at that as a single transaction, knowing that if the business improved we would be paying more money, and as the cash position improved, we'd be paying more money later on. But it was all built into the original deal, so one was one -- was at exactly the same price, and one was part of a three-step deal, in effect. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

But the price went up because the value went up.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, but it was -- and because it was built into --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, and we'd agreed to -- that that would be -- we'd pay value.

A - Warren E. Buffett {BIO 1387055 <GO>}

In both cases, I should say too, both with the Pritzker family at Marmon and with the Wertheimer family at ISCAR, it couldn't have been -- they couldn't have behaved better -- or the feelings are entirely good, everybody felt good about the transaction. The initial transaction and the subsequent transaction. So it pays to have to have deals in which people feel good when they --

A - Charlie Munger {BIO 1406508 <GO>}

Nothing that happened there is that -- we got just an enormous respect for the intelligence of those two families. The more we looked at those businesses, the smarter and better those families looked. It was just amazing what each family had done, wouldn't you say, right?

A - Warren E. Buffett {BIO 1387055 <GO>}

Right.

A - Charlie Munger {BIO 1406508 <GO>}

Absolutely amazing.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. And those were two important acquisitions. I mean, you know, they add up to lots of intrinsic value. And there, partly because of some accounting peculiarities, but the carrying value of the businesses is well below what the intrinsic business value is now.

A - Charlie Munger {BIO 1406508 <GO>}

And by the way, that Union Tank Car that's within Marmon is John D. Rockefeller's old business. The first John D. Rockefeller. It's amazing how some of these good businesses have lasted.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, well, actually the corporate form it -- the original corporation that is Marmon, I'm quite sure, is Rockwood and Company, which I did a cocoa arbitrage with back in 1955 or something, and that's where I met Jay Pritzker. So it -- these things wind their way along.

One thing you learn in life, but also learn particularly in business, is that you're going to meet a lot of people and entities and experiences -- in the future that -- you may have thought were one shot --one stop shops originally in your life.

Station 2.

Q - Analyst

Mr.Bung -- Mr.Buffett, Mr.Munger, my name is Nicholas Erdenberger. I hail from the beautiful Garden State of New Jersey. And I guess the -- and I guess the question --

A - Warren E. Buffett {BIO 1387055 <GO>}

Withhold your -- applause, applause.

Q - Analyst

So I guess this is a follow-up question to the question before. I really connect with the idea of not investing in industries you can't fully understand. Being a young guy who has limited ability to code and who can't build robots, tech is certainly not an industry I fully understand.

And yet these days, the concept of entrepreneurship is nearly synonymous with tech amongst people my age. So my question to you, Mr.Buffett, is if you were 23-years-old with entrepreneurial tendencies, what non-tech industry would you start a business in and why?

A - Warren E. Buffett {BIO 1387055 <GO>}

I'd probably do just what I did when I was 23.

The -- you know, I would go in the investment business. And I would look at lots of companies and I would go and talk to lots of people, and I would try to learn from them what I could about different industries.

One thing I did when I was 23, if I got interested in the coal business, I would go out and see the CEOs of eight or ten coal companies. And the interesting thing was I never made appointments usually or anything, I just dropped in. But they --they felt a fellow from Omaha who looked like me couldn't be too harmful.

So they'd always see me. And I would -- I'd ask them a lot of questions, but one question I'd always ask them, two questions at the end, I would ask them if they had to put all of their money into any coal company except their own and go away for 10 years and couldn't change it, which one would it be and why?

And then I would say, after I got an answer to that, I would say, and if as part of that deal they had to sell short in the equivalent amount of money in one coal company, which would it be and why?

And if I went around and talked to everybody in the coal business about that, I would know more about the coal companies from an economic standpoint, than any one of those managers probably would.

So, I think there's lots of ways to learn about business. You're not going learn how to start another Facebook or Google that way, but you can -- you can learn a lot about the economic characteristics of companies by reading, personal contact.

You do have to have -- you have to have a real curiosity about it. I mean, you -- I don't think you can do it because your mother's telling you to do it, or something of the sort.

It really has to turn you on. And I mean, what could turn you on more than around asking questions about coal companies? You have to maybe be a little odd, too.

But that's what I would do. And I might, in the process of doing that, find some industry that particularly interested me, in my case the insurance industry did, and you might become very well equipped, even perhaps, to start your own insurance company, but perhaps to pick the most logical one to go to work for.

If you just keep learning things, something will come along that you'll find extremely useful to do. I mean, it -- but you've got to be open to it. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, you might try a version of the trick that Larry Bird used. When he wanted an agent to negotiate his new contract, he asked every agent why he should be selected. And if he was not going be selected, whom the agent would recommend. And since everybody recommended the same number two choice, Larry Bird just hired him and negotiated the best contract in history. There's --

A - Warren E. Buffett {BIO 1387055 <GO>}

Well --

A - Charlie Munger {BIO 1406508 <GO>}

-- there are a lot of tricks that people use.

A - Warren E. Buffett {BIO 1387055 <GO>}

We did the same thing with Solomon, actually. It was a Saturday morning --

A - Charlie Munger {BIO 1406508 <GO>}

Yeah.

A - Warren E. Buffett {BIO 1387055 <GO>}

-- when I call --and you were there, Charlie, weren't you? -

A - Charlie Munger {BIO 1406508 <GO>}

Yes --

A - Warren E. Buffett {BIO 1387055 <GO>}

-- I wasn't sure.

I called in, I don't know whether it was eight or ten of the -- I had just gotten in there on Friday afternoon, and now it's Saturday morning and we had to open for business Sunday night in Tokyo, and I had to have somebody to run the place. So I called in eight people and I said, you know, "who besides you would be the ideal person to run this, and why?"

One guy told me that there was nobody compared to him. He was gone from the firm within a few months. But it's not a bad system to use.

You can really learn a lot just by asking. I mean, starting to sound a little bit like a Yogi Berra quote or something, but it is -- it is literally true that you -- if you talk to enough people about something they know something about, and people like to talk. You know, and -- here we are talking ourselves.

And you just have to be open to it. And you will find your spot. You may not find it the first day, or the week, or month, but you'll find what fascinates you. I was very lucky because I found what fascinated me when I was seven or eight years of age. But -- you know, some people find chess or music, you know, fascinates them when they're four or five. If you're lucky you find it early, and sometimes it takes you longer, but you'll find it.

A - Charlie Munger {BIO 1406508 <GO>}

If it's a very competitive business, and it plainly requires the qualities that you lack, it should probably be avoided.

I could -- when I was at Caltech I took thermodynamics, and Homer Joe Stewart, who was a genius, taught the course. And it was fairly apparent to me that no amount of time or effort would turn me into a Homer Joe Stewart. He was utterly, impossibly more talented than I could be. Gave up. I immediately said I wasn't going try and be a professor of thermodynamics at Caltech. And I've done that with field after field, and pretty soon there was only one or two left.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, I had a similar experience in athletics.

Okay, Becky.

Q - Analyst

This question comes from Darren Bornemeier. He says, "Warren, you've commented in the press that you are concerned about the hotel price gauging in the Omaha area during the Berkshire meeting weekend."

Hold your applause, you haven't heard the rest. "Please elaborate further on that position, as it seems to contradict free market capitalism. Shouldn't the law of supply and demand apply in this case?"

A - Warren E. Buffett {BIO 1387055 <GO>}

Absolutely. And so therefore, since we want to increase the demand, the proper thing to do is increase the supply, right?

And that's why we have encouraged, for example, Airbnb, to come in and they supplied some rooms this year.

But it's very logical. If you think about most cities, the big events that come to their convention centers and use their hotels, they size themselves in deciding where to go. If you have a relatively small industry, they can pick a moderate-sized city and they can have their convention there, and they don't outstrip the supply of rooms.

If you have a very big industry and you're having a convention, you know, you have to go to some place like Vegas or some place that has a lot of rooms because otherwise you do throw the supply-demand out of whack.

So, if you have an event, which isn't sized by the people that are scheduling it, can't be sized by the people that are scheduling it, then you can totally outstrip rational supply of rooms.

I mean, the great case would be something like the Masters tournament. I mean, Augusta can't size its hotel industry to Augusta, to the Masters, and the Masters isn't going move any place. Well, there are certain events like that, but there aren't very many.

And Omaha cannot size its hotel supply to the Berkshire meeting. It sizes it to the kind of conventions it normally gets and all of that, but the Berkshire meeting has grown beyond what we anticipated.

So fortunately, there's developed -- and for that reason people started putting in -- what really bothered me were the three-day minimums. I mean, it -- you know, I think there's something particularly irritating about somebody's coming in for a one-day event to have to buy -- have a three-day minimum. And the prices were getting high.

Incidentally, Omaha Hilton right across the street, they've been magnificent throughout this, as have many others. But there were a few that were really pushing things, and we didn't want to cut down on the demand. We didn't want to move to Dallas, even though we're opening a store there next year, it would be kind of fun for that.

But we're not going move to Dal -- I mean, we want -- Omaha people love this event, it's an economic boon for Omaha, but -- and people get a good impression of Omaha when they come here, generally.

So it's -- there's a lot of good things about having the meeting in Omaha, and we can't expect anybody to build new hotels to take care of three days a year. So, fortunately, something like Airbnb is sort of a flex supply arrangement that seems to me to make a lot of sense for it.

And I think that it will be more developed by next year, and I think that the hotels will do extremely well next year. But I don't think they can push it to the ultimate extreme of a total scarcity product. And we want them to do well, and that's why we've gone where we have. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Nothing to add.

Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

This question is on GEICO. GEICO continues to gain the most market share of the large auto insurers while delivering attractive margins. It also has the largest advertising budget of the auto insurers while maintaining the advantage of being a low-cost operator.

My question is, will GEICO, with 10 percent market share currently in auto insurance, eventually overtake State Farm, which currently has 19 percent market share in auto insurance, keeping in mind that State Farm is also a major writer of homeowners insurance coverage?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, that's a good question. Nobody knows the answer to that for sure. But I will tell you this, we passed Allstate this year.

And State Farm is a terrific company, I mean, it's one of the great histories -- has one of the great company histories in America. It was started by a farmer who had no insurance experience to speak of when he was, I think, in his early 40s. There's a book called "The Farmer from Merna," I think it is, over in Illinois, and you know, he built this incredible business based on a better business model. And that was done around 1920 or so, I believe.

And then, of course, GEICO came out with an even better model, but State Farm was huge by that time. Allstate was very, very large. And it's taken us since 1936 to become number two. Now, I have some projections that if I live to be 100, that we should be number one. And I tell GEICO, I'm going do my part. So the rest is up to them.

We will gain share, in my view. We will gain share month after month, year after year, as long as we never forget that our job is to take extremely good care of the customer, and as long as we can properly rate risks.

We've got some basic advantages that will enable us to do that as long as we take care of those two matters. And Tony Nicely has done a job that belongs in, you know, world's hall of fame, in terms of achieving that objective.

The 15 years prior to Tony coming -- taking over -- roughly 15 years, maybe 14 years -- the market share had hovered around 2 percent. And you know, maybe two-one or two-two. And you know, since he took over in 1993, it's gone to ten-plus and it will keep going.

But State Farm has got a net worth of probably 70 billion now or there abouts, 60 to 70 billion, and they've got a strong presence in homeowners and they've got a strong agency force. They've got a lot of satisfied customers. So it won't come fast, but I do think it will come. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, GEICO to me is very much like Costco. And one of the reasons it's succeeded is that they really feel a holy duty to have a wonderful product at a very low price.

A lot of people talk that game, but very few have it just right down under the body and soul of the company. But GEICO does, and companies like that do tend to grind ahead over time.

A - Warren E. Buffett {BIO 1387055 <GO>}

One thing you'll find about it, I think this is true about Costco, too, it's certainly true about GEICO, is that people don't come and go from there as they -- I mean, we have practically no one from the rest of the insurance industry that's come over to GEICO, and they don't leave us.

I mean, they really have their own idea about how it should be done, what should be done right. And it becomes very, very reinforced. And, of course, it becomes reinforced by success. Is that true at Costco, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Oh, Costco's unbelievable. And it reminds me very much of GEICO, and I'm not surprised that both companies keep taking share.

It's easy to talk the game, but living the game is something else. I mean, it's against the human nature of many entrepreneurial people to try and get the price down and the service quality up all the time. I mean, it's like wearing the ultimate hair shirt and yet it works.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, station 3.

Q - Analyst

Mr.Buffett, my name is Neil Patel from Chicago. I greatly admire the way you have lived a frugal personal life even with your considerable wealth. How do you think your frugality has helped Berkshire shareholders over the years? And Charlie, are there any instances where you think that Warren's frugality has hurt Berkshire and its shareholders?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, first of all, let's ask who is the more frugal between us. Charlie, who do you think is?

A - Charlie Munger {BIO 1406508 <GO>}

Well, in personal consumption, Warren is more frugal.

A - Warren E. Buffett {BIO 1387055 <GO>}

Would you care to give an example?

A - Charlie Munger {BIO 1406508 <GO>}

Warren lives in the same house he bought for a very modest price, what, in 1950-something?

A - Warren E. Buffett {BIO 1387055 <GO>}

I bought in 1958, and you moved into yours about 1960, didn't you?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, and I paid more.

A - Warren E. Buffett {BIO 1387055 <GO>}

But he designed his own --

A - Charlie Munger {BIO 1406508 <GO>}

Absolutely, I could get --

A - Warren E. Buffett {BIO 1387055 <GO>}

-- he designed his own house.

A - Charlie Munger {BIO 1406508 <GO>}

-- he's more frugal.

A - Warren E. Buffett {BIO 1387055 <GO>}

He did not pay an architect, right?

A - Charlie Munger {BIO 1406508 <GO>}

I did, I paid an architect $1,900. It was as much as 30 percent of the normal price.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Notice how he remembers the details.

No, I would -- I have everything in life I want. It's a very simple thing. If there's anything that money can buy -- there are things money can't buy, but if there's anything money could buy that I wanted, I'd do it this afternoon. I wouldn't have any problem with that at all.

I do not think that standard of living equates with cost of living beyond a certain point. I mean, up to a certain point there's no question that it does in terms of having good housing, good health, good health service, good food, everything. But what -- good transportation.

But there's a point I think, if anything, you start getting inverse correlation. My life would not be happier, and it'd be worse, if I had six or eight houses or, you know, a whole bunch of different things I could have. It just doesn't correlate.

And so having everything I have, I mean, you can't have more than that. And that doesn't really make any of it, it makes a difference up to a point. I mean, you could start thinking a lot differently when you got to X, but when you get to ten-X, or a 100-X, or 1,000-X, it just doesn't make any possible difference. Charlie, can you --?

A - Charlie Munger {BIO 1406508 <GO>}

Frugality, basically, has helped Berkshire. And I look out at this audience and I see a bunch of understated frugal people too. We collect you people.

A - Warren E. Buffett {BIO 1387055 <GO>}

But forget about it this weekend. The more you buy, the more you save at these prices, folks.

Okay. Andrew.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

This question comes from Azhar Quader who's in the audience, Queens Court Capital, wants you to know that he's a Columbia B School grad just like you, Warren.

A - Warren E. Buffett {BIO 1387055 <GO>}

Good.

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

The question is the following, "Berkshire paid $8.9 billion in taxes in 2013. Pfizer is currently contemplating an acquisition that would allow it to move its technical holding company overseas and thereby save income tax expense and create shareholder value. Is this something you and Charlie would ever consider if it would create value for Berkshire shareholders?"

A - Warren E. Buffett {BIO 1387055 <GO>}

I think the answer to that is no. What do you say, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I think it would be -- I think it would be crazy to be as prosperous as Berkshire and get our tax to zero while we remain this prosperous. That would not be a legitimate ideal.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We could not have done Berkshire in any other country except the United States, either. You know, and just look at what we've acquired and everything.

America has, in a very, very, very big way helped Charlie and I become very, very, very rich. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I've got no complaints. And I look around at this group, I see you at breakfast, it's a very happy group of people. I don't think a lot of people are gnashing their teeth, that somebody else has a little more.

A - Warren E. Buffett {BIO 1387055 <GO>}

But we don't pay -- I don't want to make it holier than thou, this stuff. We don't pay anything beyond that. When we get all through figuring out tax on our 20,000 page-plus return, we just don't -- we don't add a tip of 20 percent or 15 percent or anything.

And we do certain transactions which are tax driven. We're in low-income housing tax credits, which actually George Bush, 41, congratulated me for. So it's bipartisan.

We -- the wind energy deals we do, the solar deals we do, they are tax driven to -- I mean, they won't make economic sense otherwise. So we follow the rules. But we don't begrudge the taxes we pay. We've earned a lot of money while paying U.S. taxes.

Okay, Gregg.

Q - Greg Warren {BIO 4325523 <GO>}

Warren, Burlington Northern's main competitor in the west, Union Pacific, generates around 10 percent of its revenue from freight moving to and from Mexico. It also owns a 20 percent stake in the large Mexican railroad, Ferromex.

Given the expectation for strong auto production growth in Mexico with 30 percent more capacity coming online in the next two years, and the potential for additional near-sourcing manufacturing in Mexico, how attractive do you find the Mexican freight market?

And assuming that the answer to that question is positive, would it not be a greater benefit to Burlington Northern to own the smallest Class-I railroad at Kansas City Southern, which generates about half its revenue from its Mexican concession, rather than just receiving cargo from the firm?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, Union Pacific has a big edge in terms of Mexico. I mean, their route structure is such, I think they cross the border at six different places. Their route structure is far better than ours in relation to Mexico. And Kansas -- it's true as you say, that Kansas City Southern has a very significant presence in Mexico.

But, in terms of what we can do with our money and what we see as the prospects -- there are good prospects there, but there are good prospects elsewhere for traffic, too. So it doesn't make sense for us. But, you know, maybe someday something will, but -- the math does not work for Mexico. But we're continuously thinking about Mexico, but we're thinking about lots of other markets, too.

There are lots of possibilities for moving more freight on the BNSF over the years. And we won't forget about Mexico, but we won't do anything silly, either. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't have anything to say.

You know, it's awfully easy to imagine combinations that just make you rich with sleight of hand. And, of course, the easiest transaction is buying a competitor. But most of that stuff, when you get to a certain size, you can't do. So why spend time even thinking about it? I'm afraid Burlington Northern is going have to get ahead on its own from here on.

A - Warren E. Buffett {BIO 1387055 <GO>}

Wouldn't worry about that.

A - Charlie Munger {BIO 1406508 <GO>}

I'm not worried about it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Station 4.

Q - Analyst

Hi, Warren and Charlie. Dan Hua from Los Angeles. My wife, Cora, and I are thrilled to be here.

A - Warren E. Buffett {BIO 1387055 <GO>}

We're delighted to have you.

Q - Analyst

Thank you. You earlier today discussed intrinsic value, and I'm a big fan of Graham and Fisher, especially security analysis. What differences do you have, if any, for calculating intrinsic value versus what was said in security analysis? And for examples, how does management factor into that? You recently mentioned evaluating management is like dating, and recently you said, also, management does matter.

My second part is, which company do you fear the most? Why is it that no one else has done what you have done? I mean, Coca-Cola has their Pepsi. Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, the -- actually Graham didn't get too specific about intrinsic value in terms of precise calculations. But intrinsic value has come to be equated with and I think quite properly, with what you might call private business value.

Now, I'm not sure who was the first one that came up with it, but -- well, the first one that came up with it was Aesop, actually. But the intrinsic value of any business, if you could foresee the future perfectly, is the present value of all cash that will be ever distributed for that business between now and judgment day. And we're not perfect at estimating that, obviously. But that's what an investment or a business is all about. You put money in and you take money out.

Aesop said, a bird in the hand is worth two in the bush. Now, he said that around 600 B.C. or something like that, but that hasn't been improved on very much by the business professors now.

Now the question is, you know, how sure are you that there are two in the bush, you know? How far away is the bush? There are all kinds of things. What are interest rates? But I mean, Aesop wanted to leave us something to play with over the next couple thousand years, so he didn't spell the whole thing out. But that's what intrinsic value essentially is.

And, we don't -- Graham would say that, Phil Fisher would say that. Phil Fisher would say that in calculating that, he would want to look a lot harder at the qualitative factors of the business in making that estimate of how many birds were in the bush. Graham would say he would want to see the bush, $2 worth of cash in the bush, and to pay a dollar for it now. One emphasized quantitative factors and one emphasized qualitative factors, but neither one would have disagreed with the math.

And I started out very influenced by Graham, so I emphasized quantitative factors. Charlie came along and said I was all wrong, and that he'd learned more in law than I'd learned in financial studies and everything, and that I should think more about qualitative factors, and he was right. And Phil Fisher said the same thing.

But that's what intrinsic value is about. If you buy a McDonald's franchise, if you buy General Motors, whatever it may be, the real question is, a, are you going to have to put more cash into after you buy it? But it's really cash in, cash out? When? What discount rate? All the standard stuff.

In terms of -- if I had a silver bullet, what company would I shoot as being a threat to us? I don't really -- I don't see any competitor to Berkshire. I see private equity buying lots of businesses and having an advantage in that they'll leverage up when we won't and also that presently they can borrow money very cheap and all of that. So I mean, there are always going to be people competing with us to buy businesses. But -- which is our main business -- main occupation for me and Charlie.

But I don't see anybody that's got a model, or trying to build a model, that will essentially go after what we're trying to achieve, which is to buy wonderful businesses from people that care about where their business goes and who generally want to keep on running them. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, as I've said earlier, I think the Berkshire model as now constructed will have -- as said in show business, with legs. It will go a long time, and I think it will be quite creditable. And I think it has enough advantage that it will just keep going a long time. And I think most big businesses don't. If you stop to think about it, all the great big businesses of yesteryear, how few of them have really gotten big and stayed big. Of the really old businesses, only one stayed big and that was Rockefeller's Standard Oil. And so we're getting up into a territory where very few people keep going well.

But I think what we'll be more like Standard Oil, then we'll be like ordinary businesses, because I think we will just keep going. We will keep doing what we're already doing, and we'll keep learning from our mistakes. And the people up here are no longer all that important. The momentum's in place, the ethos is in place. It's going to keep going. And to you young people in the audience, I always say, don't be too quick to sell the stock.

A - Warren E. Buffett {BIO 1387055 <GO>}

Why don't we get more copycats?

A - Charlie Munger {BIO 1406508 <GO>}

It reminds me of our mutual friend, Ed Davis. He figured out how to do an operation that was so difficult that he operated the bottom of a dark hole with instruments of his own creation. He gave his own shots by Novocain, 87 of them, while he was operating. And it was a better operation. His death rate was 2 percent and everybody else was 20. And the other surgeons came to copy him, and they watched him. And they just said, well, I don't think I'll try and copy that. I think it looks just too hard to do. There's nothing in the American business school teaches people to be like Berkshire.

A - Warren E. Buffett {BIO 1387055 <GO>}

Eddie Davis is the guy that, in effect, introduced the two of us. He was a famous urologist here in Omaha and --

A - Charlie Munger {BIO 1406508 <GO>}

But people didn't try and learn his operation. It doesn't look all that easy. It's very different.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's slow, too.

A - Charlie Munger {BIO 1406508 <GO>}

And it's slow, it's -- yes, very slow.

A - Warren E. Buffett {BIO 1387055 <GO>}

I think the slowness deters more people than anything else.

A - Charlie Munger {BIO 1406508 <GO>}

And the difficulty with being slow is you're dead before it's finished.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, that's kind of cheerful. Carol, let's come up with something a little --

A - Unidentified Speaker

Well, for a more cheerful subject, mine is inflation.

A - Warren E. Buffett {BIO 1387055 <GO>}

Only compared to Charlie can inflation be cheerful.

Q - Analyst

This comes from Larry Pitkowsky and Keith Trauner at the GoodHaven Fund. In your 1981 shareholder letter, you discuss returns on equity, interest rates and inflation, and how difficult it was for many companies to function under inflationary conditions. Indeed that Berkshire itself was not immune and would be negatively -- could be negatively affected.

Today it seems like every central banker in the world is desperate to create inflation, something that is generally great for debtors, not so great for creditors and difficult for owners and managers.

Should investors and business owners be thinking more about inflation and higher interest rates after 30 years of declines in both? How would Berkshire behave differently if it became apparent that the future was turning inflationary?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, inflation would hurt us, but it would hurt most businesses. It doesn't -- there's certain assets that if highly leveraged, obviously, would benefit from inflation. But, well, it's just -- we'll set up an inflationary condition. Let's just assume tonight that drones are sent up over all of the United States and they happen to drop a million dollars in every household.

Now, the question is would the country be better off? Every individual would now have -- or every family would now have a $1 million that they didn't have the day before.

The one thing I can guarantee you is that Berkshire would be worse off at that point, obviously. And obviously, what I've described would be wildly inflationary. The trick in that circumstance is to find out that you've got a $1 million before anybody else finds out that they have and you'll do very well if you're first.

But essentially, you don't create wealth by inflation or by having -- you can move it around, but you don't create it by inflation, and you don't -- a firm like Berkshire, you know, our earnings per share would go up. The intrinsic value of our business, measured in dollars would go up. But under lots of inflation, unless we had leveraged those businesses, the value of your investment, in real terms, would go down. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, we had a test of hyperinflation in Weimar Germany, and the people who owned stocks in places like Berkshire got through. And they didn't prosper joyously, but they got through. And everybody else, practically, life insurance policies, bank deposits, you name it, got wiped out. And, of course, if you create so much misery that you get a Hitler and a World War, and a Holocaust and so forth, it's not a good thing to let things go that far.

And so I'm -- I don't like this huge confidence that all you have to do is just keep printing money and spending it. I think there's some limit to when that will work and I am never going forget Weimar Germany. And I don't think any of the rest of us should either.

We can handle a little bit of subpar growth for some stretch or other. But it would be quite dangerous to let the whole damn thing blow up because a bunch of crazy politicians were printing money.

A - Warren E. Buffett {BIO 1387055 <GO>}

If you own a home, though, with a very large mortgage and you have incredible inflation that wipes out the mortgage, then you've still got the home. I mean, it's just --

A - Charlie Munger {BIO 1406508 <GO>}

In Weimar, Germany, they gave you the mortgage back at the end. It was very interesting. That's the one thing they did right.

A - Warren E. Buffett {BIO 1387055 <GO>}

He's way ahead of me, folks. Jonathan?

A - Unidentified Speaker

In evaluating the after-tax returns Berkshire earns on its acquisitions of non-insurance businesses, whether it'd be the utilities, the railroad, or the manufacturing service and retailing business, in terms of choosing a benchmark, what would be your best estimate of the returns on acquisitions earned by an aggregate of all American industry, adjusted, of course, to exclude the impact of accounting write-offs and equalizing for leverage?

A - Warren E. Buffett {BIO 1387055 <GO>}

That sounds too tough for me, but go ahead, Charlie. I'll be thinking.

A - Charlie Munger {BIO 1406508 <GO>}

Well, let me summarize. I think the sum total of all acquisitions done by American industry will be lousy. It's in the nature of corporations that are prosperous to be talked into dumb deals and bureaucracy tends to feed on itself and create unnecessary costs. So I think the history of acquisitions is that it's not an enormous way to wealth. Now, it has been for us, but we're very peculiar and luckily a lot of people don't want to be peculiar in our way.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, I would -- it's really hard to, you know, come up with a useful answer on that. But I certainly --

A - Charlie Munger {BIO 1406508 <GO>}

But you don't have a great deal of optimism, do you?

A - Warren E. Buffett {BIO 1387055 <GO>}

When we read that a company we don't control is going to make an acquisition, I'm much more inclined to cry than to smile. But on the other hand, we love making acquisitions ourselves, so it's a little hard to get too harsh just because we don't like the other guy's acquisitions.

I have been -- I have sat in on, probably, hundreds of acquisition discussions conducted by people I didn't control, as a director. And most of them have been bad ideas, but there have been some --

A - Charlie Munger {BIO 1406508 <GO>}

Some are mediocre.

A - Warren E. Buffett {BIO 1387055 <GO>}

A great case is GEICO. I mean, it's really a great case study because GEICO had this wonderful business prior to going off the tracks in the early 1970s, but it'd been an incredible business and everybody -- it was well known in the financial world.

And then it went off the tracks in its own business, got back on the tracks. And then in the next -- after it got back on the tracks, it made a couple of acquisitions. And they weren't disasters, but they certainly weren't successes and they tended to take people's -- I think they took their eyes off the ball in terms of the potential of GEICO itself.

So the accounting costs of those -- there were two acquisitions in particular -- the accounting costs of those two acquisitions was not -- it was poor, but it wasn't disastrous. But if you look to secondary effects, it was huge. I mean, there were a dozen years there or so where all kinds of gains could have been made that weren't. And you don't get those years back.

Now, that was probably a net plus for Berkshire, you know, in the end, because we'd bought half of the company then we got to buy the other half later on. If they'd done wonderfully, we probably would have never bought the second half. Now, maybe the first half would have been worth that much more.

But it's human nature, to some degree, to, you know, keep wanting -- I mean, normally the people who get to be CEOs are not shrinking violets, you know. And they have animal spirits, as Keynes talked about, and they like to do things. And the supporting staff certainly senses that they like to do things. I mean, they often have people in charge of strategy or acquisitions, or all of those things.

What do you think those people are going to do? Sit around and suck their thumbs? No, they're going keep coming up with deals. And the investment bankers will be, you know, calling on them daily. So there are all these forces that push toward deals, and if you try to push toward deals, you're going to get a lot of dumb deals.

We try very hard, Charlie and I, not to get eager to do a deal. We're just eager to do a deal that makes sense. And that would be a lot harder if we had directors, strategy departments, whatever it might be, all pushing us toward, you know, what have you done in the last three months, or something of the sort. So the setting in which you operate is really can be very important. Charlie, anything further?

A - Charlie Munger {BIO 1406508 <GO>}

No, but it's -- you know how much more tactful he is.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, well the comparison isn't tough. Station 5.

Q - Analyst

I'm Russell Narig [ph] from Neenah, Wisconsin. Not another Packer fan. The people in this hall tonight are here because they invest into your money, in anticipation and hope that you and Charlie would make that investment grow. We recognize that things go wrong and that we might lose money. But never, ever, has it ever crossed our minds that we'd be cheated out of their money.

Unfortunately, that's not -- that's new -- I'm sorry, having problems with this microphone. Unfortunately, particularly in the investment banking business, confidence, my confidence, and I'm sure the confidence of many people in this room, are falling.

Particularly distressing are reports in the New York Times in the last week or so about private meetings in the Justice Department, Securities and Exchange Commission, the Fed, and others, about the need or desire, the requirement, perhaps, to bring criminal charges against some of the largest banks dealing business, for, among other things, knowingly laundering billions of Iranian dollars through our U.S. banks, knowingly laundering billions of drug cartel money through U.S. banks, soliciting on U.S. soil deals which would include tax evasion by moving assets offshore and even fixing the LIBOR.

The problem the Justice Department is having is that they are being told that if they bring criminal charges against those banks and we can list those banks, they've been in the New York Times, that those banks would be sorely hurt, may be required to go out of business, and require -- and evolve into a new financial crisis of some sort.

A - Charlie Munger {BIO 1406508 <GO>}

Now, we can't --

Q - Analyst

My question -- my question, though, to you is do you believe a financial crisis will be -- come about as a result of bringing justice to criminal activity on a large scale? Or have we reached a new point where criminal activity in Wall Street is being institutionalized, sort of allowed to happen because they're too big to fail, too big to go to jail, and too big to be regulated, to follow the law?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, you're the lawyer, you take it up.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think behavior on Wall Street has enormously improved as a result of the trauma we've just been through. And so I think the worst of it is behind us. But you're never going to have perfect behavior when a bunch of human beings live in a miasma of easy money. It's just this is always going happen to some extent, and --

A - Warren E. Buffett {BIO 1387055 <GO>}

How do you feel about the prosecution of individuals versus the prosecution of corporations?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think there's hardly anything that changes behavior more than prosecuting individuals. When they took Boy Scout leaders out of Pittsburgh or wherever it was and put them in the federal penitentiary for fixing steel prices, it really changed behavior of American businessmen. So I do think that a few criminal prosecutions do change behavior a lot. And it looks to me like we'll get a few.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. I may be biased a little bit by the experience at Salomon, but -- I lean way more toward prosecution of individuals than corporations.

You know, I literally saw, you know, a bad act, or maybe multiple bad acts, by just a couple of people and negligence in reporting by a couple more, you know, come close -- certainly upsetting, hurting, and maybe destroying, you know, possibly thousands and thousands of other people's lives, forgetting about the financial investment.

And it is -- it did seem to me, and that's -- had that experience a couple of other times in what I've seen, that -- that it really -- it may be easy -- it's way easier to prosecute the corporation. The corporation's going write a check, and you know, I mean, it's somebody else's money.

And the prosecutor knows he's going get a win, basically, if he goes against the company, whereas he's got a way tougher job going against individuals. The company's going to cave, it's just their calculus is such that it just doesn't make sense to fight if they can write a check, whereas the individual is fighting to stay out of jail.

So the prosecutor's got an easy case, or relatively easy case, and probably a headline-grabbing case, if he goes against the corporation. And he has a grinded-out type of thing, which he can very well lose and which really takes a lot of work, against individuals. So -- but I still lean very much -- toward going against individuals. And --

A - Charlie Munger {BIO 1406508 <GO>}

I do, too. That's what I meant when I said when antitrust violations were regarded as forgivable offenses, menial sins, we had a lot of them and we still have some now that we prosecute people criminally. But we have really changed behavior on price fixing by the individual prosecutions, and we haven't had many of those prosecutions in finance yet. And we probably need some more. Don't you agree with that?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, absolutely, absolutely. And I will tell you this: we have 300,000-plus people working at Berkshire. Somebody is doing something wrong now, I mean, that -- you know, you cannot have a city of 300,000 people and not have somebody behaving badly. And that's the thing -- that is the one thing that -- I don't worry about us making money, we'll figure out a way to do that. And it may be better or worse than we hope for. But it won't be a disaster, ever. The disaster is if somebody is doing something wrong that, you know, that actually reflects badly on the whole organization.

And I know that's, to a degree, out of my hands. I can tell the managers, and they can tell the people that work for them that reputation is more important than anything else. And that's going to have an effect, and I think it's going to have more of an effect than having them -- giving them some 200-page manual.

But it's not going cure everything. And what we hope is when there is something wrong that we find it out early, and then it's up to us to do something about it.

But we will have a problem of some sort, at some time, because it just -- you know, 300,000 people are not going to all behave properly every day. It just doesn't happen.

But the individual prosecution, and I've written about that a little bit in the annual report in terms of -- the way to change behavior is to have the fear, at least among people who may be doing the wrong things, is to have the fear that somehow it's going to come home to them and hit them hard.

And if the only fear is that the company's going have to write a big check, you're going to get way less change in behavior than if it'll hit home to the individual. Becky?

A - Unidentified Speaker

This comes from Mark Blakley from Tulsa, Oklahoma. He says there's been a number of railroad accidents in the past year. In January, the Wall Street Journal published an article highlighting the lack of insurance to cover a worst-case accident scenario. Mr.Rose of BNSF was mentioned as wanting to set up an insurance fund funded by the railroads to protect the industry in case of an accident, similar to a fund currently set up by nuclear power companies, but that idea has gained no traction.

How would a worst-case accident scenario impact BNSF and Berkshire Hathaway? And if the industry is lacking insurance for such an event, how can the company protect itself and what exposure does Berkshire have should a major accident occur?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, well we're on both sides of that because Ajit Jain has offered the rail industry some very high limits to all the major railroads. But they don't like his price, presumably. And I would say this, the four major railroads really have the financial capacity to pay a huge award if something really terrible happened.

The most -- you know, I don't know which is the most dangerous -- they have what they call hazmat, hazardous materials, and rails have to carry them. You're a common carrier, you're forced to carry them. And the railroads would really prefer they didn't carry them, but they do, they have to. And they probably can't get enough, ever get enough, in the way of payments per carload to really compensate them for the risk involved.

But the four major railroads, certainly have the -- it might be a very, very significant financial hit to them, but I think they have the capability of, if something really drastic happened, I think they do have the financial capability to handle that size -- kind of an award. And if they feel that they don't, they can buy insurance from Ajit, but so far we haven't sold any.

The companies have insurance, but they don't like -- they're not going talk about the amounts that they have or anything of the sort because that becomes a honey pot sometimes, and it's not advisable to discuss your insurance limits publicly.

But I would -- it is true, as the writer mentions, that the nuclear risk -- the government decided was too big, as they have with terrorism -- decided it was too big to be borne by private industry. I don't think the consequences of any conceivable accident -- you could probably dream up one -- but of any conceivable accident on rails would go beyond the capability of the major railroads to pay. But it could be very, very large, relative to their net worth and relative to their current earnings. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, the big surprise for everyone, of course, was British Petroleum.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

Nobody in their wildest dreams believed that a major oil company, from an accident in one well, would have a loss in so many tens of billions of dollars. And, of course, that's gotten a lot of attention. I don't know about Warren, but after that happened, I would have less enthusiasm for drilling in the Gulf. It was just such a big loss compared to anything.

A - Warren E. Buffett {BIO 1387055 <GO>}

And a gain, possible gain.

A - Charlie Munger {BIO 1406508 <GO>}

And gain -- possible gain. And that was a big oil field they tapped into, but it wouldn't remotely pay for this accident. And so -- but I -- Matt will know, the biggest rail accident in the history of the rails, has it cost $200 million? Is Matt there?

A - Warren E. Buffett {BIO 1387055 <GO>}

I don't think Norfolk Southern has ever announced what that accident cost. But we are not getting paid enough, I can tell you this, for carrying chlorine or ammonia or something like that. I mean, it -- just, to buy appropriate insurance just to cover those kind of products, compared to the revenue, I don't think it ever would make sense. But we're required -- they're going move from one place to another one way or another, either by truck or in some manner. And we are a common carrier.

But it is not -- that's not one that keeps me awake nights from a financial standpoint. The big risk is some form of very effective terrorism or action by a rogue state in terms of nuclear, chemical, biological, or cyber.

And, you know, war acts are excluded in insurance policies. But you could have some kind of a terrorist act that would create damages, whether they're liable under insurance contracts is another matter, but could create damages like we have never seen. And there's a, you know, there's obviously a reasonable probability of that happening sometime in the next 50 years, and what that probability is I don't know. But it's not insignificant. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, we saw what one pilot could do recently in this Malaysian airplane.

I think we live in a world where there are always going be big events, and I think we're lucky, to some extent, that we have some big corporations that can have elaborate safety programs and that can handle the losses when they occur. I don't think we'd be better off if we had a bunch of little Flivvers going around the airplanes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Jay?

A - Unidentified Speaker

Question is on Berkshire's primary commercial property-casualty insurance business. Berkshire plans to substantially expand the Berkshire Hathaway specialty insurance unit and has also become a major insurer of Lloyd's business through an Aon-brokered facility. Why is Berkshire increasing its presence in commercial property-casualty insurance when pricing has peaked?

A - Warren E. Buffett {BIO 1387055 <GO>}

It's the first one that's more important. We entered the commercial insurance field the middle of last year, and we had some wonderful talent that wanted to join us. And we have a great amount of capital, a very, very good reputation, and we think we have the ability to both underwrite more intelligently than most, to keep larger limits than anybody, and to operate at costs significantly below average. So if you put those elements together and you throw in Ajit Jain overseeing the operation, I think it's a terrific opportunity.

And I think you will -- and it wouldn't make any difference when we entered it. I mean, we entered it because we had the availability of some terrific people. That was the reason for the timing of it. And we'll have -- we've added to that group significantly. Peter Eastwood runs it, and I think we will build a very, very significant commercial insurance operation over time. And I believe that that operation will operate with better underwriting results than the great majority of our competitors. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think it's a very logical thing for us to do. And, of course, when something is logical we don't hold back because we think the business cycle might possibly be a little better. It's a long-term play.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

We're not going away based on the little short-term troubles.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, it's a forever play. And -- when we see a chance to enter a business we like, basically, with outstanding people and with some very fundamental competitive advantages, we're going to play the game and we're going to play the game hard. Station 6?

Q - Analyst

My name's Ed Boyle and I'm from Chicago. My question's for Warren and Charlie. Do you ever have any plans or would you be interested, in buying a professional sport team or sports equipment manufacturing company, being that we're -- sports is in a global world today? Or is this out of the Berkshire game?

A - Charlie Munger {BIO 1406508 <GO>}

Warren's already done it.

A - Warren E. Buffett {BIO 1387055 <GO>}

I owned a quarter of a major -- a minor-league team, but it's not responsible for my position on the Forbes 400.

The answer to your question about buying a sports team is no. In fact, if -- Charlie and I -- if you read that either one of us is buying a sports team, it may be time to talk about successors. We are -- we do -- sports equipment has generally not been a very good business, although, you know, obviously Nike's done incredibly well in its overall operation.

But -- we own Spalding. We own Russell. And you know, Spalding has been around a long, long time. A.G. Spalding, I forget when the hell he was -- I think he was trying to take baseball to the rest of the world back in the, I don't know, the 1880s or something like that. But it's -- generally speaking, if you look at the people that have made golf equipment, footballs, helmets particularly, baseball gloves, baseballs, it's not been a particularly profitable business.

And certain aspects of it, like helmets, the last thing Berkshire should do is own a helmet company. A helmet company should be owned by some guy that owes about a million dollars and doesn't have a dime to his name, because, you know, he is not going to be a target. And we would be the ultimate target.

That's the reason -- we used to be involved in Pinkerton, but we'd had no interest in -- and we got offered the chance to buy the whole place and the idea of owning a business that provided guards at airports, you know, when anything went wrong, you know, you're going to say that it was the guard's fault. And here's this super-rich corporation around there that is a perfect target.

I mean, a guard company at airports, again, should be owned by somebody whose net worth does not get out to two figures. So, you won't see much of us in the sports arena. But Charlie here, are you looking at the Clippers or -- now I'm worried that he is. No --

A - Charlie Munger {BIO 1406508 <GO>}

Whatever Warren thinks about sports teams ownership, I like it less.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Andrew.

A - Unidentified Speaker

Okay, Warren. You have long advocated for transparency and disapproved of greenmailers. Bill Ackman compared his amassing his stake in Allergan in stealth ahead of Valeant's bid to your purchase of Coca-Cola in the 1980s. Is that right? What do you make of the covert tactic Ackman is using from a policy perspective for the markets? And just as important, what do you make of the larger trend of activism in corporate America?

A - Warren E. Buffett {BIO 1387055 <GO>}

I hadn't heard that about Coca-Cola. I'm really not sure how that would come about. I mean, we bought stock in the open market, we never used a derivative transaction or any sort in buying it, or anything. I mean, and we certainly haven't taken it over yet. The -- so I -- I'm not sure -- can you elaborate, Andrew?

A - Unidentified Speaker

I don't have more from the question. I believe Bill Ackman went on television at one point, had commented that using his stake, or buying the stake, rather, he did it covertly, and I think he was perhaps suggesting that, I don't know, maybe I will adjust the question.

There have been times in the past when you have bought stakes in other companies and used specific rules through the SEC to do so with -- to give you some room without disclosing. Maybe, will that adjust the question? Or you could just go to the activism question.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, and tell me the activism question again, because we have never used derivatives or anything that would get us around the rules of reporting, I mean, it's that simple. But what's the second part?

A - Unidentified Speaker

I think that the second part is what do you make of the larger trend of activism in corporate America, given that it's in the news so much today?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I don't think it'll go away, and I think it scares the hell out of a lot of managers. There are cases -- certainly cases where corporate management should be changed. I mean, you can't have thousands of corporations without that being the case.

I think, generally speaking, that the -- you know, the activists, if they get the price of the stock up one way or another, you know, that's going to end their interest in the business, so I don't think they're looking for -- often they're not looking for permanent changes for the better in the business. But they're looking for a specific event that will result in a big price change and they're certainly attracting more and more money. In other words, the funds flowing to activist hedge funds and so on is -- multiply them, sure, by a significant factor, and that means they can play the game on a bigger scale.

And anything in Wall Street that looks like it's successful will generate a funds flow that will, you know, go on until it's no longer successful. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, you're right that the activism is causing more of a stir in corporate management than anything has in years. Practically nobody feels immune. When an activist comes into a company, 20 or 30 percent of the stock can change hands rather rapidly, and management that seemed entrenched is -- suddenly is threatened. And, of course, that sort of thing causes a lot of anguish.

And on the other side, the activists, by and large, are making a fair amount of money. And, of course, in the culture we live in, most people don't care how the money is earned, they just care whether they get it or not. And so that -- that just grows like some -- I don't know, the beanstalk of Jack. And so I think we have a very significant effect.

And some of the stuff -- you'll find an activist who is not what you'd want to marry into the family, going after a company you would never buy into. And when that happens, it reminds me of Oscar Wilde's definition of fox hunting. He said, the pursuit of the uneatable by the unspeakable. And I think we're seeing some of that. It's -- I don't think it's good for America, what's happening --

A - Warren E. Buffett {BIO 1387055 <GO>}

What do you think --

A - Charlie Munger {BIO 1406508 <GO>}

-- averaged out.

A - Warren E. Buffett {BIO 1387055 <GO>}

What do you think it'll be three years from now?

A - Charlie Munger {BIO 1406508 <GO>}

Bigger.

A - Warren E. Buffett {BIO 1387055 <GO>}

Wow.

A - Charlie Munger {BIO 1406508 <GO>}

Well, what's stopping it?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. If it's bigger three years from now, it'll be a lot bigger. I mean, just the compounding of numbers.

A - Charlie Munger {BIO 1406508 <GO>}

It's really serious.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Gregg.

A - Unidentified Speaker

If Berkshire's size is expected to be an ongoing constraint for growth, does it make more sense for the firm to target a larger collection of smaller companies that are growing faster and can do so for a longer period of time, rather than looking to bag a big elephant that is in all likelihood already reached maturity, leaves the firm to sit on larger-than-normal cash balances for a longer period of time, even if it means paying a higher price for the growth?

And if the answer is no, then what is the opportunity cost to Berkshire shareholders for keeping a lot of excess cash on hand until the right deal comes along?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, the answer to the first is one doesn't preclude the other. You know, we'd be delighted to buy some company for $2 billion or $3 billion that we thought would do very well over time. But that applies to one for $20 billion or $30 billion. Now, if you get down to buying one for a couple hundred million, that may fit one of our subsidiaries to do that that knows the business.

But -- we're not passing up anything of any size that can have any real impact on Berkshire. And like I say, our subsidiaries made 25 tuck-ins last year, and they'll keep making more. They'll see things that fit them.

But one, you know, one $30 billion deal is ten $3 billion deals, and a hundred $300 million deals. So, in terms of the reality of how we build a lot more earning power into Berkshire, which is what we're trying to do, our main emphasis should be on bigger deals. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree with that. The idea of buying hundreds and hundreds of small businesses --

A - Warren E. Buffett {BIO 1387055 <GO>}

Not worth a damn.

A - Charlie Munger {BIO 1406508 <GO>}

-- not as bolt-ons for what we already have, it would be anathema.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, there's lots of competition for the small deals. I mean, private equity is going after all kinds of small deals. In fact they just keep selling them to each other to some degree. We don't feel envious when we look at what they're doing, in the least. But that doesn't mean we can't find an occasional small business that fits in and that will do well. It's not going be the future of Berkshire, though. But I want to emphasize one does not preclude the other. Station 7.

Q - Analyst

Willy Larsen [ph]from San Francisco. You both mingle with the smartest investors in the country, something that I don't have the opportunity to do. So to my question, what is the most intelligent question you have been asked recently on investing, and what was your answer to that question?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, you can go first on that while I think.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I've already done that when I answered the young gentleman who said he couldn't understand why Warren compared his -- or Berkshire's book value increase to stock market index performance. In other words there are a lot of interesting questions that don't get much attention where there's a lot of irrationality.

A - Warren E. Buffett {BIO 1387055 <GO>}

The question you asked, I get that frequently from the college students that come out. They say, what's the most intelligent question that you've gotten in the past. And I never come up with a good answer, and I'm not coming up with one today --

A - Charlie Munger {BIO 1406508 <GO>}

I don't like the question, do you?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. That's why we changed --

A - Charlie Munger {BIO 1406508 <GO>}

I don't think it's quite fair.

A - Warren E. Buffett {BIO 1387055 <GO>}

That's why I let you go first.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, now we've hit 54 questions. So now we start going around to the stations in order. All of the journalists of each had six apiece, so we'll go to station 8.

Q - Analyst

Philip Case, Manchester, New Hampshire. My question pertains to the MidAmerican Energy segment. On Page 64 of our annual report, you provide us with segment data for each business. For the MidAmerican Energy segment, when I take earnings before interest and taxes and add back depreciation expense and subtract CapEx, the result is negative operating cash flow.

When I repeat that exercise for each of the past five years, in its best year, the segment generates $308 million of operating cash flow. When I divide that by tangible assets, the result is a return on tangible assets of 0.86%. Why are we allocating capital to a business that in its best year generates a return on tangible assets of less than 1%?

A - Warren E. Buffett {BIO 1387055 <GO>}

You were doing great until you got to return on tangible assets. We love the math that you just described, as long as we are going to get returns on the added capital investment. And we are in businesses, whether it's wind energy in Iowa or whether with PacifiCorp after we bought it, there were lots of opportunities for capital investment. And the energy which we bought, we're looking forward to putting more capital in because as long as we get treated fairly by the regulators in the states that we operate, we will get appropriate returns on that.

And the return is not measured by the cash minus the increased capital investment we're making. It's measured by the operating earnings after depreciation. And there will be times in our businesses where no net investment may be required. But we actually prefer the ones where net -- in the utility business -- where net investment is required because we like the idea of getting more capital out at reasonable returns.

Now, the bet we are making is that regulatory authorities will treat us fairly in the future. And we've got every reason to believe that's true in the jurisdictions in which we operate. And one of the reasons we believe it's true is because we've done so much better than, really, the great majority of utilities in delivering electricity at lower rates than are charged by most utilities.

We have a situation in Iowa, for example, where there is one stockholder-owned competitive utility, and some other municipal-owned ones, and if you look at our rates, they are significantly below those of our competitors.

And in fact, one of our directors has a farm where he buys from two different sources, one being us. And his rate from us is dramatically lower than the one from the cooperative arrangement that exists.

So, we have a deserved good reputation with the regulators that we're dealing with. We've improved the operations, including safety, incidentally, dramatically from the conditions that existed before we purchased the utilities. That's why they welcome us when we come to new states. And so if we can put more money into useful projects in those states, we've got every reason to believe we will get returns that are appropriate.

But if you compute net cash generated from those, you will see nominal or negative figures for a considerable period as we add to our investment and we make those utilities even more useful for people in those jurisdictions. I think we'll get a fair return.

We have somewhat similar situation at the railroad, too. But we're very happy about both of those businesses. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, if the numbers you recited came from a declining department store, we would just hate it. But when it comes from a growing utility, we like it because we have such confidence that the reinvested money is going to do exceptionally well. It's just that simple.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Greg --

A - Charlie Munger {BIO 1406508 <GO>}

They're two different kinds of businesses.

A - Warren E. Buffett {BIO 1387055 <GO>}

Greg? Is Greg here? You want to -- you might be able to give him a few figures that I don't remember off the top of my head in terms of comparative -- how our prices compare, and give him a little more of a flavor on how the utility commissions do regard us and how they treat us fairly.

A - Unidentified Speaker

Sure. When you look at our rates across each of the regions, effectively we're generally the low-cost provider, or in the low quartile. Your example, Warren, in Iowa was a great example. The last time we had a rate increase there was 1998. We've just currently had one this past year, so it's the first one in the past 16 years. And we don't see another one in the foreseeable future. And when you create that type of model with our regulators, obviously they're very supportive of the various projects we've introduced.

So this past year we introduced a project in Iowa, it's a 1,000 megawatt project, $1.9 billion being incurred. And if you go to the gentleman's comment, yes, we're going put the -- we'll deploy that $1.9 billion over the coming two years, but we'll earn 11.6% return on it.

Generally when we look at our utilities, we do pay attention to our capital, we try to keep it very close to our depreciation. That's what we put back into the business. We'll even earn on that capital, but the reality is the lion's share of our capital right now is growth capital. And we earn a very nice return on that.

A - Warren E. Buffett {BIO 1387055 <GO>}

Greg, you might comment, just a minute, I think they'd find it interesting, on what's happening in Iowa with the tech companies, simply because of what we're doing in the electric field. Or not simply, but in part because of what we're doing in the field of electricity.

A - Unidentified Speaker

Right. So when you look at the tech companies and the data centers that exist, if you just go across the river, we service Google in Council Bluffs. They've got a site that was initially a relatively small data center. They're looking at taking it to 40 to 50 megawatts, which is a small size of a power plant. But the reality is they're talking about ultimately building that to 1,000 megawatts. And we're seeing that replicated time after time in the state.

And it's really due to two things. One, we've got these exceptionally low rates. And then the fact that a significant portion of our energy, as Warren highlighted earlier and I touched on, comes from renewable energy. They want those credits, they want to be associated with a utility that's producing green power.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 9, please.

Q - Analyst

Good afternoon, Mr.Buffett and Mr.Munger. My name is Gao Ling Yun and I came from Shanghai, China. I focus on the education investment. Today, my co-worker, Yi Nuo Education Company and I have a question. What do you think about the education market in America and China in future? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I didn't catch those last two words. In what?

A - Warren E. Buffett {BIO 1387055 <GO>}

He wanted to know what we thought of the education market in U.S. and China, but he didn't --

A - Charlie Munger {BIO 1406508 <GO>}

But in what? He said in some -- is it health care?

Q - Analyst

In future.

A - Charlie Munger {BIO 1406508 <GO>}

In the future, I see. Well, we certainly are getting the easy questions late in the day.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

I think America --

A - Warren E. Buffett {BIO 1387055 <GO>}

Whatever he says, I agree with.

A - Charlie Munger {BIO 1406508 <GO>}

I think America made a huge mistake when they allowed the public schools and many particularly big school systems, to just go to hell. And I think the Asian cultures are less likely to do that. So to the extent that Asian cultures are avoiding some of our mistakes, why, I just wish we were more like them.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. I probably shouldn't tell you this. When Charlie was having a little trouble there on those last two words -- I get a little worried about Charlie, don't know whether I should talk about this. But I thought maybe he was losing his hearing and I didn't want to confront him with it. I mean, we've been pals for a long time, so I went to the doctor and I said, doc, I've got this wonderful partner, but I think maybe his hearing is going on him.

And I want to talk to him about it. I mean, how do you say that to somebody you've known that long? And what should I do? He says, well, you stand across the room, talk to him in normal course of -- tone of voice, and let me know what happens. So the next time I was with Charlie, I stood across the room and I said, Charlie, I think we ought to buy General Motors at 35, do you agree? Not a flicker. I go halfway across the room. I say, Charlie, I think we ought to buy General Motors at 35, do you agree? Nothing. Get right next to him, in his ear, Charlie, I think we ought to buy General Motors at 35, do you agree? He said, for the third time, yes. So speak up, speak up. Station 10.

Q - Analyst

Yes, this is Glen Green from Chicago. First of all, I want to thank you for allocating capital so well all these years, very much appreciated.

The question has to do with housing and housing reform more specifically, and there's clearly legislation in Washington, D.C. right now talking about reforming the GSEs, specifically Fannie and Freddie. Do you think we need housing reform? What would be a reasonable approach to do it, and if private participants were involved, would that make sense for Berkshire given Ajit's actuarial skills and your ability to allocate capital?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I think that -- and Charlie may disagree with me on it, I think that the 30-year fixed-rate mortgage is a terrific boon to home owners. It's not necessarily such a great instrument to own as an investor, but I think it's done a lot for home ownership. May have been abused in some cases, but overall it's done a terrific job for home ownership in the country. Let people get into homes earlier than they might have been able to otherwise, kept costs down to quite a degree.

And so I would hope that -- and the government guarantee part of it does keep the cost down. Nobody -- no private organizations can do it. I mean, home mortgages are an 11 trillion-or-so dollar market, and there's not the insurance capacity, or remotely the insurance capacity, for private industry to do the job, and the rates would be much higher.

So I think you keep the government in the picture. Now, the question is how you keep the government in the picture without keeping politics in the picture? And we've found some of the problems with that, in terms of not only Fannie and Freddie being -- doing a lot of dumb things on their own, but being prodded into doing some of those things by politicians.

And I think there could be a way -- I wrote an article 20, or 30 or -- probably 30 years ago, an op-ed piece that appeared, I think, in the Washington Post, when the F-D-I -- well, when FSLIC, the savings and loan guarantee operation was essentially falling apart, and suggesting for the FDIC some way to get the private sector into pricing and evaluating the risk, in that case, of banks, but essentially the government being the main insurer.

There could be -- there could well be a way that that model, and it's being explored now, that model works in terms of home mortgage insurance. I don't think we would likely be a player, because I think that other people would be more optimistic than we would be in setting rates.

In the end, the government would have to be the main insurer. You might have a situation where private industry priced 5 percent of it and the government took the other 95 percent and, in turn, even guaranteed the 5 percent by the private industry once the private investors went broke. But I do think it's very important to get housing, the mortgages for homes -- to get that a correct national policy. I know it's being worked on. And I think, you know, I think it's very unlikely that Berkshire Hathaway would play any part in it.

Charlie, what are your thoughts?

A - Charlie Munger {BIO 1406508 <GO>}

Well, when private industry was allowed to take over pretty much the whole field, we got the biggest bunch of thieves and idiots that you can imagine screwing up the whole system and threatening all of us. So I'm not very trustful of private industry in this field.

And so, as much as I hate what politicians frequently do, I think the existing system is probably pretty sound. At the moment, Fannie and Freddie are being pretty conservative and they're making almost all the home loans. I think that's okay, and I'm not anxious to go back to where the investment banks were in a big race to the bottom, in terms of creating phony securities.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, and I think -- one question is whether you let Fannie and Freddie just run off as is, and I don't know --

A - Charlie Munger {BIO 1406508 <GO>}

Instead of keep doing just what they're doing.

A - Warren E. Buffett {BIO 1387055 <GO>}

But I think -- I think you may -- I think certainly one of the things that led Fannie and Freddie astray was the desire to serve two masters and increase earnings at double-digit ranges. And to do that, they started doing big portfolio activities. I think if Freddie and Fannie had stuck to insuring mortgages and not become the biggest hedge funds in the country, because they did have this capability of borrowing very cheap, very long, and therefore could get a reasonable -- what looked like a reasonable spread on a huge portfolio action. I think that was a big contributing factor to --

A - Charlie Munger {BIO 1406508 <GO>}

Well, they became, in effect, private corporations. But they're not anymore, Warren. They're --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah.

A - Charlie Munger {BIO 1406508 <GO>}

-- and they are at the moment being fairly conservative.

A - Warren E. Buffett {BIO 1387055 <GO>}

There are people who want them to return to being private corporations, though.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, but I think that's a mistake because when they really got lousy, it's because the private companies were taking over the whole mortgage market as bad lending drove out good. And Fannie May and Freddie Mac, to hold up their volumes, joined in the rush to laxity and fraud and folly. And so --

A - Warren E. Buffett {BIO 1387055 <GO>}

Would you let them have portfolio activities at all?

A - Charlie Munger {BIO 1406508 <GO>}

I don't see any need for it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, I don't either. And I think that did get them into quite a bit of trouble. And I think those were done in order to keep the earnings per share game going.

A - Charlie Munger {BIO 1406508 <GO>}

No, I think that particular experiment in privatization was a total failure.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 11, and --

A - Charlie Munger {BIO 1406508 <GO>}

And we made $1 billion out of it, if you remember.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I wasn't going mention that.

Q - Analyst

Good afternoon. Whitney Tilson, shareholder from New York City. I've just started reading Dream Big, the book recently released about your new Brazilian partners and I'm really enjoying it. Their track records are unbelievable, and as a long-time Berkshire shareholder I'm delighted that you've partnered with them, and hope that Heinz is the first of many elephants that you bag together.

A - Warren E. Buffett {BIO 1387055 <GO>}

Can I interrupt you just for one second, Whitney? I appreciate that sentiment, and that book is available in -- I should have mentioned it earlier. The book was written in Portuguese and it was a best seller in Brazil for the last year. But it just got translated very, very, very recently and it is available at the Bookworm. So -- Whitney, you can go on from there, but I did want to mention it's available.

A - Charlie Munger {BIO 1406508 <GO>}

Why would you assume that all of our shareholders don't read Portuguese?

Q - Analyst

I'll also mention that it is only available on Amazon via Kindle. The only hard copies in the world in English that I'm aware of are available downstairs, so that will create quite a run on the book, I think.

A - Warren E. Buffett {BIO 1387055 <GO>}

We will raise the price.

Q - Analyst

So I have two questions related to this. First, I know you've known these gentlemen probably for a couple decades, and I'd love to hear your observations on what's their secret sauce? It's got to be more than zero-based budgeting, which we all hear about. What are the key things they do that produces such extraordinary returns?

And secondly, when I look at some of the biggest, best deals that you've done in recent years, important factors seem to be your longtime personal relationships, for example, with Jorge Paulo Lemann in the Heinz deal, or your brand name.

The Warren Buffett stamp of approval mattered a lot to some of the deals you did with, for example, Goldman or GE during the financial crisis. And I just wonder what your thoughts are on whether your successors will have the same opportunities to do wonderful deals like this?

A - Warren E. Buffett {BIO 1387055 <GO>}

It will become the Berkshire brand. I mean, the first year or so people will wonder about it, but the person that follows me will bring the same qualities, including the ability to write a very big check. But other things besides that, and it will be a Berkshire brand that may have started with me, but that will continue. Going on to our Brazilian friends, they're very smart, they're very focused, they're very hardworking and determined. They're never satisfied.

And as I said earlier, when you make a deal with them you've made a deal with them. They don't overreach, they don't overpromise. They've got a lot of good qualities. And if you read the book, I think you'll probably learn a lot more about the qualities that made them what they are. But we are very fortunate to be associated with them and we're very fortunate to be associated with a number of the managers that have joined us, too.

We want to be a good partner ourselves because it attracts good partners. And that is a reputation that Berkshire deserves. I mean, Charlie and I do our part toward keeping that reputation intact, but that takes a lot of other people also behaving in a way that causes people to want to join them, causes people to want to trust them. And that will be part of a Berkshire brand. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, I always say the way to get a good spouse is to deserve one. And the way to get a good part --

A - Warren E. Buffett {BIO 1387055 <GO>}

What's your second way?

A - Charlie Munger {BIO 1406508 <GO>}

-- and the other -- well, but to get a good partner you deserve a good partner. It's an old-fashioned way of getting ahead. And the interesting about it is it still works in these modern times. Nothing changes, if you just behave yourself correctly, it's amazing how well it works.

A - Warren E. Buffett {BIO 1387055 <GO>}

You have any further thoughts on the Brazilians?

A - Charlie Munger {BIO 1406508 <GO>}

On what?

A - Warren E. Buffett {BIO 1387055 <GO>}

On the success of Jorge Paulo and his associates, beyond what I laid out?

A - Charlie Munger {BIO 1406508 <GO>}

Well, there -- you can't skirt the fact that they're very good at removing unnecessary costs.

A - Warren E. Buffett {BIO 1387055 <GO>}

Sure.

A - Charlie Munger {BIO 1406508 <GO>}

And I do not consider that in any way immoral or wrong or something.

A - Warren E. Buffett {BIO 1387055 <GO>}

Not in the least.

A - Charlie Munger {BIO 1406508 <GO>}

I think removing unnecessary costs is a service to civilization. And I think it should be done with some -- what do they call it? Mercy, really.

A - Warren E. Buffett {BIO 1387055 <GO>}

Sensitivity.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, sensitivity. But I don't think it's good for our system to have a lot of make-work and what have you. So --

A - Warren E. Buffett {BIO 1387055 <GO>}

If it was, we'd love government, right?

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, and so, generally speaking, I think they're an interesting example to all of us.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah, we're learning from them.

A - Charlie Munger {BIO 1406508 <GO>}

Everybody is.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

A - Charlie Munger {BIO 1406508 <GO>}

Some reluctantly.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 1.

Q - Analyst

Hi, Warren. Hi, Charlie. My name is Walter Chang and I came from Taiwan for this meeting. Seven years ago, I named my first-born son after you, Warren, so the second one hasn't come yet --

A - Warren E. Buffett {BIO 1387055 <GO>}

How's he doing?

Q - Analyst

He's doing great.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

Q - Analyst

So he says, hi. He always says, Warren Buffalo, so, sorry about that.

A - Warren E. Buffett {BIO 1387055 <GO>}

I've been called worse.

Q - Analyst

My question is for both of you. We wish you continued good health, and when both of you break Mrs.B's record of working to 103 years old, that will be 20 years from now. If Warren -- or sorry, if Berkshire breaks that record and basically doubles over the next 10 years and doubles again, you'll have a market cap of $1.2 trillion. What do you think Berkshire will look like at that time and can you get there sooner?

A - Warren E. Buffett {BIO 1387055 <GO>}

We may have to. Your original hypothesis may not hold up. I do plan on writing about that next year, but there's no question that at some point we will have more cash than we can intelligently deploy. And then -- in the business -- and then the question is what do we do with the excess? And that will depend on circumstances at the time.

I mean, if the stock can be bought in at a price that makes sense for continuing shareholders, in other words that their value is enhanced by the repurchase, you know, if I were around at that time I would probably be very aggressive about repurchasing shares. But who knows what the circumstances will be. Who knows what the tax law will be then, you know.

What I do know is that we will have more cash than we can intelligently invest at some point in the future. That's built into what we're doing, and I hope that isn't real soon, and I don't think it probably will be. But it's not on a distant horizon. I mean, the numbers are getting up to where we will not be able to deploy intelligently everything that's coming in. But then we can deploy -- it may be that we can deploy very intelligently and repurchase the shares. Who knows what the circumstances will be?

All I can tell you is that whatever is done will be done in the interest of the shareholder. That, you know, that is what every decision starts from, from that principle. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

It's not a tragedy to succeed so much that future returns go down. That's success, that's winning.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, he'll name his next child after you. Okay. Station 2.

Q - Analyst

Afternoon. My name's Michael Sontag and I'm from Washington, D.C. My question is about the sharing economy. What larger implications do you expect companies like Uber and Airbnb to have on their sectors and do you think this business model is here to stay?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, they are obviously trying to disrupt some other businesses, and those businesses will fight back in competitive ways, and they may try to fight back through legislation. When anybody's threatened or any business is threatened, it tries to fight back.

If you go back to when State Farm came on the scene in 1921, that the -- or '20, or whenever it was, the agency system was sacrosanct, in terms of insurance. It'd been around forever and the big companies were in Hartford or New York and they fought over having the number one agency in town. So if you came to Omaha and you were at Travelers or Aetna, or whomever it might be, your objective was to get the agent. And the policy holder really wasn't being thought about. And then State Farm came along and they had a better mouse trap, and then GEICO came along with a better mouse trap yet.

And so, every -- the industries originally -- the insurance companies fought back in a lot of ways. But one of the ways they tried to do it was to insist, you know, on various state laws involving what agents could do and what could not be done in insurance without agents and all that. It's -- that's standard. And you'll see that, and in the end the better mouse trap usually wins. But the people with the second or third-best mouse trap will try to keep that from happening.

The ones you name, I don't know anything about. I mean, I know what they do, but I don't their specific prospects, which is why we kind of stay away from that sort of thing because we don't -- we know there'll be change, and we don't know who the winners will be. And we try to stick with businesses where we know the winners.

We know -- and there are energy companies that -- a railroad. A lot of our businesses are very, very, very likely to be winners, and that doesn't mean they don't have some change involved with them, but they're going to be winners. And then there's other fields where we can't pick the winners, and so we just sit and watch. We find them interesting but we don't get tempted. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think the new technology is going to be quite disruptive to a lot of people. I think retailing, in particular, is facing some very significant threats. And you heard Greg Abel talk about a power plant in Iowa that was huge to serve one Google server farm. When you get computer capacity all over the world on this scale, it is changing the world. I mean, you're talking about --

A - Warren E. Buffett {BIO 1387055 <GO>}

Fast, too.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah, fast. So -- and I think it's going to hurt a lot of people just as all the past technology investments hurt a lot of people. I think Berkshire, by and large, is in pretty good shape.

A - Warren E. Buffett {BIO 1387055 <GO>}

Where do you think we're most vulnerable?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't think I want to name them.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Now you've got them all wondering, Charlie. Section 3.

Q - Analyst

Good afternoon. My name is Diane Wilen, and I'm from Hollywood, Florida. I've worked in public education for over 35 years. My concern is that I think that we need to do more to proactively prepare our children and youth to be financially literate, especially in light of the serious financial stresses many adults in our society face on a daily basis.

My question is, do you think that financial literacy should be a standard part of the curriculum in our nation's schools and, if so, how early do you think it should begin and what do you think some of the most important learning goals would be?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, certainly the earlier the better. I mean, habits are such a powerful force in everyone's life, and certainly good financial habits. You know, I see it all the time. I get letters every day from people that have committed some kind of financial lunacy or another, but they didn't know it was lunacy and, you know, they didn't get taught that. Their parents didn't teach it to them.

And digging yourself out of the holes that financial illiteracy can cause, you know, you can spend the rest of your lifetime doing it. So I'm very sympathetic to what you're talking about. We've done a little bit. I don't know whether you saw our Secret Millionaire's Club exhibit in the exhibition hall.

And you want to talk to people at a very young age. Charlie and I were lucky. I mean, we got it in our families so that, you know, we were learning it at the dinner table when we were -- before we knew what we were learning. And that happens in a lot of families, and in a lot of families it doesn't happen.

And, of course, you mentioned about childhood financial literacy. Then there's a big problem with adulthood, adult financial illiteracy. And it's harder to be smarter or have better habits than your parents unless the schools intercede or --probably, you know, the schools are your best bet, but it can be done -- a lot can be done on television or through the internet. But it is really important to have good financial habits, and I think anything you can do very early through the school system, you know, would certainly have my vote. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I'm not sure if the schools are at fault. I would place most of the fault with the parents. I think the most powerful example is the behavior of the parent, and so if you're --

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I agree with -- the most important thing is the parents, but not everybody gets the right parents.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. Well, it's very hard to fix people who have the wrong parents.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, let's just say you have the job of fixing people that have the wrong parents. What would you do about it?

A - Charlie Munger {BIO 1406508 <GO>}

Well, what's the -- if you had the job of living forever, what would you do about it? It gets to be so impractical. Who would ever believe that I would have any ability to fix all the people that have the wrong parents?

A - Warren E. Buffett {BIO 1387055 <GO>}

How about a few?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think I'm good at that, either. The only thing I've ever been slightly good at in my life is raising the top higher. It's just -- they left the talent out of me. I don't scorn it. I think it's a noble work. I just -- I'm no good at it. I don't think you're so hot, either.

A - Warren E. Buffett {BIO 1387055 <GO>}

If he hadn't been in public, it would have been stronger. Stop by our Secret Millionaire's Club, though, you may get some ideas.

A - Charlie Munger {BIO 1406508 <GO>}

By the way, the main troubles with education in this field are probably not in the grade schools. They're probably in the colleges. There's a lot of asininity taught in the finance courses at the major universities, and even the departments of economics have much wrong with them. So, if you really want to start fixing the world, you shouldn't assume that when it gets highfalutin, it's a lot better.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well -- there was certainly a period of at least 20 years, I would say, when I think the net utility of knowledge given to finance majors was negative in major universities. I think maybe it's getting better now, but it is a --

A - Charlie Munger {BIO 1406508 <GO>}

Imagine it. Net utility was negative. It was pull forwarding asinine.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

I wish you'd use normal English.

A - Warren E. Buffett {BIO 1387055 <GO>}

I'm worried about what English you're going to use. I don't want to egg him on. The -- it was -- frankly, it was fascinating to me because here was something I understood. And to watch -- I mean extraordinary universities that, essentially, were teaching people some very, very dumb things. And where even to obtain the positions in the departments of those schools, you had to subscribe to this orthodoxy, which made no sense at all.

And it got stronger and stronger, and then -- now it's changing to quite a degree. But it may have soured my feeling on higher education to an unwarranted degree because that -- you know, it may have been particularly bad in the area that I was familiar with, but it was bad. Have I got -- is my language okay, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

You would have liked academics better if you'd have taken physics instead of finance.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, I'm glad I didn't. Okay. Area 4.

Q - Analyst

Mr.Buffett and Mr.Munger. First of all, great party last night. I stood there for half an hour and still couldn't get a drink, so great crowd. Oh, by the way this is Zhang Xiaozhu [ph] from Ottawa, Ontario.

My question relates to the age-old question about dividends and also the valuation. I think you guys are penalized by the great success of your enormously successful company. It's huge, so no one knows how to properly evaluate it, and also because of your yardstick you picked, which is not quite fair. Every year I see some of the old shareholders, and they are waiting to get a dividend, using some of the monies to supplement their retirements.

I do not feel it's essentially fair for them to sell their shares. I remember the case study you had in last year's letter to the shareholders. You did a case study comparing issuing dividends or having the shareholders selling their shares directly.

Because of the shares are so depressed, I do not feel it's very fair. So I'm wanting to ask, is there a practical way for you to break up the company into four logical groups, as you report in every year's AGM, and unlock some of the values and still allow you to allocate the capital freely, please?

A - Warren E. Buffett {BIO 1387055 <GO>}

We would lose -- we would not unlock value. We would lose significant value if we were to break it into four companies.

There are large advantages in both capital allocation, occasionally in the tax situation. There's -- Berkshire is worth more as presently constituted than in any other form that I can conceive of unless we engaged in something to de-tax the whole place, which we're not going to do and which would probably be impossible anyway, but even if it was possible, we wouldn't be doing it.

But the -- we did have this vote, and it's now time to adjourn and then we'll come back in a few minutes for the annual meeting. But we did have a vote, and unfortunately we -- there's not a way to deliver a dividend to a few shareholders and not to others, although -- whereas there is a way to -- for shareholders to maintain an even and greater dollar investment in Berkshire, in terms of the underlying assets, and still cash out annually some portion of their investment, just like they would with a partnership, and incur fairly little tax in the matter. And I wrote about that last year and you've read that.

But there's no advantage to breaking Berkshire into pieces. It would be a terrible mistake. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, generally I think that you're not being deprived when the stock goes from 100 to 200, and you didn't get a dividend that year.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. Well, it isn't going to go up every year, though. I mean, it's going to --

A - Charlie Munger {BIO 1406508 <GO>}

Or two years or whatever it was.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yeah. We had, by a 45-to-1 vote, we had people -- which actually surprised me. We had people say that they prefer the present policy to a change in that policy, so it would be a big mistake to change. And with that we will end the Q-and-A session. We'll be back in about ten or so minutes, and we'll have an annual meeting. Thank you.

Okay. I have a script here that I'll read from and make sure everything's proper. The meeting will now come to order. I'm Warren Buffett, chairman of the board of directors of the company, and I welcome you to the 2014 annual meeting of shareholders.

This morning, I introduced the Berkshire Hathaway directors that are present. Also with us today are partners in the firm of Deloitte & Touche, our auditors. They're available to respond to appropriate questions you might have concerning their firm's audit of the accounts of Berkshire.

Sharon Heck is secretary of Berkshire Hathaway. She will make a written record of the proceedings. Becki Amick has been appointed inspector of elections at this meeting. She will certify that the count of votes cast in the election for directors and the motion to be voted upon at the meeting. The named proxy holders for this meeting are Walter Scott and Marc Hamburg.

Does the secretary have a report of the number of Berkshire shares outstanding, entitled to vote and represented at the meeting?

A - Unidentified Speaker

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 5, 2014, there were 857,848 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to one vote on motions considered at this meeting and 1,179,267,338 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to one ten-thousandth of one vote on motions considered at this meeting. Of that number, 601,494 Class A shares and 682,365,717 Class B shares are represented at this meeting by proxies returned through Thursday evening, May 1.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. That number represents a quorum, and we will, therefore, directly proceed with the meeting. First order of business will be a reading of the minutes of the last meeting of shareholders. I recognize Mr.Walter Scott who will place the motion before the meeting.

A - Unidentified Speaker

I move that the reading of minutes of the last meeting of the shareholders be dispensed with and the minutes be approved.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do I hear a second?

A - Unidentified Speaker

I second the motion.

A - Warren E. Buffett {BIO 1387055 <GO>}

The motion has been moved and seconded. Are there any comments or questions?

A - Charlie Munger {BIO 1406508 <GO>}

We will vote on this motion by voice vote. All those in favor say, aye, opposed? The motion is carried.

A - Warren E. Buffett {BIO 1387055 <GO>}

The next item of business is to elect directors. If a shareholder is present who did not send in a proxy or wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisle so that you can receive a ballot.

I recognize Mr.Walter Scott to place a motion before the meeting with respect to election of directors.

A - Unidentified Speaker

I move that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Don Keough, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer be elected as directors.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there a second?

A - Unidentified Speaker

I second the motion.

A - Warren E. Buffett {BIO 1387055 <GO>}

It has been moved and seconded that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Don Keough, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer be elected as directors.

Are there any other nominations? Is there any discussion? The nominations are ready to be acted upon.

If there are any shareholders voting in person, they should now mark their ballot on the election of directors and deliver their ballot to one of the meeting officials in the aisles. Ms.Amick, when you are ready you may give your report.

A - Unidentified Speaker

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 660,619 votes for each nominee. That number far exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Amick.

Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Don Keough, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer have been elected as directors.

The next item on the agenda is an advisory vote on the compensation of Berkshire Hathaway's executive officers. I recognize Mr.Walter Scott to place a motion before the meeting on this item.

A - Unidentified Speaker

I move that the shareholders of the company approve, on an advisory basis, the compensation paid to the company's named executive officers as disclosed pursuant to Item 402 of the regulation S-K, including the compensation discussion and the analysis and the accompanying compensation tables and the related narrative discussion in the company's 2014 annual meeting proxy statement.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there a second?

A - Unidentified Speaker

I second the motion.

A - Warren E. Buffett {BIO 1387055 <GO>}

It has been moved and seconded that the shareholders of the company approve, on an advisory basis, the compensation paid to the company's named executive officers.

Is there any discussion? I believe there may be on this. Do we have anyone? Okay. Ms.Amick, when you are ready, you may give your report.

A - Unidentified Speaker

The report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 666,751 votes to approve, on an advisory basis, the compensation paid to the company's named executive officers.

That number far exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Amick. The motion to approve, on an advisory basis, the compensation paid to the company's named executive officers is passed.

The next item on the agenda is an advisory vote on the frequency of a shareholder advisory vote on compensation of Berkshire Hathaway's executive officers. I recognize Mr.Walter Scott to place a motion before the meeting on this item.

A - Unidentified Speaker

I move that the shareholders of the company determine, on an advisory basis, the frequency, whether by annual, biannual, or triannual, with which they shall have an advisory vote on the compensation paid to the company's named executive officers as set forth in the company's 2014 annual meeting proxy statement.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there a second?

A - Unidentified Speaker

I second the motion.

A - Warren E. Buffett {BIO 1387055 <GO>}

It has been moved and seconded that shareholders of the company determine the frequency with which they have an advisory vote on compensation of named executive officers with the options being every one, two or three years. Is there any discussion? I believe on this one there is a -- somebody wishes to speak? Yes.

Q - Analyst

Boston, Massachusetts. I suggest a vote of one year in order to change the policy of named executives. In addition to Warren, Charlie, and Marc, the company should report Ajit Jain's salary. He is irreplaceable, and Warren works integrally with him in setting insurance rates. Since -- five -- there should be five members of management, either another insurance manager or someone from the capital-related industries group, from BNSF or MidAmerican, should also be added. You are so lean at corporate, the group managers should be named. Two should be named, but at least Ajit should be added.

The CEOs of former Fortune 500s used to disclose what is their compensation now. There is no retirement age at Berkshire, which is fine, but there should be more depth of disclosure, and this should be done next year, not three years from now.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there anyone else that -- doesn't appear to be. I personally actually agree with a one-year frequency on this, normally, but it does seem in the case of Berkshire that considering what's required and considering what the numbers are and everything, that it probably doesn't make a whole lot of sense. But I generally feel one year is not a bad idea.

I do not think it's a good idea to start selecting people among the managers to give compensation for the reasons discussed earlier.

Okay. Ms.Amick, when you are ready, you may give your report.

A - Unidentified Speaker

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 113,530 votes for a frequency of every year, 2,412 votes for a frequency of every two years, and 552,309 votes for a frequency of every three years of an advisory vote on the compensation paid to the company's named executive officers. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Amick. Shareholders of the company determined, on an advisory basis, that they shall have an advisory vote on the compensation paid to the company's named executive officers every three years.

The next item of business is a motion put forth by Meyer Family Enterprises, LLC, a Berkshire shareholder represented by Brady Anderson and Linda Nkosi.

The motion is set forth in the proxy statement. The motion directs Berkshire Hathaway to establish quantitative goals for reduction of greenhouse gases and other air emissions at its energy generating holdings and publish a report to shareholders on how it will achieve those goals. The directors have recommended that the shareholders vote against the proposal.

I will now recognize Brady Anderson and Linda Nkosi to present the motion. To allow all interested shareholders to present their views, I ask them to limit their remarks to five minutes.

A - Unidentified Speaker

Good afternoon, Mr.Buffett, Mr.Munger, ladies and gentlemen. My name is Linda Nkosi from Swaziland, and this is Brady Anderson from Iowa. We are students of economics and finance at Wartburg College in Iowa and are here representing a delegation of students who manage a $1.2 million portfolio that includes shares of Berkshire Hathaway. We very much appreciate the opportunity to take part in this celebrated event.

We stand to represent Investor Voice SPC of Seattle on behalf of the Meyer Family Enterprises to move Item 4 on page 12 of the proxy, a proposal that Berkshire establish goals for greenhouse gas reduction at its energy holdings. We applaud Berkshire Hathaway Energy for having the largest renewable energy portfolio in the country.

That said, it is also true that BH Energy generates close to half its power by burning coal, which makes BH Energy a huge emitter of greenhouse gas. Given these facts, it would benefit BH Energy to have a carbon reduction plan.

Sixty-six percent of U.S. electric utilities have greenhouse gas reduction goals. Berkshire Hathaway Energy is not among them, despite stating on its website, We will set challenging goals and assess our ability to continually improve our environmental performance.

As shareholders are aware, climate disruption creates profound financial risk for the global economy as well as for Berkshire. The Investor Network on Climate Risk, whose members manage more than $11 trillion and the Carbon Disclosure Project, representing more than $80 trillion in assets globally, have called on companies to disclose risks related to climate change, as well as to take steps to reduce that risk.

The SEC has stated that climate risks are financially material and that they must be disclosed. This is because a high-carbon approach creates risk, whereas a low-carbon approach avoids risk, both now and into the future. Without planning and a set of forward-looking goals, neither management nor investors can truly know where they stand.

In addition, Berkshire's core businesses are vulnerable to climate disruption. Why? Because many of the most negative financial impacts of climate disruption are borne by insurance companies.

Berkshire's GEICO took its single largest loss in history from Superstorm Sandy, a $490 million loss due to claims on more than 46,000 flooded vehicles. Berkshire's reinsurance business is likely to bear significantly more risk from the trends towards increasingly extreme weather.

For a time, some portion of these costs may be pushed onto customers in the form of higher premiums, but it is a prudent -- it is a prudent or sustainable long-term strategy to impose on customers the cost of not planning for the greenhouse gas reductions that climate scientists agree are urgently needed.

In summary, hundreds of the world's largest institutional investors, representing trillions of dollars of invested assets, call on companies to set greenhouse gas reduction goals. Such goals are key tools for reducing the profound business risk that climate change creates.

More than two-thirds of United States utilities already have such goals, and institutional proxy advisory firms repeatedly recommend voting for goal setting and disclosure of this sort. Therefore, please join us in voting for this common sense proposal, which not only benefits the planet, it will preserve, if not boost, Berkshire profits by avoiding risk.

Thank you for this truly amazing opportunity to share our concerns.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, and thank you. I assume that the fact the lights went off, there's nobody additionally that would like to speak on the motion for or against?

Hearing nothing, I'll say that the motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot on the motion and deliver their ballot to one of the meeting officials in the aisles.

Ms.Amick, when you're ready, you can give your report.

A - Unidentified Speaker

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 49,553 votes for the motion and 561,642 votes against the motion. As the number of votes against the motion exceeds a majority of the number of votes of all Class A and Class B shares outstanding, the motion has failed. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Amick. The proposal fails.

The next item of business is a motion put forward by David Witt. The motion is set forth in the proxy statement. The motion requested the board of directors consider payment of a dividend. The directors have recommended the shareholders vote against the proposal.

Mr.Witt available?

As neither Mr.Witt nor his representative is present to present their proposal for action, the motion fails.

Okay. Does anyone have any further business to come before this meeting before we adjourn? If not, I recognize Mr.Scott to place a motion before the meeting.

A - Unidentified Speaker

I move that this meeting be adjourned.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there a second?

A - Unidentified Speaker

I second the motion to adjourn.

A - Warren E. Buffett {BIO 1387055 <GO>}

The motion to adjourn has been made and seconded. We will vote by voice if there's any discussion, if not all in favor say, aye. All opposed say nay. The meeting is adjourned. Thank you.