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WEEKEND INVESTOR --- Common Sense: Why Practice Insider Trading? Just Watch Buffett Instead

By James B. Stewart SmartMoney
845 words
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English

Warren Buffett's annual letter to shareholders, unveiled last weekend, made no mention of Rajat Gupta. But surely the famed investor would have plenty to say about the former board member of Goldman Sachs Group and Procter & Gamble, two of Berkshire Hathaway's biggest investments, who stands accused by the Securities and Exchange Commission of leaking inside information about both companies to Galleon Group founder and accused insider trader Raj Rajaratnam.

I can't speak for Mr. Buffett, and he didn't respond to my request for comment. Indeed, the silence from America's corporate leaders, many of whom knew Mr. Gupta from his days as chief executive of consulting firm McKinsey & Co., has been deafening.

Mr. Gupta is, of course, entitled to his day in court, and through his lawyer, he has denied any wrongdoing. But the SEC's detailed allegations, if proved, are damning. According to the SEC's complaint, Mr. Gupta called Mr. Rajaratnam just before the market close on the very day Goldman's board approved a $5 billion investment in Goldman by Berkshire, a vote of confidence in Goldman that came at the depths of the financial crisis. Mr. Rajaratnam promptly bought Goldman shares and then sold them, earning a quick profit of $900,000, according to the complaint.

Mr. Gupta also leaked confidential information about Goldman's and Procter & Gamble's earnings, which enabled Mr. Rajaratnam to make more than $17 million in illegal profits and avoid losses, according to the SEC complaint. There has been no allegation that Mr. Gupta profited directly from passing the information, but he was both an investor in and director of one of the Galleon hedge funds. As of yet, no criminal charges have been filed against him.

If I were Mr. Buffett, I would say, first and foremost, that the passing of confidential information by a board member is illegal, a shocking and inexplicable breach of trust, and bad business. Even more fundamentally, I would say it is stupid. Why trade on inside information from Mr. Buffett when you can simply mirror his strategies after they've been made public?

Let's use the Goldman investment as an example. As I pointed out at the time, average investors could pretty much replicate the Buffett trade in Goldman by using call options and bonds. I recommended buying Goldman's January 2010 calls (then trading at $10 a share) and deeply discounted bonds then yielding 10%.

Goldman shares were trading at over $150 a share when those options expired. If they exercised the calls and then sold the shares, investors would have made a profit of $40 a share on an investment of $110 per share. And today the bonds are trading over par.

Compare those results to Mr. Rajaratnam's. According to the SEC, on Sept. 23, 2008, after talking with Mr. Gupta, Mr. Rajaratnam bought 175,000 Goldman shares, adding to the 120,000 he had bought earlier that day and the day before, also after talking with Mr. Gupta. The shares closed just over $125 on Sept. 23.

The next day, after the news of Mr. Buffett's investment was released, Goldman shares jumped to $133, and Mr. Rajaratnam liquidated his position, realizing a profit of about $900,000, according to the SEC.

This week Goldman shares were trading at $165 share. Had Mr. Rajaratnam bought Goldman shares at $133, after the news was released, and held them, he would be looking at a total gain of $9.6 million. Similarly, after allegedly learning from Mr. Gupta that P&G's results would be disappointing, Mr. Rajaratnam shorted some 180,000 P&G shares on Jan. 29, 2009. The next day, after the results were released, the shares dropped more than 6%, and Galleon funds reaped a gain of $570,000.

P&G shares traded at $54.50 on Jan. 30. This week P&G shares were trading at over $62. Had Mr. Rajaratnam simply waited for the results, bought 180,000 shares and held them, he would have a gain of $1.35 million.

There are at least two important lessons for investors in all this. First of all, insider trading is a fool's game. Second, follow Mr. Buffett's words and deeds. I have periodically recommended companies in which Mr. Buffet has a stake. In this year's letter, he extols his acquisition of Burlington Northern and the potential for rail companies in general. It is too late to buy Burlington Northern, but there are other publicly traded railroads. I have recommended and own Norfolk Southern, on much the same rationale articulated by Mr. Buffett.

James B. Stewart, a columnist for SmartMoney magazine and SmartMoney.com, writes weekly about his personal investing strategy. Unlike Dow Jones reporters, he may have positions in the stocks he writes about. For his past columns, see: www.smartmoney.com/commonsense.

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Management
Rajaratnam Lawyer Sought to Delay Action on Ex-Goldman Director

By Michael Rothfeld
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One day before the Securities and Exchange Commission accused a former Goldman Sachs Group Inc. director of leaking inside information about the company, a lawyer for the hedge-fund founder who allegedly received the tips tried to get regulators to postpone the enforcement action, court documents show.

The request was made in a letter sent Monday to SEC commissioners by a lawyer for Galleon Group founder Raj Rajaratnam, whose criminal trial on insider-trading charges is slated to start next week. On Tuesday, the SEC accused Rajat Gupta in a civil action of giving Mr. Rajaratnam confidential information about Goldman and Procter & Gamble Co., where Mr. Gupta also had served as a board member.

In court documents filed Thursday, Mr. Rajaratnam's lawyer, John Dowd, told a judge that the SEC's move may have violated his client's constitutional rights. "The overwhelming publicity from this action by the SEC has seriously jeopardized Mr. Rajaratnam's ability to seat an impartial and unbiased jury," Mr. Dowd wrote to U.S. District Judge Richard Holwell, who is presiding over the criminal case. Thursday's filing included a copy of the letter Mr. Dowd earlier sent to the SEC.

The tips Mr. Rajaratanam allegedly received from Mr. Gupta are likely to be a focus of the hedge-fund manager's trial, which stems from a broad insider-trading investigation that has led to guilty pleas from 19 of 26 defendants.

In its civil administrative proceeding against Mr. Gupta, the SEC said the former Goldman director repeatedly called Mr. Rajaratnam moments after receiving inside information, including a tip about a $5 billion investment from Warren Buffett's Berkshire Hathaway Inc. in the investment bank at the height of the financial crisis in 2008. Mr. Gupta also leaked earnings information about Goldman and P&G, according to the SEC's filing. Mr. Rajaratnam traded on the information, earnings millions of dollars in profits and avoiding losses, the SEC said.

Mr. Gupta, who had previously left Goldman, stepped down from P&G's board Tuesday. His lawyer has said Mr. Gupta did nothing wrong and wasn't accused of trading in the stocks himself or taking part in any quid pro quo. Mr. Gupta's lawyer, Gary Naftalis, declined to comment Thursday. Spokesmen for Mr. Rajaratnam, federal prosecutors in New York and the SEC declined to comment.

Mr. Dowd in his letter to SEC commissioners said the agency could benefit by delaying its case because prosecutors in New York had on their witness list "numerous Goldman Sachs and Procter & Gamble" representatives whose testimony could illuminate the regulator's investigation.

He also said Mr. Gupta's response to the SEC's investigation "provided powerful evidence that he didn't pass material, nonpublic information to Mr. Rajaratnam," and that an SEC action against such "a significant exculpatory witness" could violate Mr. Rajaratnam's right to an impartial jury.

On Thursday, Mr. Dowd asked the judge to use a special jury questionnaire and add jury instructions to mitigate damage done by publicity surrounding the case against Mr. Gupta, which he said had been publicized in hundreds of news stories.

Write to Michael Rothfeld at michael.rothfeld@wsj.com

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THE WALL STREET JOURNAL.
ASIA EDITION

Bonds blemish Buffett's year --- Berkshire records $1 billion write-down on utility investment in an otherwise banner 2010

By Serena Ng
955 words
4 March 2011
The Wall Street Journal Asia
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21
English

Warren Buffett has recorded a big loss on a troubled investment, one he made near the height of the leveraged-buyout boom.

In a blemish on an otherwise banner year for Mr. Buffett's Berkshire Hathaway Inc., the Omaha, Neb., conglomerate recorded a $1 billion fourth-quarter write-down on $2.1 billion in "junk" bonds of the Texas power producer formerly known as TXU Corp., which went private in a record $45 billion buyout in 2007.

Berkshire purchased the bonds issued by the renamed company, Energy Future Holdings, and a subsidiary in late 2007 at a discount to their face value. At the time, the billionaire investor called the purchase a one-of-a-kind investment that reflected his bullish view on the utility sector, rather than on the junk-bond market or leveraged buyouts per se. Mr. Buffett has previously expressed disdain for private-equity buyouts that employed excessive leverage.

The bonds, which yielded more than 10% when Berkshire bought them, had been in an unrealized loss position for more than two years. In recording the $1 billion "other than temporary" impairment loss on the debt in the fourth quarter of 2010, Berkshire said it is unlikely to receive all the money it is owed, indicating it expects the bonds to default or be restructured. Berkshire still holds the bonds and didn't name the debt issuer in its annual report, which was released Saturday.

The impairment charge, which was required by accounting regulations, didn't change Berkshire's book value, which previously included the unrealized losses on the bonds. Berkshire recognized the charge in fourth-quarter earnings, which rose 43% to $4.4 billion, boosted by profits from railroad operator Burlington Northern Santa Fe and other businesses.

Energy Future Holdings has been struggling under a gargantuan debt load, largely because of a sustained drop in the price of natural gas, which determines what the company can charge for power. The 2007 buyout, led by private-equity firms headed by Kohlberg Kravis Roberts & Co., TPG Capital and Goldman Sachs Group Inc. took place at a time when prices of natural gas were about double what they are today.

Energy Future last year chipped away at its debt load by getting some investors to exchange their bonds, but market prices still indicate a high probability of default. On Wednesday, some of its bonds were trading at between 40 and 60 cents on the dollar, according to data from MarketAxess.

Berkshire has other large investments in regulated utilities through its MidAmerican Energy Holdings subsidiary and those are performing fairly well, producing $1.1 billion of Berkshire's $13 billion in 2010 earnings.

Mr. Buffett's latest annual letter to shareholders included a section about the perils of too much borrowed money, or leverage. "Once having profited from its wonders, very few people retreat to more conservative practices," he wrote, noting that "leverage is addictive" and it can be "lethal to businesses."

He didn't refer to any particular companies, but noted how companies with large debts typically assume they can refinance it as it comes due.

But when there are company-specific problems or a world-wide shortage of credit, he wrote, "maturities must actually be met by payment. For that, only cash will do the job."

Separately, Mr. Buffett, who recently told investors that Berkshire is seeking major acquisitions, said Wednesday in an interview on CNBC that he sees no target with a "high probability" of being pursued right now.

Berkshire's chairman and chief executive said Berkshire is always considering potential deals, "but certainly nothing that's a high probability at the moment."

Mr. Buffett said Berkshire had a potential acquisition "that got taken out just a day or two ago" by another company. He didn't specify either the target or its rival suitor, but said it wasn't as big as last year's $26.5 billion purchase of Burlington Northern.

On Tuesday, PPL Corp, an Allentown, Pa., utility operator, said it would buy a large power distribution business in the U.K. in a $6.4 billion deal. Berkshire's MidAmerican Energy unit was reportedly one of the interested bidders in the U.K. business.

In his letter to shareholders last weekend, Mr. Buffett wrote that Berkshire is "prepared" for a large acquisition.

Asked about problems that state and local governments face in meeting worker pension obligations, Mr. Buffett said those entities should stop making new promises. "You may be able to fulfill the ones that you've got up to this point, but you say, 'Look, this is going to bust us. I'm going to make no more new promises.' "

An example of this, he said, are the hefty returns often assumed by those who run and invest in pension funds. Mr. Buffett described expected returns of as much as 8% "crazy" and said such assumptions require a "real overhaul."

He also warned that some current policies, if left unchanged, will lead the U.S. into inflation.

"We're following policies that will lead to a lot of inflation down the road unless changes are made." The U.S., he said, can't "run the kind of deficits we're running and other policies . . . without it being enormously inflationary."

On the question of government stimulus spending, Mr. Buffett played down the need for more right now.

Mr. Buffett anticipates more hiring by businesses in 2011 compared with last year.

"I see businesses improving," he said.

Mark Taylor contributed to this article.

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THE WALL STREET JOURNAL.

Business
Indian Shares Extend Rally to Fourth Day

By Sudeep Jain
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English

MUMBAI—Indian shares rose for a fourth straight session in choppy trade Thursday, tracking advances in most Asian markets and on hopes slowing food inflation will ease the pressure on the country's central bank to tighten monetary policy.

The Bombay Stock Exchange's Sensitive Index rose 43.26 points, or 0.2%, to 18489.76, after ranging from 18253.62 to 18603.57. On the National Stock Exchange, the 50-stock S&P CNX Nifty tacked on 13.90 points, or 0.3%, to 5536.20.

Trading volume on the BSE increased to 38.21 billion rupees ($853 million) from Tuesday's 33.75 billion rupees. Gainers outnumbered decliners 1,425 to 1,417, while 107 stocks were unchanged. Indian markets were closed Wednesday for a religious holiday.

Among other Asian markets, Hong Kong's Hang Seng rose 0.3%, Japan's Nikkei rose 0.9%, while Korea's Kospi jumped 2.2%. China's Shanghai Composite shed 0.4%.

"Today's was a choppy session because investors were waiting for things to cool down after Tuesday's sharp gains," said Deven Choksey, managing director at K.R. Choksey Shares & Securities.

The Sensex rose 3.5% on Tuesday.

Mr. Choksey said investor sentiment was supported by inflation data showing food inflation in the week ended Feb. 19 slowed to 10.39% from 11.49% the week before.

Analysts expect the market to stabilize around current levels in coming sessions provided there are no negative global or domestic triggers.

Of the 30 Sensex constituents, 16 rose on Thursday.

Auto shares continued their good run supported by robust February sales.

"Most [auto] companies have achieved over 90% of their targeted 2010-11 sales. We believe the recent budget provides a strong cushion to sector demand because product prices will not be raised on account of the cut in customs duty on steel and the unchanged excise duty," brokerage Kim Eng Securities said in a research note.

Tata Motors rose 3.1% to 1,175.50 rupees, while Maruti Suzuki leapt 2.7% to 1,328.25 rupees.

Engineering companies extended their advance on hopes they will get more orders after the government's budget, announced Monday, for the fiscal year beginning April 1 focused on improving the country's infrastructure.

Larsen & Toubro climbed 3.2% to 1,662.00 rupees. Bharat Heavy Electricals rose 3.3% to 2,126.35 rupees.

Other heavyweights that contributed to the benchmark's advance included Housing Development Finance Corp., up 3.0% at 670.65 rupees, and HDFC Bank, up 2.7% at 2,193.05 rupees.

Among non-Sensex advancers, Bajaj Finserv jumped by the daily upper limit of 20% to 527.45 rupees after the company entered a marketing tie-up with Berkshire India, a unit of U.S. billionaire Warren Buffet's Berkshire Hathaway.

Sensex decliners were paced by Infosys Technologies, which fell 2.0% to 3,025.70 rupees. Tata Steel slipped 1.7% to 623.40 rupees on news the company raised its stake in the Africa-focused coal firm Riversdale Mining by 2.9 percentage points to 27.1%.

Anglo-Australian mining group Rio Tinto has made a $3.95 billion takeover offer for Riversdale Mining. Tata Steel's raising of its stake has increased uncertainty about its strategy regarding Riversdale.

Among other Sensex losers, Bharti Airtel shed 2.1% to 330.70 rupees and Reliance Infrastructure fell 3.3% to 598.40 rupees.

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Business
Battered Bonds a Berkshire Blemish

By Serena Ng
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English

Warren Buffett has recorded a big loss on a troubled investment, one he made near the height of the leveraged-buyout boom.

In a blemish on an otherwise banner year for Mr. Buffett's Berkshire Hathaway Inc., the Omaha, Neb., conglomerate recorded a $1 billion fourth-quarter write-down on $2.1 billion in "junk" bonds of the Texas power producer formerly known as TXU Corp., which went private in a record $45 billion buyout in 2007.

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The impairment charge, which was required by accounting regulations, didn't change Berkshire's book value, which previously included the unrealized losses on the bonds. Berkshire recognized the charge in fourth-quarter earnings, which rose 43% to $4.4 billion, boosted by profits from railroad operator Burlington Northern Santa Fe and other businesses.

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Berkshire has other large investments in regulated utilities through its MidAmerican Energy Holdings subsidiary and those are performing fairly well, producing $1.1 billion of Berkshire's $13 billion in 2010 earnings. The sector remains one that Mr. Buffett favors.

Mr. Buffett's latest annual letter to shareholders included a section about the perils of too much borrowed money, or leverage. "Once having profited from its wonders, very few people retreat to more conservative practices," he wrote, noting that "leverage is addictive" and it can be "lethal to businesses."

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But when there are company-specific problems or a world-wide shortage of credit, he wrote, "maturities must actually be met by payment. For that, only cash will do the job."

Separately, Mr. Buffett, who recently told investors that Berkshire is seeking major acquisitions, said Wednesday in an interview on CNBC that he sees no target with a "high probability" of being pursued right now.

Berkshire's chairman and chief executive said Berkshire is always considering potential deals, "but certainly nothing that's a high probability at the moment."

Mr. Buffett said Berkshire had a potential acquisition "that got taken out just a day or two ago" by another company. He didn't specify either the target or its rival suitor, but said it wasn't as big as last year's $26.5 billion purchase of Burlington Northern.

On Tuesday, PPL Corp, an Allentown, Pa., utility operator, said it would buy a large power distribution business in the U.K. in a $6.4 billion deal. Berkshire's MidAmerican Energy unit was reportedly one of the interested bidders in the U.K. business.

In his letter to shareholders last weekend, Mr. Buffett wrote that Berkshire is "prepared" for a large acquisition. "Our elephant gun has been reloaded, and my trigger finger is itchy," he said.

Asked about problems that state and local governments face in meeting worker pension obligations, Mr. Buffett said those entities should stop making new promises. "You may be able to fulfill the ones that you've got up to this point, but you say, 'Look, this is going to bust us. I'm going to make no more new promises.' "

An example of this, he said, are the hefty returns often assumed by those who run and invest in pension funds. Mr. Buffett described expected returns of as much as 8% "crazy" and said such assumptions require a "real overhaul."

He also warned that some current policies, if left unchanged, will lead the U.S. into inflation.

"We're following policies that will lead to a lot of inflation down the road unless changes are made." The U.S., he said, can't "run the kind of deficits we're running and other policies … without it being enormously inflationary."

On the question of government stimulus spending, Mr. Buffett played down the need for more right now.

Mr. Buffett anticipates more hiring by businesses in 2011 compared with last year.

"I see businesses improving," he said.

Mark Taylor contributed to this article.

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Corporate News: Bombardier Lands Big Jet Order --- Buffett's NetJets Seeks as Many as 120 Business Aircraft; Deal Carries Potential Value of $6.7 Billion

By Caroline Van Hasselt
624 words
3 March 2011
The Wall Street Journal
J
B3
English

TORONTO -- Bombardier Inc. of Canada scored its largest business-jet order to date on Wednesday, for as many as 120 aircraft in a deal that could be valued at US$6.7 billion.

NetJets Inc., the world's largest operator of fractionally owned business jets, placed a firm order for 50 Global aircraft, valued at US$2.8 billion at list prices, plus options for an additional 70 Global aircraft, valued at US$3.9 billion. NetJets, based in Columbus, Ohio, is owned by billionaire Warren Buffett's Berkshire Hathaway Inc.

The firm order comprises a mixture of 30 Global 5000 Vision and Global Express XRS Vision aircraft, with deliveries to begin in the last quarter of 2012, as well as a total of 20 Global 7000 and Global 8000 jets, new ultra-long-range planes scheduled to be delivered starting in 2017.

"It's a great order for us," said Bombardier Chief Executive Pierre Beaudoin in an interview. "It's an important vote of confidence for the Global family."

The order comes after the Montreal-based company booked 78 new net orders for business jets in the fourth quarter, more than the past nine quarters combined. The recent deal flow could signal percolating demand for business aircraft as corporate chieftains, business travelers and the wealthy balk at the headaches of flying commercial, given airport congestion and heightened security measures.

Mr. Beaudoin said it is too early to say whether the recent downturn in business-jet orders is coming to an end. The global financial and economic crisis sent business-jet orders into a tailspin. "We've seen a strong comeback," Mr. Beaudoin said. "Will it hold? Will it continue? In the volatile market we're in, I think we need to follow that step by step."

Most observers say that the industry downturn isn't likely to hit bottom until the middle of the year.

"We are taking advantage of the current lull in the private aviation market to position the NetJets fleet for the future," NetJets CEO David Sokol said in a written statement.

Bombardier, which dominates the global business-jet market, unveiled its long-range, large-cabin Global 7000 and Global 8000 planes in October, amid pressure to respond to the new G650 aircraft from Gulfstream, a unit of General Dynamics Corp. The new Bombardier planes have a range of 9,091 miles.

The order marks the first time NetJets has ordered business jets from Bombardier. Mr. Beaudoin said discussions with NetJets began eight months ago. He added that the order won't hurt Bombardier's own fractional business-jet unit, Flexjet. The fractional jet business works like a time share, with companies or executives buying a share of the plane and locking in access to a certain number of hours or days flying it each year.

Mr. Beaudoin said Bombardier's Flexjet is focused on North America, while NetJets is more internationally oriented, he said. The long-range Globals, for instance, aren't in Flexjet's fleet.

"We're not offering our long-range airplane," Mr. Beaudoin said. "We're not an international fractional operator, and NetJets is. So, for us, it was an opportunity to offer a product in a category that Flexjet does not compete in."

Bombardier is the world's third-largest airplane manufacturer, behind Boeing Co. and European Aeronautic Defence & Space Co. unit Airbus.

In Toronto, Bombardier Class B shares finished 7.5% higher at 6.60 Canadian dollars (US$6.77) on Wednesday, up 46 Canadian cents.

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ASIA EDITION

Bombardier lands NetJets order

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3 March 2011
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Bombardier Inc. said it has received an order from NetJets Inc. for as many as 120 business jets, in a deal that could be valued at more than US$6.7 billion.

Montreal-based Bombardier said the deal is the largest business-jet order in the company's history.

The firm order, valued at $2.8 billion at list prices, is for 50 Global business jets and includes options for an additional 70 Global aircraft, which if exercised, values the entire order at more than $6.7 billion. The order comprises 30 Global 5000 Vision and Global Express XRS Vision aircraft, with deliveries set to begin in the last quarter of 2012, as well as 20 firm orders for Global 7000 and Global 8000 jets to be delivered starting in 2017.

NetJets, the world's largest fractional-jet operator, has a fleet of more than 800 planes.

The deal disclosed Wednesday is the first time that the Berkshire Hathaway Inc. unit has ordered jets from Bombardier.

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THE WALL STREET JOURNAL.

Today's Markets
Today's Markets
Dow's Rise Puts It Up 2.81% for February

By Donna Kardos Yesalavich
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NEW YORK—U.S. stocks rose, in the final day of their third-straight month in the black, as investors were relieved by a pause in oil prices from their recent rally and comments from a top Federal Reserve official.

The Dow Jones Industrial Average rose 95.89 points, or 0.79%, to 12226.34, led by a 3% climb in Johnson & Johnson. Also boosting the measure, Verizon Communications posted a 2.6% gain, Hewlett-Packard added 2.2%, and 3M climbed 2.2%.

The Nasdaq Composite edged up 1.22, or 0.04%, to 2782.27. The Standard & Poor's 500-stock index added 7.34, or 0.56%, to 1327.22.

The Dow ended the month with a 2.81% gain, while the Nasdaq Composite gained 3.04% in February and the S&P 500 added 3.2%, representing the measures' third-straight month in the black. For the Dow and the S&P 500, this month also represented their biggest February gains since 1998.

The February climb despite the unrest in the Middle East reflect that "so far in the terms of the impact on the economy of both the U.S. and the rest of the world, the effect is fairly muted," said Jim Meyer, chief investment officer at Tower Bridge Advisors. "You've got a 10% increase in the price of oil ... but you can't really go beyond that" in terms of seeing a clear impact on the economy from the overseas turmoil, he added.

Monday's advance came as crude-oil futures pulled back from their recent highs, as oil producers Saudi Arabia and Kuwait appeared ready to make up for crude supplies lost due to unrest in Libya. Investors were relieved to see the oil futures below last week's highs of around $100 a barrel. Investors have been fretting about how consumer spending and business spending might be impacted by higher energy costs.

Investors were also heartened by comments from Federal Reserve Bank of New York President William Dudley, who said that although rising commodity prices argue for increased inflation vigilance, the economy is unlikely to mount strong enough growth to change the path of monetary policy over coming months.

"Barring a sustained period of economic growth so strong that the economy's substantial excess slack is quickly exhausted or a noteworthy rise in inflation expectations, the outlook implies that short-term interest rates are likely to remain unusually low for an extended period," he said in a speech that was upbeat about the economy's prospects.

The comments indicate that the Fed "really wants to show the market we are behind it 100%, and we are not going to leave until we are absolutely sure that we have a solid economic recovery in which to build jobs," said Jamie Cox, managing partner at Harris Financial Group.

Monday's round of economic data came in mixed. The Institute for Supply Management-Chicago's business barometer showed U.S. economic activity accelerated in February to its highest reading in 22½ years. However, its employment index pulled back in February.

Pending-home sales fell, but the decline was slightly smaller than feared. And consumer spending rose less than expected last month even as personal income rose 1%, the largest gain since May 2009, boosted by income-tax cuts from the federal government.

Investors chose to focus on the brighter spots in the data as they looked for buying opportunities after the Dow last week had its biggest weekly point drop since August.

"The last couple of months, the mentality in the market has become a buy-the-dip mentality as confidence in the economy has come back," said Gary Flam, portfolio manager at Bel Air Investment Advisors.

Among Monday's stocks in focus, Berkshire Hathaway's Class A shares climbed 2.9%, while its Class B shares jumped 2.8% after Chairman Warren Buffett said in his widely followed annual letter to shareholders that he is prepared for "more major acquisitions." The conglomerate reported a 61% jump in 2010 earnings and a growing cash hoard.

Nationwide Health Properties jumped 9.7% after Ventas agreed to acquire the company in an all-stock deal valued at $5.79 billion, creating a large health-care real estate investment trust as demand for senior housing continues to grow. Ventas slipped 3.2%.

Amazon.com shed 2.2%. UBS cut its investment rating on Amazon's shares to "neutral" from "buy," saying that while it expects the company will continue to dominate e-commerce, it is concerned about margin pressures from increased distribution costs and new distribution deals with hardware providers.

Write to Donna Kardos Yesalavich at donna.yesalavich@dowjones.com

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THE WALL STREET JOURNAL.

Markets
Feds Accuse P&G Director; SEC Alleges Official Passed Inside Information on Berkshire's Deal With Goldman

By Susan Pulliam
1,029 words
2 March 2011
The Wall Street Journal Online
WSJO
English

The U.S. accused a former director of Goldman Sachs Group Inc. and Procter & Gamble Co. of passing inside information about the two companies to a hedge-fund titan at a critical moment in American financial history.

In a civil administrative proceeding, the Securities and Exchange Commission alleged that the director, Rajat Gupta, tipped Galleon Group founder Raj Rajaratnam about quarterly earnings results for both Goldman and P&G during the financial crisis of 2008.

In the most incendiary allegation of the case, the SEC said Mr. Gupta, serving as a Goldman board member, told Mr. Rajaratnam about a $5 billion investment in Goldman by Warren Buffett's Berkshire Hathaway Inc. before a public announcement of the deal at the depth of the financial panic.

Mr. Gupta called Mr. Rajaratnam after the Goldman board approved the Berkshire deal, "just minutes" before the market closed on Sept. 23, 2008—allowing Galleon to buy Goldman shares and generate a profit of $900,000, the SEC alleged.

The Berkshire investment was a major turning point in the financial panic: One of the world's savviest investors, Mr. Buffett helped ease fears about the instability of the financial system by backing America's leading securities firm.

A lawyer for Mr. Gupta, 62 years old, said his client had "done nothing wrong." "There is no allegation that Mr. Gupta traded in any of these securities or shared in any profits as part of any quid pro quo," Gary Naftalis, the lawyer, said in a statement.

The alleged tip by Mr. Gupta about Goldman—first reported by The Wall Street Journal in April 2010—has drawn intense interest because it involves a trusted figure in the business and financial community: a then-serving director who regulators say was an insider-trading pipeline to Mr. Rajaratnam.

The alleged inside information about Goldman and P&G led to a total of $18 million in illicit profits and avoided losses for Mr. Rajaratnam and others, the SEC alleged.

Mr. Gupta resigned as a Goldman director in May 2010. He resigned his position as a P&G board member Tuesday.

A P&G spokesman said Mr. Gupta "voluntarily resigned" and that he "is stepping down in the interest of the company and to prevent any distraction to the P&G board and our business."

Mr. Gupta, a friend and business associate of Mr. Rajaratnam, "was honored with the highest trust of leading public companies, and he betrayed that trust by disclosing their most sensitive and valuable secrets," said Robert Khuzami, the SEC's enforcement chief.

Goldman declined to comment. Neither Goldman nor P&G was accused of wrongdoing.

Mr. Rajaratnam's lawyer, John Dowd, said there is "no merit" to the SEC charges. "This is simply an effort to destroy a favorable witness. There is no case, absolutely none. No conversations, no benefit, no nothing. These are old friends and Mr. Gupta is a distinguished human being."

The civil SEC action Tuesday against Mr. Gupta is linked to a larger criminal case in which 19 of 26 defendants have pleaded guilty to participating in an insider-trading scheme involving Galleon.

Mr. Rajaratnam, 53, who is at the center of that case, is fighting the charges. His trial is slated to begin next week in a Manhattan federal court in Foley Square, the site of numerous white-collar cases over many decades. Mr. Gupta hasn't been charged in the criminal case. If civil charges are proven by the SEC, Mr. Gupta could be forced to pay a fine.

A spokeswoman for the Manhattan U.S. Attorney's office declined to comment.

The SEC doesn't say specifically what Mr. Gupta said in the alleged call with Mr. Rajaratnam after the Goldman board meeting.

The SEC said Mr. Gupta called Mr. Rajaratnam after the Goldman board approved the investment by Mr. Buffett and that Mr. Rajaratnam bought 175,000 shares before the market closed and the deal was announced on Sept. 23. The next day, Galleon sold the shares for a $900,000 profit, the SEC says.

Separately, the SEC also alleged that Mr. Gupta informed Mr. Rajaratnam of Goldman's financial results for both the second and fourth quarters of 2008 before they were announced.

Mr. Rajaratnam, for instance, told an unnamed "participant" in the alleged insider-trading scheme in October 2008 that he had heard from a Goldman director that the big securities firm would record a loss of $2 a share in the 2008 fourth quarter, according to the SEC.

That was far worse than the $2.50 per-share profit that analysts had been expecting.

Galleon sold Goldman shares based on that information, avoiding a loss of more than $3 million, the SEC alleges.

On June 10, 2008, a week before Goldman's second-quarter results were announced, Goldman Chief Executive Officer Lloyd Blankfein called Mr. Gupta to apprise him of the firm's financial status, the SEC says in its administrative proceeding.

Mr. Blankfein declined to comment.

That night, the SEC alleges, Mr. Gupta called Mr. Rajaratnam's home. "The call was the first in a flurry of short calls between the two over an 18-minute span that night," the SEC says. Over the next two days, Galleon bought Goldman shares and options, the SEC said.

After the second-quarter results were announced, Galleon profited by selling these positions, according to the SEC.

Mr. Rajaratnam's trial is set to begin March 8. The allegations involving tips about Goldman could be discussed during the trial, according to lawyers. It's unclear whom the government may call to testify in regard to those allegations.

Mr. Gupta had been head of McKinsey & Co., the large consulting firm, from 1994 to 2003. McKinsey hasn't been accused of wrongdoing. On Tuesday, a McKinsey spokesman said: "We were saddened to learn about the civil charges against our former colleague."

Chad Bray and Liz Rappaport contributed to this article.

Write to Susan Pulliam at susan.pulliam@wsj.com

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Feds Accuse P&G Director --- SEC Alleges Official Passed Inside Information on Berkshire's Deal With Goldman

By Susan Pulliam
1,025 words
2 March 2011
The Wall Street Journal
J
A1
English

The U.S. accused a former director of Goldman Sachs Group Inc. and Procter & Gamble Co. of passing inside information about the two companies to a hedge-fund titan at a critical moment in American financial history.

In a civil administrative proceeding, the Securities and Exchange Commission alleged that the director, Rajat Gupta, tipped Galleon Group founder Raj Rajaratnam about quarterly earnings results for both Goldman and P&G during the financial crisis of 2008.

In the most incendiary allegation of the case, the SEC said Mr. Gupta, serving as a Goldman board member, told Mr. Rajaratnam about a $5 billion investment in Goldmanby Warren Buffett's Berkshire Hathaway Inc. before a public announcement of the deal at the depth of the financial panic.

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Chad Bray and Liz Rappaport contributed to this article.

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THE WALL STREET JOURNAL.

Management
Berkshire Board Adds a Fourth Possible Buffett Successor

By Erik Holm
534 words
1 March 2011
The Wall Street Journal Online
WSJO
English

The board of Berkshire Hathaway Inc. has added a name to its top-secret list of potential successors for longtime Chief Executive Warren Buffett.

The board now has identified four internal candidates it believes are capable of succeeding Mr. Buffett, according to the company's 10-K securities filing Monday. The prior year's filing had put the figure at three.

Monday's filing said each candidate is a "current Berkshire subsidiary manager."

The company, one of the nation's largest, has never named the potential successors, but speculation about who will succeed Mr. Buffett, 80 years old, is a favorite pastime of company watchers.

Monday, attention focused on Matt Rose, the head of railroad Burlington Northern Santa Fe. Berkshire last year bought the portion of the railroad it didn't already own in its biggest acquisition ever, a move that brought Mr. Rose into Berkshire's stable of managers.

In his annual letter to shareholders released Saturday, Mr. Buffett said the Burlington deal was "working out even better than I expected" and stood to increase Berkshire's normal earnings power by more than 30% after tax.

Neither Messrs. Buffett nor Rose immediately responded to requests for comment.

David Sokol, the chairman of Berkshire's utility operations and CEO of its NetJets unit, has been considered the leading candidate. Mr. Buffett wrote in his letter to shareholders Saturday that he "can't overstate the breadth and importance" of Mr. Sokol's achievements.

Ajit Jain, the head of Berkshire Hathaway's highly profitable reinsurance business, also has been mentioned as a possible successor. Mr. Buffett said Mr. Jain "has added a great many billions of dollars to the value of Berkshire. Even kryptonite bounces off Ajit."

Mr. Buffett has no plans to relinquish any of his positions, but has said that when he dies, his job at the helm of Berkshire will be split into three, with a separate chairman and chief executive, and one or more chief investment officers.

As in the past, the company stated in its annual filing that the board has a single successor in mind "should a replacement be needed currently."

Separately, analysts at Stifel Nicolaus, a brokerage that tracks the company, on Monday raised its rating on Berkshire shares to "hold" from "sell" after the company released 2010 results Saturday.

But the firm said it remained skeptical about Berkshire's long-term prospects and flagged several potential problems that could arise when Mr. Buffett is no longer running the company.

Among them: The company may become less nimble at deploying capital under a different leader, and the heads of many of Berkshire's operating units may step aside when Mr. Buffett leaves, Stifel said.

Stifel had been the only major firm with a "sell" rating on the shares over the last several months. From the end of June through Friday, Berkshire's Class B shares rose 6.5% compared with the 30% return of the Standard & Poor's 500-stock index.

Monday, Berkshire's Class A shares rose $3,750, or 2.9%, to $131,300.

Write to Erik Holm at erik.holm@dowjones.com

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Global Finance: Berkshire Board Adds to Possible Successors

By Erik Holm
515 words
1 March 2011
The Wall Street Journal
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English

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The Game: A Guide to Going on Safari With Warren 'Big Game' Buffett

By Dennis K. Berman
851 words
1 March 2011
The Wall Street Journal
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C1
English

Warren Buffett has loaded his "elephant gun" and says he is "itchy" to make some big-game acquisitions.

Time to go on safari. As outlined in his just-released 2010 shareholder letter, Mr. Buffett has some exacting target criteria: big, industrial businesses with near-monopoly positions and solid sales growth; at least $75 million in pretax income; market values of about $5 billion to $20 billion.

The beauty of Berkshire Hathaway Inc. is that it needn't play by the same rules as other corporate acquirers: The running "float" of some $66 billion from insurance businesses gives Mr. Buffett access to lower-cost capital, all at massive scale. And he can leverage his personal cachet into financial value. So many boards and owners want to sell their businesses to Berkshire that Mr. Buffett won't participate in auctions. That helps keep prices down. The Warren Buffett acquisition model is built on exploiting Buffett-ness itself.

That in mind, the following are acquisition suggestions, based in part on reporting about Mr. Buffett's actual interests as well as screening for the criteria laid out in his shareholder letter. These include excellent, but not overheated, benchmarks: return on equity of between 10% and 30% and estimated future earnings-per-share growth of between 7% and 20% as screened via CapitalIQ.

-- Illinois Tool Works Inc. (market cap: $26.8 billion; 17% return on equity; 18% margins on earnings before interest, taxes, depreciation and amortization, or Ebitda): This company has long caught Mr. Buffett's fancy, according to a person familiar with his interest, and a potential deal was bandied about a few years ago. If a bit large, it still fits Mr. Buffett's criteria to a T, housing businesses from furniture lamination to arc-welding equipment that should expand in a secular economic upturn. If the mix of businesses seems too diverse, don't forget that Berkshire purchased the Pritzker family's industrial holding company, Marmon Holdings Inc., for $4.5 billion at the start of 2008.

-- Automatic Data Processing Inc. (market cap: $24.8 billion; gross margins, 51%; high-trading Ebitda multiple of 11.25 times): A high-margin service business with deep customer base, high customer switching costs, no inventory worries and no debt. Rumors have abounded recently about a Berkshire-ADP deal. One of the benefits of folding such a business under Berkshire is that all the margin information, so useful to competitors, stays hidden from public view.

-- Kennametal Inc. ($3.2 billion market cap; 36% gross margins; negative revenue growth since 2006): In his latest shareholder letter, Mr. Buffett couldn't stop crowing about his purchase of Israel's Iscar Cutting Tools, where he says sales are expected to soon cross prerecession levels. Iscar bought a business similar to Kennametal in 2008, spending $1 billion on a company named Tungaloy Corp. Kennametal still is trading below its prerecession highs, but its multiple remains nearly 10 times Ebitda, typically higher than the usual Buffett range, in the mid to high single digits. A spokeswoman says "there have been no discussions with Berkshire Hathaway."

-- Expeditors International of Washington Inc. ($10.1 billion market cap; no debt; average five-year return on equity: 21.3%): A quiet but critical West Coast cog in the global shipping and logistics business, Expeditors International boasts decent margins, zero debt and a chief executive, Peter Rose, in place since 1988. Expeditors would be a complementary fit for Burlington Northern, moving goods from ships to railcars, as the procession of global trade between North America and Asia continues an inevitable rise. If "culture counts," as Mr. Buffett says, then Expeditors fits just fine. It eschews earnings calls and instead answers investor questions in securities filings.

-- Schindler Holding Corp. ($12.5 billion market cap; 26.6% return on equity; no debt): The Swiss elevator and escalator company is a bet on urbanization in China, India and the rest of Asia. With excellent brand recognition and a 137-year history, this would be a true gem of the Berkshire portfolio. The key to any purchase would be persuading the presiding Schindler family to do a deal. Its chief executive, Alfred N. Schindler, has been CEO since 1985, and now might be a good time to make a transition. Mr. Buffett can promise plenty of autonomy to nervous family members.

-- W.W. Grainger Inc. ($9.2 billion market cap; valued at 9.2 times Ebitda; 14.1% Ebitda margins): Interestingly, both the stock screen and bankers homed in on the Chicago industrial-distribution company, with a roster of 1.8 million customers in 153 countries. Best known for its namesake catalog, Grainger shares have increased by some 30% over the past year, not ideal conditions for a takeover bid. But a Berkshire bid might be a nice swan song for 7% shareholder and former CEO David W. Grainger, 82 years old, whose father founded the company.

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dennis.berman@wsj.com or twitter.com/dkberman

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THE WALL STREET JOURNAL.

Theory & Practice

Boardrooms Remain Old School; Seasoned Directors Well into Their 70s Could Run Risk of Overstaying Their Tenure

By Joann S. Lublin
1,008 words
28 February 2011
The Wall Street Journal Online
WSJO
English

Louis A. Simpson epitomizes the graying of U.S. corporate boardrooms.

He will soon join the board of Chesapeake Energy Corp. at the ripe young age of 74. The former Geico Corp. president and chief executive of capital operations can serve until he turns 80, the mandatory retirement age for directors of the natural-gas producer.

While most boards today force members to retire at 72, 19% of the biggest businesses with board age limits now set them at 75 or older—up from 8% in 2005 and 1% in 2000, according to a recent study by recruiters Spencer Stuart.

The number of boards with elderly members likely will grow, partly because businesses fear "they won't be able to recruit as many experienced directors," says Julie Daum, co-leader of the search firm's North American board practice.

The higher retirement ages are sparking criticism, however. "It is a troubling trend because it may encourage the tenure of long-term directors who have lost their outside perspective," contends William Patterson, executive director of CtW Investment Group, an arm of labor federation Change to Win. "Entrenched board members make it harder to bring in fresh oversight," he says.

The Spencer Stuart study, released in late 2010, reported the smallest number of independent directors picked for companies in the Standard & Poor's 500-stock index for any year since 2001. Many boards, wary of tapping untested newcomers during the downturn, "held on to existing directors by increasing or waiving retirement ages," Ms. Daum explains.

Businesses lifting board age limits also cite the reduced ranks of chief executives taking outside directorships. "It has gotten very complicated to be a board member," because a directorship is a "serious responsibility," says Myron "Mike" E. Ullman, CEO of J.C. Penney Co. and a Starbucks Corp. director. For now, he won't accept another public-company seat. Penney raised directors' retirement age to 74 from 72 in February 2009 so the retailer could better compete for talent, Mr. Ullman continues.

At the same time, retired corporate leaders "who stay actively engaged are among the best board members," and so companies want them to serve longer than 70, says William W. George, a Harvard business school professor and retired chief of Medtronic Inc. "Seventy is the new 50," quips the 68-year-old director of ExxonMobil Corp. and Goldman Sachs Group Inc.

Board members at Goldman increased the retirement age by three years to 75 in December 2009. The move helped retain John H. Bryan, the presiding independent director who "adds wisdom and maturity to the board," someone familiar with the situation says.

Mr. Bryan, a retired CEO of Sara Lee Corp., previously got a one-year waiver from Goldman Sachs after reaching 72 in October 2008. A Goldman Sachs spokesman says he declined to comment.

A similar desire to keep a key board player persuaded UAL Corp. to boost mandatory retirement to 75 from 73 in 2009. "We didn't want to lose the services of Jim O' Connor," recalls Robert S. "Steve" Miller, a director.

Mr. O'Connor, a retired head of Unicom Corp., joined the airline's board in 1984 and runs the nominating and corporate-governance committee of the recently renamed United Continental Holdings Inc. He'll turn 74 on March 5. United Continental declined to comment.

At Chesapeake, the board embraced its mandatory retirement age in 2003—a time when four of seven members already were past 70. "People are staying healthier and engaged in business at later ages," observes Marc Rome, vice president for corporate governance.

Half of the Chesapeake board will be over 65 upon Mr. Simpson's June 10 arrival as its oldest new member.

But the octogenarian age limit bothers CtW's Mr. Patterson. It "becomes an invitation for directors to hang around when several need to step down" at a company like Chesapeake with a poor governance record, he says. "These directors feel very protected in their roles, and so they don't heed shareholder criticisms of their governance."

Indeed, two Chesapeake directors encountered strong reelection opposition last year but were retained anyway. The company had ignored a successful but nonbinding 2009 shareholder resolution favoring annual election of board members, citing the natural-gas industry's volatility. The three-year terms for directors make it hard for outsiders to push for change.

The board "has worked to improve our corporate governance," Mr. Rome replies.

Investor unhappiness over too many older directors spurred a short-lived proxy fight at Occidental Petroleum Corp. last year. Directors raised mandatory retirement to 75 from 72 in 2004, but didn't enforce it, according to a spokesman for the oil and gas concern.

Two prominent activists—Relational Investors LLC and the California State Teachers' Retirement System—launched a contest partly because Occidental failed to announce a CEO succession plan and instead waived the retirement-age rule for CEO Ray Irani and two fellow directors at last spring's annual meeting. He avoided the fight by agreeing to step down this May. The 76-year-old executive remains chairman until the end of 2014. Occidental no longer intends to grant retirement waivers, the spokesman adds.

Certain boards assure fresh faces by focusing on tenure as well as birthdays. Walt Disney Co. board members, for instance, must exit after serving 15 years or hitting 74. "A long-time director becomes vested in the existing company strategy and has trouble adjusting to necessary strategic changes," suggests Gary Wilson. He left Disney's board in 2006 after 21 years and previously offering to quit.

Governance experts see rigorous yearly evaluations of individual directors as a better way to replace poor performers. The practice remains rare, however. "It is very difficult to tell someone you have outgrown your usefulness," notes Mr. Miller, chairman of American International Group Inc.

Write to Joann S. Lublin at joann.lublin@wsj.com

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Berkshire's Annual Letter: A Look Into the Economy --- Berkshire Sees More Demand at Many Firms; Some Struggle

By Erik Holm and Serena Ng
623 words
28 February 2011
The Wall Street Journal
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C3
English

Berkshire Hathaway Inc., some say, is a proxy for the U.S. economy.

If that is the case, the economy is on its way back.

The conglomerate's manufacturing, service and retailing operations earned $2.5 billion for Berkshire last year, more than double their combined profit in 2009, according to the company's annual letter on Saturday.

Part of the increase was due to cuts in spending. But demand for products made and sold by many Berkshire companies is also on the rise, Berkshire Chairman Warren Buffett said.

In its annual report, Berkshire said it anticipates that "general economic conditions will continue to gradually improve, albeit unevenly, over time."

Mr. Buffett, in his letter to shareholders accompanying the report, said a "normal" year for Berkshire would be one with a general business climate better than last year's, but weaker than 2005 or 2006.

Berkshire's 80-plus businesses include outfits that make underwear, sell jewelry and manufacture machine parts. The company owns a railroad, a car insurer, and a private-jet business, and operates power plants and natural-gas pipelines. It rents office furniture, builds R.V.s, and has a share of a commercial-loan portfolio.

The fifth-largest company in the U.S. by market capitalization, Berkshire is so large that results from most of its businesses aren't listed individually. But, in the letter Saturday, Mr. Buffett offered some figures.

Revenue jumped 41% at Israel-based Iscar Ltd., which makes metal tools used by manufacturers to assemble their own products. Agricultural equipment-maker CTB International Corp.'s revenue was up 20%. A Berkshire-owned commercial roofing company called Johns Manville reported a 12% increase in revenue.

At TTI Inc., an electronics components distributor, revenue rose 45%. The unit set records for sales and pretax earnings, driven by "strong consumer demand for electronic products, as well as to manufacturers replenishing depleted raw material inventories," the annual report said.

Several Berkshire units that are recovering are benefiting from comparisons to a year earlier when they were still pummeled by the recession.

At Burlington Northern Santa Fe, the railroad Berkshire acquired in February 2010, profit rose 43% last year as it rebounded from the effects of the economic downturn. Railroads are sensitive to turns in the economy: if consumers are buying less and manufacturing falls, there are fewer goods to transport.

Mr. Buffett has said that, if he were forced to pick just one economic statistic to evaluate the economy, he would look at rail-car loadings. While his annual report didn't include Burlington's carloads, the Association of American Railroads says loads on U.S. railroads rose 7.3% in 2010 over 2009, to 14.8 million. That is the largest percentage increase since the trade group began compiling the data in 1988. But it is off an extremely low base, and the 2010 carloads were still the second-lowest annual figure, after 2009.

As for still-struggling operations, Mr. Buffett flagged companies related to home construction, like carpet maker Shaw Industries Group Inc. and Acme Brick Co., as having profits that are "far below the levels of a few years ago." Revenue was essentially flat at Clayton Homes, which sells prefabricated houses.

Saying that a housing recovery "is certain to occur at some point," Mr. Buffett said MiTek, which produces products and engineering software for builders, made or committed to five small acquisitions. Acme recently acquired the leading manufacturer of brick in Alabama, and Shaw plans to spend $200 million in 2011 on plants and equipment.

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Managing & Careers -- Theory & Practice: Boardrooms Remain Old School --- Seasoned Directors Well into Their 70s Could Run Risk of Overstaying Their Tenure

By Joann S. Lublin
809 words
28 February 2011
The Wall Street Journal
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English

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While most boards today force members to retire at 72, 19% of the biggest businesses with board age limits now set them at 75 or older -- up from 8% in 2005 and 1% in 2000, according to a recent study by recruiters Spencer Stuart.

The number of boards with elderly members likely will grow, partly because businesses fear "they won't be able to recruit as many experienced directors," says Julie Daum, co-leader of the search firm's North American board practice.

The higher retirement ages are sparking criticism, however. "It is a troubling trend because it may encourage the tenure of long-term directors who have lost their outside perspective," contends William Patterson, executive director of CtW Investment Group, an arm of labor federation Change to Win.

The Spencer Stuart study, released in late 2010, reported the smallest number of independent directors picked for companies in the Standard & Poor's 500-stock index for any year since 2001. Many boards, wary of tapping untested newcomers during the downturn, "held on to existing directors by increasing or waiving retirement ages," Ms. Daum explains.

Businesses lifting board age limits also cite the reduced ranks of chief executives taking outside directorships. "It has gotten very complicated to be a board member," because a directorship is a "serious responsibility," says Myron "Mike" E. Ullman, CEO of J.C. Penney Co. and a Starbucks Corp. director. Penney raised directors' retirement age to 74 from 72 in February 2009 so the retailer could better compete for talent, Mr. Ullman continues.

At the same time, retired corporate leaders "who stay actively engaged are among the best board members," and so companies want them to serve longer than 70, says William W. George, a Harvard business school professor and retired chief of Medtronic Inc. "Seventy is the new 50," quips the 68-year-old director of ExxonMobil Corp. and Goldman Sachs Group Inc.

At Chesapeake, the board embraced its mandatory retirement age in 2003 -- a time when four of seven members already were past 70. "People are staying healthier and engaged in business at later ages," observes Marc Rome, vice president for corporate governance.

Half of the Chesapeake board will be over 65 upon Mr. Simpson's June 10 arrival as its oldest new member.

But the octogenarian age limit bothers CtW's Mr. Patterson. It "becomes an invitation for directors to hang around when several need to step down" at a company like Chesapeake with a poor governance record, he says.

Indeed, two Chesapeake directors encountered strong reelection opposition last year but were retained anyway. The company had ignored a successful but nonbinding 2009 shareholder resolution favoring annual election of board members, citing the natural-gas industry's volatility. The three-year terms for directors make it hard for outsiders to push for change.

The board "has worked to improve our corporate governance," Mr. Rome replies.

Investor unhappiness over too many older directors spurred a short-lived proxy fight at Occidental Petroleum Corp. last year. Directors raised mandatory retirement to 75 from 72 in 2004, but didn't enforce it, according to a spokesman for the oil and gas concern.

Two prominent activists -- Relational Investors LLC and the California State Teachers' Retirement System -- launched a contest partly because Occidental failed to announce a CEO succession plan and instead waived the retirement-age rule for CEO Ray Irani and two fellow directors at last spring's annual meeting. He avoided the fight by agreeing to step down this May. The 76-year-old executive remains chairman until the end of 2014. Occidental no longer intends to grant retirement waivers, the spokesman adds.

Certain boards assure fresh faces by focusing on tenure as well as birthdays. Walt Disney Co. board members, for instance, must exit after serving 15 years or hitting 74. "A long-time director becomes vested in the existing company strategy and has trouble adjusting to necessary strategic changes," suggests Gary Wilson. He left Disney's board in 2006 after 21 years and previously offering to quit.

Governance experts see rigorous yearly evaluations of individual directors as a better way to replace poor performers. The practice remains rare, however. "It is very difficult to tell someone you have outgrown your usefulness," notes Robert S. "Steve" Miller, chairman of American International Group Inc.

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THE WALL STREET JOURNAL.

Business

Happy Returns: Buffett Expects to Reap More Dividends

By Serena Ng
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Warren Buffett doesn't pay dividends. But on the stocks his company owns, he expects to receive more of them.

Despite its mounting cash pile, Berkshire Hathaway Inc. again didn't pay a dividend this year to shareholders, as it hasn't in more than 40 years.

At the same time, Mr. Buffett said Saturday that he expects a number of stocks Berkshire holds to pay higher dividends both as the economy improves and the Federal Reserve eases dividend restrictions that were instituted on banks during the financial crisis.

The largest dividend gain, Mr. Buffett wrote in his annual shareholder letter, is likely to come from Wells Fargo & Co., one of the biggest holdings of Berkshire's $60 billion-plus portfolio of common stocks.

The San Francisco bank, according to Mr. Buffett, has prospered through the worst of the recession and is "currently enjoying enormous financial strength and earning power." Yet, he wrote, it has had to maintain a low dividend rate along with other banks. Berkshire's 6.8% stake in Wells Fargo was worth $11.1 billion at the end of 2010; the conglomerate added to its stake in the fourth quarter.

During the financial crisis, many U.S. banks cut their dividend payouts to common shareholders after receiving capital infusions and other assistance from the government. Many firms have since repaid their federal aid and increased lending to businesses and consumers. But they still have to seek Fed approval before raising their dividends; many have requested it.

Mr. Buffett said the Fed is likely to lift its current restrictions on banks increasing dividends "probably soon," and if Wells reinstates a "rational dividend policy," Berkshire stands to receive several hundred millions of dollars in additional dividends from just this one stock.

Not all has been bad for Berkshire about Fed's restrictions, however. Berkshire pumped $5 billion into Goldman Sachs Group Inc. during the financial crisis in exchange for preferred shares paying a 10% annual dividend and warrants to buy stock in the Wall Street firm. Recently, the bank has been looking to redeem the costly aid. But Goldman's repayment has been delayed as the Fed works out guidelines on bank-dividend increases across the board.

The Federal Reserve is "our friend in respect to Goldman Sachs," Mr. Buffett, Berkshire chairman and chief executive, wrote Saturday.

Mr. Buffett said other companies Berkshire owns also are likely to increase their dividends, including Coca Cola Co., which has increased its dividend every year since Berkshire finished purchasing the stock in the mid-1990s. He expects to collect $376 million in dividends on his 8.6% stake in Coke this year, and sees that amount doubling within 10 years.

Mr. Buffett said not a dime of cash has left Berkshire for dividends or share buybacks in the past 40 years, with earnings retained to strengthen the business. As evidence of that, he noted, Berkshire's businesses are producing about $1 billion a month.

Persistently low interest rates, however, aren't helping the company. At the end of 2010, Berkshire's cash and cash equivalents had swelled to $38.2 billion, a sum that Mr. Buffett said was "earning a pittance" as short-term interest rates and money-market yields hovered near record lows.

Mr. Buffett said better rates will return at some point and could add at least $500 million or more to Berkshire's investment income. But before that happens, Mr. Buffett said he hopes Berkshire "could get lucky and find an opportunity to use some of our cash hoard at decent returns."

In his letter, Mr. Buffett said the company is prepared for more major acquisitions as it looks to grow. "We will need both good performance from our current businesses and more major acquisitions. We're prepared. Our elephant gun has been reloaded, and my trigger finger is itchy."

Write to Serena Ng at serena.ng@wsj.com

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THE WALL STREET JOURNAL.

Business
Berkshire's 4th-Quarter Profit Boosted by Burlington Northern

By Erik Holm And Serena Ng
553 words
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English

Warren Buffett's Berkshire Hathaway Inc. said fourth-quarter profit rose 43% to $4.38 billion, buoyed by the improving stock market and the purchase of railroad company Burlington Northern Santa Fe.

Burlington Northern, acquired last February, earned $1.03 billion in the fourth quarter, and Mr. Buffett boasted that the $26.5 billion purchase "was working out even better than I expected."

A host of Berkshire-owned businesses that had suffered from declining sales amid the recession now appear to be recovering. Mr. Buffett, in his letter to shareholders released Saturday, heralded improvements at units including Fruit of the Loom, toolmaker Iscar and electronic-components distributor TTI. Fourth-quarter profit at the Berkshire segment that includes those units more than doubled to $669 million.

A portion of the improvement came from a corner of the company that Mr. Buffett has long advised shareholders to ignore: Berkshire's derivative portfolio. Gains and losses in the derivative book fluctuate with the stock market and have largely been an accounting matter, involving little outlay or intake of money.

This time, though, the company realized a $222 million gain when a counterparty—which Mr. Buffett didn't name—paid Berkshire to end eight derivative contracts that protected it from declines in the world's stock markets. Berkshire now has 39 of these so-called equity-index puts remaining on its books.

Mr. Buffett, who serves as Omaha, Neb.-based Berkshire's chairman and chief executive, has urged investors to evaluate the firm by its book value, a measure of assets and liabilities that he considers the best objective indicator of the company's success. Book value per share rose 5.1% in the last three months of 2010, and 13% for the entire year.

Underwriting profit at Berkshire's insurance businesses rose 19% to $414 million in the fourth quarter, driven by improvements at a unit run by Buffett reinsurance lieutenant Ajit Jain, car insurer Geico and several of its smaller insurers. Fourth-quarter profit at Geico, the third-largest auto insurer in the country, rose 5% to $200 million.

But Mr. Buffett has always favored insurance companies less for their potential to produce underwriting profits than for the length of time that insurers hold on to funds that will later be used to pay claims. That delay gives Mr. Buffett time to invest the money until the premiums are needed to meet the obligations to policyholders. Mr. Buffett calls these funds "float," and he reported Saturday that the pool of funds swelled to about $66 billion from $63 billion a year earlier. Investment income from the insurance operations was about $1.2 billion, compared to $1.7 billion in the fourth quarter of 2009.

In pursuit of "float," Messrs. Buffett and Jain last year entered into retroactive reinsurance and life reinsurance deals that require one of Berkshire's reinsurance businesses to book some underwriting losses. But the deals also brought in large amounts of premiums that can be invested over years, or even decades, to earn what Messrs. Buffett and Jain hope are profits far exceeding the future insurance payouts.

Berkshire had $38.2 billion in cash as of Dec. 31, compared with $34.5 billion three months earlier.

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Property: Berkshire's Jain Adds Bedrooms

By Craig Karmin
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English

Warren Buffett has lived for decades in the same humble Omaha house that he bought for $31,500, but a leading contender to succeed him as head of Berkshire Hathaway can't resist a little Manhattan glitz.

Ajit Jain, who runs Berkshire's highly profitable specialty reinsurance business, last week bought a 34th-floor four-bedroom apartment at One Beacon Court for $14.65 million, according to people familiar with the matter. It was listed at $16.5 million.

Mr. Jain already owned a neighboring apartment in the East 58th Street building, which he purchased at auction in 2009 for $8.3 million, public property records show. Close to 50 bidders vied for that unit in a bankruptcy auction but he still got it for less than the $10.4 million the previous owner paid in 2007.

That previous owner of the apartment in the 2009 deal was Marc Dreier, a New York attorney who was sentenced to 20 years in prison after running a Ponzi scheme. Mr. Dreier spent some time under house arrest in that Beacon Court apartment.

Brokers now expect Mr. Jain to combine the two apartments, which would create a residence of nearly 6,000 square feet. Both units boast large outdoor terraces that, combined, would be the biggest private outdoor space at One Beacon Court, brokers say. Beyonce, Jack Welch and Brian Williams also own apartments in the building.

The listing broker for the recent sale was Victoria Shtainer of Prudential Douglas Elliman, who declined to comment. Mr. Jain did not respond to requests for comment.

Berkshire watchers believe that Mr. Jain is one of three potential successors to Mr. Buffett as chief executive. The company has acknowledged there are three candidates but hasn't identified them.

Mr. Jain was born in India and worked for IBM and McKinsey & Co. before joining Berkshire in 1986.

Mr. Jain's reinsurance group has been a significant profit generator for the firm. His team is known for taking risks even others in the insurance business have avoided, from insuring the health of Yankee superstar Alex Rodriguez to a policy that offered PepsiCo. Inc. protection for a sweepstakes that potentially paid out a $1 billion grand prize (no one won that prize).

After the Sept. 11 terrorist attacks, Mr. Jain's group wrote about $1 billion in insurance policies for several large airlines against potential losses from terrorist attacks.

Mr. Buffett once said he considered his $31,500 house purchase in 1957 a folly because he could have turned the money into $1 million in little more than a decade, according to a biographer.

That stucco house in Omaha has five bedrooms. Mr. Jain's two Beacon Court apartments have a total of eight, according to Streeteasy.com.

Even if Mr. Jain doesn't get the top job, Mr. Buffett has been lavish in his praise. In an often-repeated line from a Berkshire annual report, Mr. Buffett wrote that if his shareholders ever found Mr. Buffett, Berkshire vice-chairman Charlie Munger and Mr. Jain in a sinking boat and could only save one of them, "swim to Ajit."

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THE WALL STREET JOURNAL.
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Insurance 'float' buoys Berkshire Hathaway profit

By Serena Ng and Erik Holm
917 words
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The Wall Street Journal Asia
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English

Warren Buffett's Berkshire Hathaway Inc. has spent tens of billions of dollars on railroads, machine tools and utility companies in recent years. But Mr. Buffett's 2010 annual letter, to be released Saturday, is likely to emphasize just how much Berkshire's core insurance business is still driving its growth.

Berkshire, where Mr. Buffett serves as chairman and chief executive, is likely to report improved fourth-quarter earnings and an increase in book value, a performance yardstick Mr. Buffett uses to measure the company's growth.

Results will be buoyed by rising stock markets that helped Berkshire's large stock portfolio and its derivatives contracts. The company's manufacturing and retail operations, and its February 2010 acquisition of railroad Burlington Northern Santa Fe, likely boosted net income, as did insurance underwriting. Berkshire's net earnings through the first nine months of 2010 totaled $8.6 billion, already exceeding reported net income for the whole of 2009.

Of importance, Berkshire's pool of funds from insurance -- something known as "float" -- could have swelled to roughly $67 billion at the end of 2010 from $63 billion a year earlier. It is poised to rise further in 2011 despite challenging insurance-market conditions amid the slow economy, analysts say.

This float is money Berkshire holds to pay insurance claims in the future, but in the meantime can be put to work in stocks and long-term investments that earn returns for Berkshire's own benefit. Effectively borrowed funds at little or no cost, Berkshire's float enables the company to acquire businesses and assets beyond what its equity capital alone would permit, Mr. Buffett has previously said.

Last year's growth in float occurred even though Berkshire Hathaway Reinsurance Group, run by Ajit Jain, wrote its lowest level of property insurance to protect against hurricanes and other disasters in nearly a decade, as of Sept 30. As the broader market for commercial insurance extended a multiyear pricing slump, Berkshire limited the amount of catastrophe and individual risks it took because it didn't find premiums attractive enough.

Instead, the reinsurer acquired large books of long-term business from other insurers to bring in billions of dollars that Mr. Buffett and Berkshire's new investment manager Todd Combs can invest for many years -- if not decades -- before payouts have to be made.

For example, Berkshire collected $2 billion in premiums last summer from a single asbestos and environmental-liabilities deal with insurer CNA Financial Corp., whose earnings had been hurt by liabilities from policies sold many years ago.

"Insurance companies that want to clean up parts of their balance sheet from historical woes often look to transact deals with Berkshire," said Bryon Ehrhart, chairman of reinsurance broker Aon Benfield's analytics division.

Berkshire Hathaway Reinsurance Group also grew significantly in the business of life reinsurance, by taking over coverage on the lives of thousands of Americans. A contract with Swiss Reinsurance Co. that closed in early 2010 gave Berkshire a block of individual term-life reinsurance business. This likely brought in over $2 billion in life and annuity premiums for Berkshire last year, estimates Jay Gelb, an analyst at Barclays Capital.

More premiums will come in this year from the acquisition of the life-reinsurance business of Sun Life Financial Inc. of Toronto, one of the largest players in this space.

The life-reinsurance deals will enable Berkshire to collect potentially tens of billions of dollars in premiums over the next few decades, money that Messrs. Buffett and Combs will put to work.

Berkshire will have to make payouts if individual policyholders die during the covered periods, but that won't happen immediately.

"These are all float creation deals," said Paul Howard, director of research at Solstice Investment Research. The expectation is that above-average investment returns generated by Berkshire over the long term will ultimately outrun its insurance liabilities, he adds.

Investment returns, however, have fallen across many asset classes since the financial crisis, when Berkshire was able to use money from its insurance operations to scoop up high-yielding securities in such companies as Goldman Sachs Group Inc. and General Electric Co. Those aid packages have earned Berkshire double-digit annual returns, but much of the money is expected to be repaid by the companies this year.

In his widely followed annual letter this Saturday, Mr. Buffett may repeat an earlier warning he has given Berkshire investors: The outsize returns he made on those crisis-era investments are unlikely to be repeated.

Berkshire's insurance businesses, which also include auto insurer Geico Corp. and reinsurer General Re Corp., likely generated underwriting profits last year, meaning they made money from the insurance they sold before factoring in investment income.

As long as the insurance is profitable, any money made by Messrs. Buffett and Combs on the float from these businesses belongs entirely to Berkshire. The recent reinsurance deals, however, aren't without risk.

The deal with CNA Financial transferred $1.6 billion in asbestos and environment-pollution net liabilities to Berkshire along with $2 billion in premiums. Called "retroactive reinsurance" because it covers losses that have already occurred but whose final costs aren't known, Berkshire will be on the hook for up to $4 billion in insurance payouts. But if this limit is hit, it will likely be years in the future.

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THE WALL STREET JOURNAL.

Earnings
Swiss Re Posts Loss on Repayment

By Anita Greil
769 words
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The Wall Street Journal Online
WSJO
English

ZURICH—Swiss Re Thursday reported a net loss for the fourth quarter after repaying an emergency loan it had received from Warren Buffett, but the reinsurer raised its dividend and said it plans to establish a new corporate structure under a newly formed holding company.

Swiss Re, the world's second-largest reinsurer behind Munich Re, said it swung to a $725 million net loss compared with a $394 million profit a year earlier. Analysts had forecast a loss of about $400 million.

The company in November agreed to repay ahead of schedule a €3 billion Swiss franc ($3.13 billion) loan it received from Mr. Buffett's Berkshire Hathaway Inc. during the credit crisis. The repayment entailed a pretax charge that was booked in the fourth quarter.

Expenses related to the early repayment amounted to about $1.2 billion in the fourth quarter, said Chief Financial Officer George Quinn. The company also registered a currency loss of about $200 million due to the sharp rise of the Swiss franc against the dollar during the period. It had already taken a charge of about $200 million for coupon payments on the loan.

Swiss Re estimated that floods in Australia cost it about $100 million in December, and expects that claims of an additional $225 million were added in January. It also estimated that cyclone Yasi in Australia added another $100 million in February, but it doesn't expect to make any huge payouts for the U.S. winter storms.

Swiss Re hopes to restore its double-A credit rating, which Standard & Poor's cut in February 2009 after losses forced the company to raise its capital with the loan from Berkshire Hathaway. The company said that by the end of last year, it had more than $10 billion in excess capital, the amount required for a double-A rating.

The reinsurer also said it plans to increase its dividend to 2.75 francs from one franc a year earlier.

Given Swiss Re's comfortable capital cushion, some analysts had expected the company to announce a share buyback. But Mr. Quinn said Swiss Re wants to wait until new capital requirements from European regulators become clear before doing so.

European regulators are working on a new set of rules, dubbed Solvency 2, which aims to establish common standards for European insurers that will come into force by the end of 2012. The new standards will introduce market valuations and risk-based measures of assets and liabilities when determining how much capital insurers need to hold.

"The strongest firms will definitely benefit the most, we therefore want to remain cautious, while clarity emerges," Mr. Quinn said.

Swiss Re expects to benefit from the new rules, because they are likely to trigger demand for reinsurance coverage from primary insurers—its clients— to comply with stricter capital requirements.

The combined ratio—an industry yardstick measuring costs and claims as a proportion of premiums—was 93.9% in 2010 despite the higher number of large claims from natural catastrophes last year. For 2011, the company expects a combined ratio of 94%; any ratio below 100% signals that the underwriting business is profitable.

"Our 94% target for 2011 is a signal that we remain very disciplined in underwriting new business that is profitable; we could grow much faster if we were to sacrifice our principles on rates," Mr. Quinn said in an interview.

The reinsurance industry locks in most of its contracts for the year in January. Swiss Re said volume increased by about 14% during the January renewals, but that prices fell by about 2%. This was, however, below the 4% to 7% drop in prices that the industry had to contend with, the company said.

Swiss Re shares have gained about 13% so far this year, underperforming the broader insurance index, which is up 18% as measured by the Stoxx Europe 600 insurance index.

Swiss Re said it is establishing a new corporate holding structure, which will allow it to increase its client focus, improve transparency and accountability of its businesses, while creating greater flexibility.

"Over the past two years we have come a long way," said Chief Executive Stefan Lippe. "Swiss Re has strengthened its balance sheet, set new strategic priorities and aligned its management structure. The company is now taking the next step in shaping the company's future by adjusting its legal structure to reinforce its strategic priorities and allow it to fully unlock the potential of its business."

Write to Anita Greil at anita.greil@dowjones.com

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Global Finance: Swiss Re Posts Loss on Repayment

By Anita Greil
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ZURICH -- Swiss Re Thursday reported a net loss for the fourth quarter after repaying an emergency loan it had received from Warren Buffett, but the reinsurer raised its dividend and said it plans to establish a new corporate structure under a newly formed holding company.

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Swiss Re hopes to restore its double-A credit rating, which Standard & Poor's cut in February 2009.

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Global Finance: An 'Accident' Fixed: Berkshire Buys the Rest of Wesco Financial

By Erik Holm
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8 February 2011
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C3
English

NEW YORK -- Warren Buffett's Berkshire Hathaway Inc. announced an agreement to acquire the 19.9% of Wesco Financial Corp. that it doesn't already own for about $548 million.

Shareholders will be entitled to about $387 a share, payable in either cash or Berkshire stock, though the price will change based on gains or losses in Wesco's investment portfolio, the amount of time it takes to complete the deal and other factors.

The deal was approved by the independent directors on Wesco's board. The other shareholders besides Berkshire still must approve the transaction.

The $387 price is about equal to Wesco's book value per share, which matches the prices Berkshire's board said it would pay when it approached Wesco's board about a transaction in August.

The ties between Berkshire and Wesco are intricate and longstanding, with Berkshire's majority ownership stretching back more than three decades.

Berkshire paid a little more than $30 million in cash for a stake now valued at more than $2 billion.

Wesco is run by Berkshire Vice Chairman Charlie Munger, Mr. Buffett's 87-year-old second-in-command, who once called the ongoing existence of Wesco as a separate public company a "historical accident."

The deal marks another step toward preparing Berkshire for a new generation of leaders. Mr. Munger has been less involved in Berkshire's day-to-day operations in recent years. While he hasn't announced plans to step aside, other senior people in the organization have. Lou Simpson, who for many years ran the investment operation at Berkshire-owned insurer Geico Corp., retired at the end of 2010.

Mr. Buffett, who serves as Berkshire's chairman, chief executive and head of investing, turns 81 this year.

Wesco, like Berkshire, is composed of several businesses that operate with a large degree of independence.

Wesco had net income of $61.3 million in the first nine months of 2010, a 43% increase from the same period a year earlier. It hasn't announced fourth-quarter results.

Berkshire would use its Class B shares to pay Wesco investors who elect to take Berkshire stock. Mr. Buffett used the Class B stock to pay shareholders of Burlington Northern Santa Fe when Berkshire acquired the railroad early last year.

A deal would bring an end to the Wesco annual meeting in southern California, where some of Berkshire's most loyal investors have gathered in recent years after Berkshire's own annual meeting in Omaha, Neb.

Monday's news release about the transaction promised Mr. Munger would hold an "Afternoon with Charlie" in Pasadena, Calif., this year if the deal is completed before early June. Berkshire and former Wesco shareholders will be given the opportunity "to ask him questions about business, economics and life," the statement said. "But not about Wesco."

Tess Stynes contributed to this article.

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THE WALL STREET JOURNAL.

Today's Markets
Today's Markets
Financials, Deals Lift Dow 69.48 Points

By Kristina Peterson
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7 February 2011
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The Wall Street Journal Online
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English

Financials led U.S. stocks higher as the market got a lift from a stream of deals, corporate earnings and some relief that a degree of economic activity resumed in Egypt.

The Dow Jones Industrial Average closed up 69.48 points, or 0.6%, to 12161.63. The Nasdaq Composite advanced 14.69 points, or 0.5% to 2783.99. The Standard & Poor's 500-stock index rose 8.18 points, or 0.6% to 1319.05, buoyed by its financial sector.

Boosting financials, Loews gained 4.5% after the conglomerate's fourth-quarter profit rose, as its CNA Financial insurance unit's earnings surged and it reinstated its quarterly dividend. Fellow insurer American International Group gained 5.4%.

Among Dow financial components, Bank of America gained 2.7%, while American Express climbed 2.3% and J.P. Morgan Chase rose 2%.

"To see CNA Financial doing much better and reinstating their dividend builds on this sense that the financials are making their way through a tumultuous period and, much like Egypt, making their way into a period of a little more normalcy," said Tom Villalta, lead portfolio manager at the Jones/Villalta Opportunity Fund.

Credit-card issuers also rose after a Monday afternoon reading of credit-card usage tracked by the Federal Reserve showed a surprise rise in December as Americans increased credit use for the first time since 2008. Visa rose 1.4%, while MasterCard added 1.1%.

Meanwhile, anxiety over the turmoil in Egypt eased slightly after opposition parties met with the government over the weekend and banks opened for the first time in more than a week.

A burst of deal activity also lifted the market.

"Deals are a really important underpinning to this market," said Randy Bateman, chief investment officer of Huntington Funds. In addition to acquisitions, companies flush with cash are instituting "a lot of stock buybacks and dividend statements," he said. "Those are strong things we really haven't seen in the past few years."

Biomedical-testing company Beckman Coulter jumped 10% after diversified manufacturing and technology company Danaher said it would pay $5.87 billion for Beckman, or $83.50 a share. Danaher rose 2.2%.

Pride International surged nearly 16% after U.K.-based Ensco said it would buy the company in a cash-and-stock deal that values Pride International at a premium of 21% over its closing price Friday. U.S.-listed shares of Ensco, which said the deal will make it the second-largest offshore driller in the world, fell 4.2%.

Chesapeake Energy rose 4% after the firm said it would sell its Fayetteville shale assets and equity stakes in Frac Tech Holdings and Chaparral Energy for about $5 billion.

Berkshire Hathaway said it plans to buy the rest of the remaining 19.9% of Wesco Financial shares it doesn't already own, sending Berkshire class B shares up 1.1%. Wesco Financial gained 1.8%.

AOL slid 3.4% after the Internet company disclosed plans to acquire privately held online news website Huffington Post for $315 million.

Among companies reporting earnings, managed-care company Humana dropped 3% after its fourth-quarter earnings fell amid increased expenses, including acquisition-related costs, and rising medical-claims costs. For the year, the company raised its per-share earnings and forecast revenue above analysts' estimates, but forecast earnings for the current quarter slightly below Street projections.

Sysco, a large food-service distributor in the U.S., tumbled 6.2% after its earnings fell short of analysts' forecasts, as the company continues to face higher food, fuel and overhead costs.

American Apparel rose 4.5% after appointing former Old Navy Chief Financial Officer John J. Luttrell to serve as the apparel maker and retailer's chief financial officer.

The U.S. dollar weakened slightly against the euro, but strengthened against the yen.

Demand for Treasurys declined, lifting the yield on the 10-year note to 3.65%. Crude-oil prices fell 1.7% to settle below $88 a barrel, while gold futures also settled lower.

Write to Kristina Peterson at kristina.peterson@dowjones.com

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Brandon and Buffett Redux

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The Securities and Exchange Commission recently sent what is known as a termination letter to former General Re CEO Joseph Brandon in connection with a 2000 reinsurance transaction between Gen Re and AIG. This means he won't be charged with any civil action in the case, much less any criminal violation. This is vindication for Mr. Brandon, but it's also a blow to the prosecutorial style made famous by former New York Attorney General Eliot Spitzer and employed in this case by the U.S. Department of Justice.

Readers will recall that Mr. Brandon cooperated fully -- without asking for a grant of immunity -- in an investigation that resulted in several criminal convictions. DOJ wanted to charge Mr. Brandon too but lacked the evidence. AP and other news outfits reported at the time that the feds nonetheless leaned on Warren Buffett, chairman of Gen Re's parent Berkshire Hathaway, to sack Mr. Brandon as a form of extra-judicial punishment.

This is the same tactic Mr. Spitzer used to oust former AIG CEO Hank Greenberg, even though the rogue prosecutor could never make a criminal case. AIG shareholders suffered along with Mr. Greenberg, as his Spitzer-approved successors loaded up on mortgage risk, with catastrophic consequences.

As for Mr. Buffett, we're wondering how he plans to make it up to Mr. Brandon. Prior to pressure from the government, the Berkshire boss had heartily praised Mr. Brandon's management of Gen Re.

Mr. Buffett declined to comment on Mr. Brandon's absolution. But his office referred us to Berkshire's previous public disclosures, in which the Sage of Omaha lauded Mr. Brandon, even after his departure. Mr. Buffett and all public-company shareholders should now demand that the government stop telling them who can run their businesses.

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THE WALL STREET JOURNAL.

Management
Warren Buffett Leaving Washington Post Board

By Shira Ovide And Serena Ng
628 words
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English

Warren Buffett will be leaving the board of Washington Post Co., where he's had a decades-long association, to focus more on his own company, Berkshire Hathaway Inc.

Washington Post Co. said the 80-year-old Mr. Buffett won't stand for re-election as director. He will serve on the board until his existing term expires in May.

"This company has all kinds of meaning to me. But at 80, it was time to get off the board," Mr. Buffett said in an interview.

He added that he is devoting more time now to his own company. "As we get more complicated, I find more things taking up my time related to Berkshire," Mr. Buffett said. He cited a busy travel schedule following Berkshire's acquisitions of businesses such as railroad operator Burlington Northern Santa Fe and Israeli tools maker Iscar in recent years.

The legendary investing guru also has been spending time helping Berkshire identify potential successors for his positions as the conglomerate's CEO and its chief investment officer.

Mr. Buffett, who was friends with legendary Post publisher Katharine Graham, also said he plans to hold onto his Washington Post investment. Berkshire owned an 18.7% stake in Washington Post class B stock as of Feb. 1, according to the Washington Post's latest proxy filing. "We're going to keep every share of stock we have. I would never sell a share of the Post," Mr. Buffett said in the interview.

Mr. Buffett also has stepped down in recent years from the board of Coca-Cola Co. When he leaves the Washington Post board, he won't sit on any public-company boards outside of Berkshire Hathaway. "A few years ago I wanted to get off all boards….[The Washington Post board] was the one I hated to get off," Mr. Buffett said.

"For most of the last 37 years, we've been privileged to have on our board perhaps the best adviser any company could have had throughout that period," Washington Post Co. CEO Donald E. Graham said in a prepared statement.

"Warren's influence has been pervasive, from major corporate policies to the menu at board lunches," Mr. Graham said. "Only our cholesterol levels will be better going forward."

Mr. Buffett, who said he delivered copies of the paper as a young paperboy, joined the Washington Post board amid his friendship with legendary Post publisher Katharine Graham, the mother of Donald Graham. Katharine Graham died in 2001.

He and Kay Graham first met in 1971, when Buffett approached the Washington Post about buying the New Yorker magazine. That deal never materialized, but the two became close friends. The well-connected Ms. Graham helped introduce a sometimes socially reluctant Mr. Buffett to a new class of diplomats, media executives and politicians, while Mr. Buffett has said he helped Graham become steeped in business strategy.

Mr. Buffett first joined the Washington Post board in 1974, but stepped down after Berkshire agreed to make a major investment in another media company, Capital Cities, in 1985. He rejoined the Washington Post board in 1996.

Mr. Buffett has been an adviser for decades both to Kay Graham and to Donald Graham. In the statement today, both Messrs. Graham and Buffett indicated the Oracle of Omaha will continue to be available to consult on company matters.

Separately, Washington Post Co. raised its annual dividend to $9.40 from $9.00 per share. The dividend for the first quarter of 2011, $2.35 per share, is payable on Feb. 11 to shareholders of record Jan. 31.

Write to Shira Ovide at shira.ovide@wsj.com and Serena Ng at serena.ng@wsj.com

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THE WALL STREET JOURNAL.

Health

Big Firms Cast Wide Net, But Try to Focus

By Bob Tita And Bob Sechler
785 words
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English

The 1960s heyday of conglomerates may be over, but there are plenty of companies like ITT Corp. that make it their business to be involved in all sorts of unrelated activities.

Those conglomerates range from General Electric Co. (jet engines, washing machines, loans to medium-size companies) to DuPont Co. (seeds, Kevlar, countertops) to Warren Buffett's Berkshire Hathaway Inc. (machine parts, neon signs, Ginsu knives). But not all conglomerates are under the same sort of pressure as ITT to break up, and many are flush with cash and hunting for acquisitions.

Conglomerates "aren't going to go away," said Wayne Titche, chief investment officer at AMBS Investment Counsel LLC, though he noted company-specific considerations could spur some to significantly adjust their lines of business.

GE had long been a target of investors and analysts who figured its pieces were worth more apart and pushed for some sort of division.

That pressure has dissipated as GE has worked to better focus its operations around its industrial businesses. GE is shrinking GE Capital and is selling control of its NBC Universal media assets.

GE said Wednesday a breakup is out of the question. Chief Executive Jeff Immelt said at the company's investor meeting last month that he considers GE's portfolio of assets to be the best since he took charge in September 2001.

Conglomerates blossomed five decades ago, when favorable interest rates made it relatively easy to boost revenue and stock prices with serial acquisitions. But they fell out of favor when the stock increases slowed and investors began to question whether promised efficiencies would materialize.

Companies have since swung between diversifying through acquisitions and refocusing on core businesses via divestitures.

Danaher Corp. last year spun off its tools business into a joint venture with Cooper Industries PLC. Emerson Electric Co. sold its electric-motors business. Tyco International Ltd. sold its metals processing and distribution business after announcing plans to spin off the unit to shareholders as a separate company.

Acquisitions, however, are expected to ramp up now that the recession-era cost cutting has left firms with plenty of cash and relatively little debt. Conglomerates' net debt to market capitalization is at an all-time average low of 11%, according to Citi Investment Research. Meanwhile, cash holdings at conglomerates amount to 8% of their combined market capitalization.

Illinois Tool Works Inc. typically buys dozens of small and medium-size companies each year to expand its operations. The company currently has about 10 major business groups, including construction tools, auto parts, industrial packaging and food-service equipment.

The Glenview, Ill., conglomerate recently bought a number of brands of car wash, wax and other maintenance products to create a car-care business group. It wants to do enough deals to create six new industry groups in the coming years and is counting on those groups to meet its goal of revenue growth of at least 5% this year and next.

With almost 800 separate business units and a decentralized management system, observers say dismantling the company would be difficult. "It would not make sense," said Ajay Kejriwal, an analyst for FBR Capitals Markets & Co.

A spokeswoman for Illinois Tool Works said the company isn't considering selling any of its major businesses.

3M Co., maker of thousands of products including Scotch tape, Post-it notes, and electronic stethoscopes, has diversified mainly through product development in its laboratories but also through acquisitions.

A spokeswoman for 3M said the company doesn't consider itself a conglomerate because most of its products rely on a common bundle of technologies.

Even so, some analysts worry 3M's increased reliance on acquisitions will create more financial risk as the company becomes even more diversified and harder to manage. "If you try to ramp up acquisitions too fast to get to a growth target, the chances of error increase," said Shannon O'Callaghan, an analyst at Nomura Securities International.

Under Mr. Buffett's control, Berkshire Hathaway has become a holding company for companies including Dairy Queen, the Burlington Northern Santa Fe railroad and Geico insurance. But Berkshire, unlike ITT and other conglomerates, has rarely faced questions about whether the businesses it owns are better together than they are apart.

Jeff Matthews, founder of hedge fund Ram Partners and author of "Pilgrimage to Warren Buffett's Omaha," said it was largely because Berkshire stock has done so well—the "Buffett premium" attributed to faith in the company's CEO.

Mr. Buffett didn't respond to a request for comment left with an assistant Wednesday.

James R. Hagerty and Erik Holm contributed to this article.

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THE WALL STREET JOURNAL.
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Corporate News: Heyday Over, Diverse Firms Survive by Refocusing

By Bob Tita and Bob Sechler
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13 January 2011
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The 1960s heyday of conglomerates may be over, but there are plenty of companies like ITT Corp. that make it their business to be involved in all sorts of unrelated activities.

Those conglomerates range from General Electric Co. (jet engines, washing machines, loans to medium-size companies) to DuPont Co. (seeds, Kevlar, countertops) to Warren Buffett's Berkshire Hathaway Inc. (machine parts, neon signs, Ginsu knives). But not all conglomerates are under the same sort of pressure as ITT to break up, and many are flush with cash and hunting for acquisitions.

Conglomerates "aren't going to go away," said Wayne Titche, chief investment officer at AMBS Investment Counsel LLC, though he noted company-specific considerations could spur some to significantly adjust their lines of business.

GE had long been a target of investors and analysts who figured its pieces were worth more apart and pushed for some sort of division. The idea gained traction during the credit crisis, when GE's big financial arm cost the company its triple-A credit rating and forced a dividend cut.

That pressure has dissipated, however, as GE has worked to better focus its operations around its industrial businesses. GE is shrinking GE Capital, is selling control of its NBC Universal media assets and tried to sell off its lighting and appliance businesses in 2009, though poor market appetite forced a retreat.

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Jeff Matthews, founder of hedge fund Ram Partners and author of "Pilgrimage to Warren Buffett's Omaha," said it was largely because Berkshire stock has done so well -- the "Buffett premium" attributed to faith in the company's CEO.

"It's not trading at a classic conglomerate discount," Matthews said. "It's quite the opposite."

Buffett, who is known to quickly negotiate Berkshire acquisitions without the due diligence demanded by other buyers, promises the CEO's of every selling company-usually the founder or their direct descendentthat he'll never re-sell their companies. Berkshire shareholders, who typically hold the stock longer than investors at other companies, often know that selling off parts of the company isn't an option, Mr. Matthews said.

Mr. Buffett didn't respond to a request for comment left with an assistant Wednesday.

James R. Hagerty and Erik Holm contributed to this article.

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Autos

After Lousy 2010, BYD Has New Plan; Chinese Car Maker Part-Owned by Warren Buffett Missed Sales Goal by Wide Margin, Alienated Some Dealers

By Norihiko Shirouzu
1,041 words
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The Wall Street Journal Online
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English

BYD Co., the Warren Buffett-backed darling of China's car industry in 2009, had a lousy 2010. Now its top executives say they have a plan for getting back in gear.

Car sales in China for the Shenzhen-based company rose 16% to 519,806 vehicles. That might be decent in most markets, but it was less than half of the industry average of well more than 30% growth last year, and it fell miles short of BYD's own publicly stated aim to nearly double sales to 800,000 cars. Dealers have been defecting, and a push into the U.S. electric-car market is almost a year behind schedule.

BYD's shares are now trading at less than half their peak price of 85.50 Hong Kong dollars (US$11) in October 2009. MidAmerican Energy Holdings Co., a unit of Mr. Buffett's Berkshire Hathaway Inc., paid US$232 million for a 9.89% stake in BYD.

BYD's product quality, especially as perceived by consumers, suffered a big setback last year when Chinese rivals like Geely Automobile Holdings Ltd. and Great Wall Motor Co. began introducing cars with much-improved quality.

Among other steps, BYD will slow new-product cycles and take more time to buff the quality and styling of new cars, BYD Chairman and founder Wang Chuanfu said in an interview on the sidelines of the Detroit auto show.

BYD also plans to slash the number of dealers, which totaled about 1,000 at the end of last year, by 5% to get rid of inexperienced stores, according to Mr. Wang. The move is also hoped to improve per-store revenue and profit.

Moreover, BYD plans to do a better job forecasting demand and focus more on "quality of sales" rather than "obsessing on market share," the BYD chief said.

All this comes a bit more than a year after BYD spectacularly more than doubled its sales in China to 448,000 vehicles, up from 170,900 in 2008. BYD also has been the standard bearer for China's ambition to tap electric-vehicle technology to close the gap with more-established global car makers.

Yet, BYD stumbled during 2010 in its first major breakdown since it was established as a cellphone battery company in the mid-1990s.

"In the past few years, we made a mistake of focusing on growth too much," said Mr. Wang. For example, BYD was too optimistic about Chinese consumers' appetite for its cars, and "we expanded our distribution channel too quickly and ended up focusing on the quantity rather than the quality of the dealer network," he said. The result: BYD's sales network became bloated with underperforming dealers.

Stella Li, BYD's senior vice president, said in an interview in Shenzhen, China, that the company drove dealers in China hard to attain its unrealistic sales goals, alienating some of them. "Now, we need to slow down a bit and adjust our strategy," she said.

To start with, BYD this year is forecasting a modest 10% increase to about 550,000 vehicles, more or less on par with the 10% to 15% growth seen for the overall China market by most auto makers and forecasting companies.

The company set out to nearly double its China car sales last year. Yet, BYD's sales began slumping midyear even as sales in China's overall auto market surged.

In September, the company slashed its sales forecast for 2010 by 25% to 600,000 vehicles. In the end, BYD fell short of meeting even the revised goal.

According to Mr. Wang and Ms. Li, one main cause was the slide in BYD car quality and appeal, at least as they are perceived by consumers. Said Mr. Wang: "Over the next few years, we are going to slow down our growth pace and focus on the quality and design of our product."

To improve its image, nearly all new products BYD has launched in recent months are higher-end models, compared to the no-frills cars the company had originally became famous for. To produce those higher-end models, BYD last year purchased a leading-edge body panel stamping plant in Japan and is using experts at that factory to train BYD's manufacturing engineers and workers at its plants in China.

Competition from other indigenous China brands like Geely and Great Wall is getting tougher, and "BYD will have to struggle further and suffer slow sales and thinner profit margin if they don't distinguish themselves," says Yale Zhang, an independent analyst in Shanghai.

Another flaw is BYD's sales channel. Even though it had been an auto maker only since 2003, BYD tried to develop four distribution channels, which the two executives said forced BYD to spread its limited product offerings too thinly among them.

All this made it extremely difficult for most dealers to make money, leading some of them to defect to other brands. One defector is a former BYD store in Beijing managed by Pu Xiaoqiang, which switched to Geely.

According to Mr. Pu, in most months, BYD asked Mr. Pu's store to carry stock of about 400 cars, even though the store typically sold only about 70 cars a month.

"The only thing we could do was to try everything to sell those cars, so we ended up giving huge discounts to customers, but that wasn't profitable at all," Mr. Pu said.

Mr. Wang said BYD in early 2010 had a flood of dealer applicants, and the number of its stores was to hit 1,200. When sales began cooling midyear last year, some of those applicants withdrew, while others defected to other brands. In total, Mr. Wang believes about 100 dealers left BYD because of the turmoil.

"We're starting to watch dealer inventory cycle very closely now" so that BYD doesn't have to require dealers to carry large stock, Ms. Li said. "We do not want repeat this kind of mistake in the future."

Write to Norihiko Shirouzu at norihiko.shirouzu@wsj.com

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Detroit Auto Show: After Stumble, BYD Retools Strategy

By Norihiko Shirouzu
690 words
12 January 2011
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English

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ROI
R.O.I.
Why You Shouldn't Trust Wall Street's Top Stocks for 2011

By Brett Arends
1,446 words
6 January 2011
10:40 AM
The Wall Street Journal Online
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English

It's the time of year when brokers are likely to offer you their top stock recommendations for the new year.

"These are the stocks to own in 2011," they'll say. "They're the ones our analysts recommend most strongly right now." Then they'll tell you all sorts of compelling reasons their analysts love the stocks, possibly coupled with impressive "price targets" for the year.

Should you take their advice?

Before you do, take a look at how their recommendations fared last year. And the years before that.

I thought I'd do just that.

So I contacted Thomson Reuters, which tracks the recommendations of Wall Street analysts.

I asked them for the 10 stocks that analysts rated most highly a year ago. That meant the stocks in the Standard & Poor's 500 index with the most "buy" and "strong buy" recommendations, the fewest "sells" (let alone "strong sells") and the best average rating overall.

These stocks were the cool kids on the Street. The ones everyone wanted to hang with. The stocks that fund managers brag about owning when they're at the squash club.

The names ranged from chemical company FMC and printer R.R. Donnelley & Sons to tobacco company Lorillard.

How did they do?

Not bad. If you'd invested $1,000 in each one a year ago, your $10,000 stake would have grown to nearly $12,400 today—an impressive 24% return. By contrast, the S&P 500 overall gained just 13%.

So far, so good, right?

I also asked Thomson Reuters to send me the names of the 10 stocks that Wall Street analysts liked the least a year ago.

If the top 10 were the cool kids, these were the dorks. The nerds, the geeks, the losers. The stocks no one wanted to be seen dead with. The ones eating alone in the cafeteria every day and walking around the hallways with "Kick Me" signs stuck to their backs. The ones the analysts thought would do the worst.

How did they do?

Their gain: 32%. No kidding. They knocked the stuffing out of the stock-market index overall as well as the cool kids.

Last year's dorks included bailout baby American International Group (up 92%), real-estate investment trust Apartment Investment & Management (up 65%) and Jack Daniel's distiller Brown-Forman (up 35%).

So much for the year's "hot" stock tips.

OK, so these were the results from just one year. Then I took a look at the results for the previous year, 2009. Again, Thomson Reuters gave me the 10 stocks that analysts recommended most highly at the start of that year, and the 10 they rated the lowest.

If you'd bought the analysts' favorite stocks at the start of the year, you'd have made a 22% profit.

Not bad.

But if you'd just invested in the S&P 500 index instead you'd have made 26%—four percentage points more.

And what about if you had gone completely against the grain, and had invested in the stocks that the analysts hated the most?

You'd have made an incredible 70% profit.

No, really. Sears Holdings, the most-hated stock of all, more than doubled. Ford Motor, which was the fourth most hated, quadrupled.

OK, so that's only two years' results. And both were up years for the stock market. But what about in a slump? You'd expect that analysts' top picks would protect you in a crash, right? After all, they've really kicked the tires on these babies.

So I had a look at the favorite picks of January 2008, and how they fared over the following 12 months, when everything fell apart.

That year, the S&P 500 plummeted 39%. For anyone trusting the index, it was a total disaster.

But if you'd stuck to the analysts' 10 favorite stocks instead, you'd have only lost, er, 48%.

In other words, you'd have done nine percentage points worse.

I also had a look at how the most-unpopular stocks did that year. A word of caution: As we go further back in time, the results for the lowest-rated stocks run the risk of "survivorship bias." Thomson Reuters data relates to the current S&P 500, so a stock that collapses so completely it vanishes from the index will be omitted. (This is a widespread problem that affects most stock-market indices as well.)

With that caveat, the most-hated stocks that are still in the S&P 500 today fell 51% in 2008—just three percentage points worse than the top picks.

I also checked some of that year's more-spectacular blowups.

Lehman Brothers? At the start of 2008, 17 analysts covered the stock. Of them nine had it as a "hold," five as a "buy" and two—amazingly—had it as a "strong buy." Given that one of the smartest things anyone could have done with their money, ever, was to sell Lehman stock at the start of 2008, how many analysts actually issued that recommendation?

One. Out of 17.

Bank of America and Citigroup both cratered in 2008. But if you think the analysts would have warned you away from them at the start of the year, think again. Both started the year pretty popular with analysts. They had plenty of "buy" recommendations and few "sells." At least Washington Mutual, which collapsed into bankruptcy later that year, started 2008 unpopular.

How would you do longer term if you followed Wall Street's top recommendations each year? The future, of course, is unknowable. But I looked back over the past five years. I asked how you would have done if you bought the analysts' top 10 favorite stocks at the start of each year, held on for 12 months, and then sold and spent the money buying the new year's picks.

If you had started with $10,000 at the start of 2006, invested $1,000 in each stock and reinvested any dividends, today you'd have $10,950. That's before trading costs and taxes.

But if you had just ignored Wall Street analysts, put that money in the SPDR S&P 500 exchange-traded fund—which tracks the entire Standard & Poor's 500—and left it alone, you'd have $11,190: slightly more. And you'd have saved a lot on trading costs and capital-gains taxes as well. Overall, you'd have ended up considerably better off.

As for the unpopular stocks? Thanks to survivorship bias, we can't be completely certain. But if you'd just bought the most-hated 10 stocks (in today's S&P) each year you'd have an astonishing $16,430 today.

That's in just five years.

That beats the most-popular list, and the index, hands down.

Even allowing for the few (like Washington Mutual) that don't get counted because they went bankrupt, the results are eye-opening.

Yes, we're only looking at a small sample, a handful of years. One can't draw universal conclusions. But these findings are no accident either.

Investors frequently forget that stock-market predictions aren't like, say, weather predictions, because in the case of the stock market the predictions actually change the weather. If everyone on Wall Street already likes a stock, they probably already own it. And if that's the case, they've probably already driven up the price higher than it should be. Meanwhile, if everyone hates a stock—and especially if its reputation has fallen so low that professional fund managers are actually afraid to own it—there's a good chance it has already fallen too far.

Low-rated stocks find it pretty easy to beat expectations. The favorite stocks, meanwhile, have to jump higher and higher hurdles.

What about this year? Thomson Reuters says the most-popular stocks are scientific equipment makers Thermo Fisher Scientific and Agilent Technologies, Apple, Halliburton and IT company Compuware. The least-popular include Sears, insurer Cincinnati Financial, Warren Buffett's Berkshire Hathaway, natural-gas distributor Nicor and pharma company Eli Lilly. The full lists can be seen above. Make of them what you will.

When your broker calls to offer you his analysts' "top picks" for 2011, maybe you'd be better off asking him which stocks his analyst hates. Or you could just let the phone ring.

Write to Brett Arends at brett.arends@wsj.com

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New Securities Issues

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The following were among recent offerings and pricings in U.S. and non-U.S. capital markets, with terms and syndicate manager, based on information provided by Dow Jones Newswires and Factiva. A basis point is one-hundredth of a percentage point; 100 basis points equal a percentage point.

CORPORATE

Berkshire Hathaway Finance Inc. -- $1.5 billion multitranche bond issue was priced Monday via joint bookrunners Goldman Sachs, J.P. Morgan Chase and Wells Fargo, according to a person familiar with the deal. Terms were as follows: Tranche 1: Amount: $375 million; maturity: Jan. 10, 2014; coupon: 1.50%; price: 99.732; yield: 1.592%; spread: 58 basis points more than Treasurys; call: make-whole callable at Tsys +10 bps. Tranche 2: Amount: $375 million floating-rate notes; maturity: Jan. 10, 2014; coupon: 3-month London interbank offered rate plus 33 basis points; price: par; yield: 3-month Libor plus 33 basis points. Tranche 3: Amount: $750 million; maturity: Jan. 15, 2021; coupon: 4.25%; price: 99.645; yield: 4.294%; spread: 95 basis points more than Treasurys; call: make-whole callable at Tsys +15 bps. Common terms: Settlement: Jan. 11, 2011; ratings: Aa2 (Moody's Investors Service), double-A-plus (Standard & Poor's Ratings Services).

Cemex SAB -- $1 billion bond issue was priced Tuesday for the Mexican cement and building-materials company, according to a person familiar with the deal. Bank of AmericaMerrill Lynch and J.P. Morgan Chase & Co. were the global coordinators on the deal. Terms: Maturity: 7-year; coupon: 9%; price: 99.364; yield: 9.125%.

Deutsche Bank AG -- $1 billion bond issue was priced Tuesday in a self-led deal. Terms: Maturity: Jan. 11, 2016; coupon: 3.25%; price: 99.908; spread: 130 basis points more than Treasurys; ratings: Aa3 (Moody's), single-A-plus (S&P).

Freddie Mac -- $6 billion three-year bond issue was priced to yield 1.375%. The note priced at 27 basis points more than comparable Treasurys. The security, due Feb. 25, 2014, will settle on Thursday. Joint leads on the deal were Barclays Capital, Citigroup Global markets and J.P. Morgan Chase.

GLOBAL

ABN Amro Bank NV -- 1.25 billion euro covered bond was priced, one of the banks running the sale said Wednesday. ABN Amro, BNP Paribas SA, Credit Agricole SA and DZ Bank were lead managing the deal, which will be backed by prime Dutch residential mortgages. Terms: Maturity: Jan. 12, 2018; coupon: 3.5%; reoffer: 99.695; date: Jan. 12, 2011; spread: 70 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch Ratings); interest: annual.

Banco Bilbao Vizcaya Argentaria SA -- 1.5 billion euro covered bond was priced, one of the banks running the sale said Tuesday. The size of the deal was increased from 1 billion euros earlier due to strong demand, a person close to the deal said. BBVA, Credit Agricole CIB, Natixis and UBS AG were lead managers on the deal. Terms: Maturity: Jan. 13, 2014; coupon: 4.125%; reoffer: 99.972; date: Jan. 13, 2011; spread: 225 basis points more than midswaps; debt ratings: Aaa (Moody's); denominations: 50,000 euros; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

Barclays PLC -- 1 billion euro covered bond backed by prime residential U.K. mortgages was priced, via joint-lead managers Barclays PLC, Commerzbank, Danske Bank, Lloyds TSB Corporate Markets, Natixis and Banco Santander SA, with the following terms, one of the banks said Wednesday: Terms: Maturity: Jan. 12, 2021; coupon: 4%; reoffer: 99.499; date: Jan. 12, 2011; spread: 85 basis points more than midswaps; yield: 4.062%;

debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 100,000 euros and increments of 1,000 euros thereafter; interest: annual.

Credit Agricole SA -- 1.5 billion euro covered bond was priced, one of the banks running the sale said Wednesday. Credit Agricole Corporate and Investment Banking, Deutsche Bank AG, ING, Natixis and Banco Santander SA were lead managers. Terms: Maturity: Jan. 12, 2021; coupon: 3.875%; reoffer: 99.593; date: Jan. 12, 2010; spread: 73 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 50,000 euros; listing: Paris; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

DnB NOR ASA -- 2 billion euro covered bond was priced via Barclays PLC, Citigroup, Goldman Sachs Group Inc., and HSBC Holdings PLC, one of the banks said Tuesday. Terms: Maturity: Jan. 11, 2016; coupon: 2.625%; reoffer: 99.543; date: Jan. 11, 2011; spread: 32 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 50,000 euros; 1,000 euros; listing: Luxembourg; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

European Investment Bank -- $3.5 billion bond issue was priced with the following terms, lead managers Barclays PLC, Goldman Sachs Group Inc. and J.P. Morgan Chase & Co. said Tuesday. Terms: Maturity: March 15, 2016; coupon: 2.25%; reoffer: 99.507; date: Jan. 12, 2011; spread: 15 basis points more than midswaps; yield: 2.352%; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch).

European Union -- 5 billion euro bond issue was priced, one of the banks running the sale said Wednesday. Barclays Capital, BNP Paribas, Deutsche Bank AG and HSBC Holdings PLC were lead managers of the deal. Terms: Maturity: Dec. 4, 2015; coupon: 2.5%; reoffer: 99.594; spread: 12 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 1,000 euros; listing: Luxembourg; interest: annual.

ING Bank NV -- 1.25 billion euro covered bond was priced, one of the banks running the sale said Tuesday. Barclays PLC, ING, Natixis and UniCredit SpA were lead managers on the transaction, which has the following terms: Maturity: Jan. 1, 2018; coupon: 3.375%; reoffer: 99.779; date: Jan. 11, 2011; spread: 60 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 50,000 euros; 1,000 euros; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

Intesa Sanpaolo -- 750 million euro bond issue was priced, one of the banks running the deal said Wednesday. Banca IMI, BNP Paribas SA, Credit Suisse Group, Deutsche Bank and Morgan Stanley were lead managers of the sale. Terms: Maturity: Jan. 14, 2013; coupon: 4.125%; reoffer: 99.597; date: Jan. 14, 2011; spread: 175 basis points more than midswaps; debt ratings: Aa3 (Moody's); interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

Rabobank Nederland -- 2 billion euro bond issue was priced, one of the banks running the sale said Wednesday. Bank of AmericaMerrill Lynch, Rabobank, Morgan Stanley and UBS AG were bookrunners on the deal. Terms: Maturity: Jan 12, 2021; coupon: 4.125%; reoffer: 99.478; date: Jan. 12, 2011; spread: 100 basis points more than midswaps; debt ratings: Aaa (Moody's); denominations: 1,000 euros; listing: Amsterdam; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

Societe Generale -- 2 billion euro bond issue was priced with the following terms, the bank said Wednesday: Terms: Maturity: Jan. 14, 2013; coupon: 50 basis points more than three-month euro interbank offered rate; reoffer: 99.90; date: Jan. 14, 2011; debt ratings: A+ (Fitch); denominations: 100,000 euros.

UniCredit Bank AG -- 1 billion euro public sector covered bond was priced via joint-lead managers Commerzbank, Natixis, Nord LB, Royal Bank of Scotland PLC and UniCredit SpA, with the following terms, one of the banks said Wednesday: Terms: Maturity: Jan. 14, 2013; coupon: 1.5%; reoffer: 99.855; date: Jan. 14, 2011; spread: flat to midswaps, or 75.9 basis points more than bundisobligation; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch).

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THE WALL STREET JOURNAL.

Deals & Deal Makers

The Graying of the Barbarians; Advancing Age of Private-Equity Executives Raises Questions About Succession

By Gregory Zuckerman
1,013 words
5 January 2011
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(Please see Corrections and Amplifications below.)

Few major businesses are led by 66-year-olds who won't even hint at who will succeed them or when they might step down.

But that has been the approach at Kohlberg Kravis Roberts & Co. and a passel of other Wall Street private-equity firms, where a generation of buyout billionaires still rules the roost—and has no plans of stepping down.

The average chief executive officer of companies in the Standard & Poor's 500 is 56 years old, says executive-placement firm Spencer Stuart.

At KKR, Henry Kravis is 66, and partner George Roberts, 67. Stephen Schwarzman of Blackstone Group LP is 63; his heir apparent, Tony James, will turn 60 next month. Leon Black of Apollo Global Management turns 60 in July. TPG co-founder David Bonderman is 68. Donald Gogel, chief executive of Clayton, Dubilier & Rice LLC, is 61; the firm's chairman, Joseph Rice, is 79.

And the triumvirate running Carlyle Group, David Rubenstein, William Conway and Daniel D'Aniello, are 61, 61, and 64, respectively.

The issue of succession is of growing importance to clients. Many of them laud the veteran investors for years of good returns, and hope the executives continue in their roles. At the same time, they fret about how the firms are planning for the future. Of concern: Whether the next generation of deal makers might bolt if they don't get the chance to grab the reins.

Private-equity honchos often cite Berkshire Hathaway, run by 80-year old Warren Buffett, as proof they can continue to run their firms for many years. Mr. Buffett, at least, is preparing for change. In the latest issue of Vanity Fair magazine, Mr. Buffett said that succession "is all we talk about" at board meetings.

The issue is more pressing because the largest buyout firms have become harder to manage. KKR, for example, once was a private firm focused on U.S. buyouts. Today it is a publicly traded company with 750 employees that cuts deals in Africa, Asia and Europe, trades stocks and bonds, and even buys pipelines.

"Investors care a lot about who will succeed the kings of private equity, it's a big issue," says Mario Giannini, chief executive officer of Hamilton Lane, which advises private-equity investors and makes investments in these firms. "So many firms are getting larger and have to deal with succession, and one or two people can't do it all."

Succession matters less at hedge funds, because investors generally can withdraw money on a quarterly basis if they are displeased with a firm's direction.

But once investors commit to a private-equity firm they usually can't withdraw for a long time—sometimes for more than decade. That makes future leadership more important.

Robert Long, chief executive officer of Conversus Asset Management, a company that invests in private-equity firms, says he is avoiding firms that haven't done a good job planning succession, and is spending more time focusing on "key man" clauses in partnership agreements. Those terms allow clients to withhold new investments if certain executives quit.

"Our three founders are working harder than ever and we're grooming the next generation of leaders," says a Carlyle spokesman.

A spokesman for Blackstone said: "We have a number of senior executives running our various businesses and a deep bench of highly experienced people backing them up."

A representative of Clayton said the firm has twice smoothly transtioned leadership and is confident it will in the future.

Even those firms that now are public, such as Blackstone and KKR, don't have rules encouraging employees to step down at a certain age.

Choosing a successor can spark departures by key deal makers. And vying for the future brass ring can sometimes cause a healthy tension within firms, some say.

Worried investors cite the example of Forstmann Little, co-founded by Ted Forstmann, which was a buyout power during most of the 1980s and 1990s. The firm suffered big telecom losses in the early 2000s and Mr. Forstmann didn't have a successor, and the firm chose not to raise a new fund.

More recently, Justin Wender, who had been president of Castle Harlan, Inc., quit the firm in August after growing frustrated that John Castle, the firm's founder, didn't give him enough control, according to clients of the firm. A firm spokesman says it moved quickly to announce new leadership once Mr. Wender left.

For all the hand-wringing among investors, some firms seem well-prepared for the future.

TPG's co-founder, James Coulter, is 51. Mr. Black's co-founders, Joshua Harris and Marc Rowan, are 45 and 48, respectively.

Mr. Kravis and Mr. Roberts have moved responsibilities to others at the firm and introduced a management committee, efforts aimed at grooming stars and giving them more power, say people close to the firm. Those changes should make the firms less dependent on their founders. For now, however, the founders show no signs of letting go.

Over the past year, Mr. Kravis, for example, has visited a string of cities, from Cincinnati to Shanghai, to meet political leaders and corporate executives. Carlyle's three founders have been to Asia nearly a dozen times in that period.

So why don't buyout bosses move off center stage? Some, like Mr. Kravis and Mr. Schwarzman, enjoy crafting deals and building their respective businesses. Running high-profile firms also helps keep the veterans relevant, some have told colleagues.

"We investors want succession, and we also want George [Roberts] and Henry [Kravis]" to continue running their firm, says Mr. Giannini, "so we want it both ways."

Corrections and Amplifications

Leon Black of Apollo Global Management is 59 years old. A photo caption in an earlier version of this article incorrectly said he is 60.

Write to Gregory Zuckerman at gregory.zuckerman@wsj.com

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Year-End Review of Markets & Finance 2010 --- Meet the Supporting Cast --- Wall Street Warms to China Story

By Gregory Zuckerman
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R1
English

Visiting China was considered an indulgence for most financial executives just a few years ago.

But when Berkshire Hathaway Inc.'s Warren Buffett, J.P. Morgan Chase & Co.'s James Dimon, Kohlberg Kravis Roberts & Co.'s Henry Kravis and Carlyle Group's David Rubenstein all visited China in recent months, the trips were seen as something else entirely: crucial steps to keep their respective companies growing.

China has been important to global economic growth for years, of course. The country likely emerged as the world's second-largest economy in 2010. It is expected to show close to 10% growth in both 2010 and 2011.

Until recently, however, China was something of a sideshow for many financial professionals. Global growth was key to China's health, and the country had an impact on many economies. But China didn't seem to matter much to most deal makers and wealth creators.

That's all changing. China is opening its markets, slightly loosening the reins on its currency, and is emerging as a key to the future of almost every Wall Street firm. It's also a linchpin of the investment strategies of a growing number of hedge- and private-equity funds.

Consider that global initial public offerings of Chinese companies amounted to $104 billion in 2010, according to data-tracker Dealogic, up from $54 billion in 2009. Last year's tally amounts to $126 billion if Hong Kong companies are included, though it includes domestic markets not fully accessible to foreigners.

By comparison, less than $34 billion of U.S. IPOs took place in 2010, the second consecutive year that Chinese companies topped U.S. companies in IPO issuance. Bankers that didn't participate in Chinese IPOs risked seeing smaller bonuses. No Chinese investment bank has emerged as a global power, reducing alibis for not establishing a presence in deals available to foreigners.

Meanwhile, mergers-and-acquisitions specialists are racing to China to work with companies like China National Offshore Oil Corp., known as Cnooc, and China Petroleum & Chemical Corp., or Sinopec, among the biggest deal makers in 2010. Chinese companies completed 3,235 acquisitions valued at nearly $190 billion, or 9% of all global deals in 2010. That was more than any other nation except the U.S. and more than the $162 billion of deals by U.K.-based companies. China also was the second-most frequent target of purchases by foreign companies in 2010, after the U.S.

In currency markets, analysts say more traders are laying big bets on whether the yuan will be allowed to appreciate further in 2011. Stock-trading volume on Chinese and Hong Kong exchanges now rivals that of U.S. markets. And some strategists, such as Tobias Levkovich of Citigroup, view the Shanghai market as a leading indicator for U.S. shares.

The Chinese economy is expanding so quickly it's helping to offset stagnant growth elsewhere in the world for a growing number of companies. And Chinese demand increasingly drives global commodity prices and shares of commodity providers.

That all helps explain why some of the largest investors are boosting wagers on -- and against -- China. The bulls say power will continue to shift to developing makets from developed countries. They cite China as exhibit A of this trend, arguing there are more opportunities in China and elsewhere in Asia than in the U.S. or Europe.

Already, some of the hottest investments over the past year, including rare-earth shares like Molycorp Inc. and Rare Element Resources Ltd., get their mojo from tightening Chinese controls or rising demand in the country.

Daniel Arbess, who runs a hedge fund for Perella Weinberg Partners, has been profiting by buying shares of global companies helped by Chinese growth, a strategy he calls "Shake Hands With China," and betting against those having a hard time competing with Chinese rivals.

Mr. Arbess is focused on companies like Solutia Inc., Apple Inc. and Yum Brands Inc. that are growing quickly in China, as well as those that produce commodities in demand in China. For example, Yum, the owner of KFC, Pizza Hut and Taco Bell brands, saw same-store sales rise in each division for the first time since the end of 2008. China enjoyed a 6% gain, while the U.S. and other international locations posted 1% growth.

But many investors find it challenging to directly wager on China. Few companies have enough shares outstanding, or trade with sufficient activity, to make larger investors feel comfortable making a substantial investment. A relative lack of financial and regulatory transparency also is a hindrance.

A recent incident is a reminder of the need to be wary: China Gas Holdings Ltd., a large natural-gas distributor, announced in late December that two of its executives were escorted from the company's offices by people claiming to represent the Shenzhen Municipal Public Security Bureau. China Gas said it hadn't been able to get in touch with executives, nor has the company been told why the executives were detained.

The incident has flummoxed firms providing analytical coverage of China Gas. UBS, for instance, produces estimates of China Gas's results through 2013. But as of last week, the firm, along with investors, had no details about the executives, and told clients it wasn't sure if the incident would affect the company's operations. The matter hadn't been resolved as the year ended and the stock remains suspended from trading.

That's all part of the reason China also is the target of some of the biggest short-sellers, such as James Chanos, who runs hedge fund Kynikos Advisors.

The bears also point to China's expensive real-estate market and so-called ghost cities that relatively few inhabit, despite billions poured into them by Beijing. Mr. Chanos is shorting Chinese property companies based in Hong Kong, among other shares.

"Large-scale capital projects grow sillier by the day," Mr. Chanos said at a recent conference, in which he focused on what he called a "record lending spree in China" that is "fueling a speculative boom." Indeed, fixed-asset investment grew 23.5% last year, and is forecast to grow 20% this year; analysts say banks far exceeded China's central bank's cap on lending in 2010.

Meanwhile, many private-equity firms are racing to cut deals in China, to tap into the nation's growth -- and to demonstrate to clients that they're capable of finding opportunities in China.

Mr. Kravis's KKR is putting the finishing touches on a $1 billion fund to invest in fast-growing companies in China, its first China-focused fund after several years of investing in China through broader funds. Rivals like TPG and Carlyle, which have long has been active in China, are stepping up activity. TPG recently announced plans to raise two Chinese currency-denominated funds, each sized at more than $700 million.

To be sure, a number of private-equity and hedge-fund chiefs privately share frustrations about China, even as they search for local opportunities. The rule of law is weak, some say, making it harder to resolve disputes. Others question the reliability of data published by private and public bodies, or aren't sure who controls Chinese companies, which usually are influenced by government officials.

Still other private-equity executives worry that assets in the eastern part of the country are so picked-over that they're heading to central and western hinterlands to find opportunities.

Some see this shift as a sign that these investors are embracing risk. Indeed, experts say it's even more difficult to obtain reliable data or gain influence over local businesses in these parts of China. There's some rationale to the strategy, however. Although the eastern region has long dominated the country, central and western China surpassed the eastern region on most measures of growth in 2010, according to Nomura International, including gross-domestic-product growth, retail sales growth, export and imports.

"The western region's growth is accelerating, thanks to rising demand for and rapid development of resources and related industries," Nomura says.

At the same time, it's risky to bet against an economy with $2.6 trillion of foreign currency reserves and where the majority of the population is only beginning to fully urbanize and embrace higher standards of living, a trend likely to bring more investment opportunities.

The question for 2011 and beyond is whether Chinese authorities can keep the country growing apace, even as they press the brakes on inflation, which is growing at a clip of more than 5%. Strong future growth may come only if Chinese leaders can transform the nation into a consumer-focused economy.

Whether Chinese development and growth can continue without major setbacks could be more important to global markets and financial firms than anything the Federal Reserve or European Union do in 2011.

"The transition to a consumer society in China represents the single biggest challenge for the global economy," says Perella Weinberg's Mr. Arbess, "and the biggest opportunity for markets."

(See related article: "Markets Continued to Benefit From Intervention in 2010; Now, the Question Is, Can the Fed and Others Exit Neatly? " -- WSJ Jan. 3, 2011)

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Corporate News: Corporate Watch

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DYNEGY

FTC Clears Icahn's Plan

For $665 Million Buyout

The Federal Trade Commission has approved billionaire investor Carl Icahn's proposed $665 million buyout of Dynegy Inc., according to the agency's website.

The FTC's approval helps to clear the path for Icahn's $5.50-a-share offer for Dynegy, a Houston-based power-generation company whose shares tumbled in 2008. The stock has ranged between $3 and $6 for the past six months.

The proposed buyout still requires approval from the Federal Energy Regulatory Commission.

Icahn Enterprises LP emerged as a potential buyer of Dynegy after investors rejected a $5-a-share bid from private-equity firm Blackstone Group LP. Dynegy's board approved the Icahn proposal on Dec. 15. Mr. Icahn owns 9.9% of Dynegy.

-- Tennille Tracy

SEARS

Retail Chain Launches

Movie-Download Service

Sears Holdings Corp. has launched its online movie download service, Alphaline Entertainment, allowing Sears and K-Mart customers to download movies the same day they are released on DVD.

The service runs on Sonic Solutions' RoxioNow platform, and the companies are working on a rollout to make the services available on portable media players, mobile phones and high-definition televisions under a multiyear agreement. Plans for the service were first announced in June.

Sonic, which agreed last week to be acquired by Rovi Corp. in a deal worth about $720 million, has invested heavily over the past few years to build its infrastructure, software and device support.

-- Tess Stynes

SIEMENS

MidAmerican Energy

Orders 258 Wind Turbines

Siemens AG said Tuesday it received its largest order so far for onshore wind turbines from the U.S. The German industrial conglomerate said it will deliver 258 wind turbines for three Iowa wind projects of MidAmerican Energy Co. The turbines will be built at Siemens's Iowa and Kansas plants.

The three projects will have a combined capacity of 593 megawatts, Siemens said. Financial details haven't been provided. Delivery and commissioning are to begin in the second quarter of 2011 and be completed by early 2012.

-- Archibald Preuschat

PHARMACEUTICALS

J&J and AstraZeneca Trials

For Painkiller Are Halted

Separate clinical trials by Johnson & Johnson and AstraZeneca PLC of a new type of painkiller have been halted out of concerns those drugs may be linked to joint damage, the companies said Tuesday.

The U.S. Food and Drug Administration advised J&J late last week the drug maker's fulranumab development program had been placed on full clinical hold, company spokesman Jeffrey Leebaw said.

AstraZeneca's U.S. biologics unit, MedImmune, said it had voluntarily halted early-stage trials of medi-578 in July, without regulatory request, shortly after Pfizer Inc. suspended certain trials of its tanezumab drug over joint concerns.

-- Dinah Wisenberg Brin

NORILSK NICKEL

Shareholders Fail to Reach

Compromise Over Stake

Shareholders in Russian mining company OAO Norilsk Nickel failed to compromise on the buyout of one of their stakes, a person familiar with the matter said Tuesday.

Nickel producer Norilsk is the prize in a high-stakes battle between rivals Oleg Deripaska and Vladimir Potanin. Mr. Potanin owns just under 30% of Norilsk and has the support of the company's management. Mr. Deripaska controls United Co. Rusal PLC, which owns 25% of Norilsk.

Sides failed to agree on the price for which Rusal would be ready to sell its stake to Norilsk, the person aid. Norilsk offered to buy Rusal's stake for $12 billion and later offered to consider a higher price. According to the person, the offer was raised to $14 billion.

-- Alexander Kolyandr

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THE WALL STREET JOURNAL.

Business
MidAmerican Energy Orders 258 Siemens Wind Turbines

By Archibald Preuschat
138 words
28 December 2010
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The Wall Street Journal Online
WSJO
English

DUESSELDORF—Siemens AG said Tuesday it received its largest order so far for onshore wind turbines from the U.S.

The German industrial conglomerate said it will deliver 258 wind turbines for three Iowa wind projects of MidAmerican Energy Co. The turbines will be built at Siemens's Iowa and Kansas plants.

The three projects will have a combined capacity of 593 megawatts, Siemens said.

According to industry experts, one megawatt of onshore wind power is worth €1 million ($1.3 million) for the supplier.

Still, financial details of the order haven't been provided. Delivery and commissioning of the turbines is expected to begin in the second quarter of 2011 and be completed by early 2012.

Write to Archibald Preuschat at archibald.preuschat@dowjones.com

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FRIDAY JOURNAL --- The Home Front: Private Properties

By Juliet Chung and Candace Jackson
446 words
24 December 2010
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D8
English

Trust Linked to Priscilla Presley

Sells Home Near Los Angeles

A home near Los Angeles linked to Priscilla Presley has sold for $5 million, 44% less than its original, nearly $9 million asking price last year.

The five-bedroom home sits on about three acres in a gated community in Hidden Hills, 30 miles northwest of downtown LA. The home measures almost 8,000 square feet and has a master suite with a private office and customized closet, according to the listing. The property also has a sound booth, guest house and barn, and there's an orchard and a pool with a waterfall on the estate.

The ex-wife of Elvis Presley was a trustee of the trust that owned the property. Tracy Tutor Maltas of Partners Trust had the listing with Marc Shevin of Prudential California Realty. Mr. Shevin also represented the buyers.

Sold: San Francisco Home

Of Late Williams-Sonoma Chief

The San Francisco home of Williams-Sonoma's former CEO Howard Lester has sold, along with an adjacent vacant lot, for $9.5 million. The original asking price in September for the home, above, was $8.5 million and $2.3 million for the lot.

Mr. Lester, who died in November, was the longtime head of Williams-Sonoma, which in addition to the namesake cookware company includes West Elm and Pottery Barn. He bought the Pacific Heights house in 1984, several years after his purchase of the company from founder Chuck Williams. The 1935 home has four bedrooms, gardens, a terrace and Bay views, according to the listing. There's a two-car garage. The undeveloped parcel measures about 4,000 square feet.

Malin Giddings and Max Armour of Coldwell Banker Previews International had the listing.

Jackson, Wyo., Ranch Comes

On Market for $8.5 Million

A 160-acre wilderness ranch in Jackson, Wyo., has come on the market for $8.5 million.

Known as the Darwin Ranch, the property is surrounded by the Bridger-Teton National Forest and a mountain range. The property has a functioning dude ranch operation with several guest cabins. There is also a main lodge, a barn, a sauna and horse facilities. The property also has fishing as well as big-game hunting. It is reachable by road in the warmer months and by snowmobile in the wintertime.

The current owner, Loring Woodman, purchased the ranch in 1964. He says he's selling because he's looking to retire. James Taylor of Hall and Hall in Billings, Mont., has the listing.

Email privateproperties@wsj.com

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Markets
Some Insiders May Have Sold Too Soon

By Donna Kardos Yesalavich and Arden Dale
763 words
18 December 2010
The Wall Street Journal Online
WSJO
English

Corporate executives who recently rushed to sell $19 billion of company shares during the past two months may have been trying to make a tax play that seemed smart—until the Obama administration's compromise plan changed things.

Now, the extension of tax breaks enacted under former President George W. Bush means those executives will be saddled with big tax bills that could have instead been spread out over years. They also could have held on to their shares longer as the stock market catapulted to two-year highs.

Hundreds of corporate executives and other insiders disposed of shares at a frenzied pace during the past two months trying to avoid what they thought would be stiff tax penalties. The value of the shares sold since November has topped $19 billion—the highest two-month total since just before the financial crisis in 2007, according to TrimTabs Investment Research.

"A number of people did sell this year, including through the exercise of stock options," said Matt Brady, head of wealth advisory at Barclays Wealth, Americas. "You could say they sold 'too soon' if they sold just because they thought tax rates were increasing in 2011."

Mr. Brady added that selling in 2010 was also a way to diversify holdings and take advantage of climbing stock prices. He said "the sale might well have made sense even though tax rates won't increase next year."

A big sale of stock this year locked in a capital-gains tax capped at 15%, the rate since 2003 and the lowest since 1941. That rate was set to rise in 2011, for many, the window of opportunity seemed certain to close.

The low rate will be in place for at least two more years now that President Obama signed the measure into law on Friday.

That's bad news for some recent sellers like Microsoft Corp. Chief Executive Steve Ballmer. He sold about 50 million shares of Microsoft for $1.34 billion, his company disclosed last month. Microsoft said Mr. Ballmer wanted to diversify financially and do some tax planning.

Other sellers include Microsoft Chairman Bill Gates, Berkshire Hathaway Inc. Vice Chairman Charles Munger, Philip Morris International Chairman and CEO Louis C. Camilleri, Heinz CFO Arthur B. Winkleblack, E.W. Scripps CEO Richard A. Boehne, and Hansen Natural Corp. CEO Rodney Sacks. Spokesmen for the executives either declined to comment or didn't return telephone calls.

The trend has prompted a surge in the ratio of insider selling to buying, with corporate insiders selling about seven shares for every one they have bought, according to Argus Research Co.'s Vickers Weekly Insider. That is the ratio's highest level since 2007.

Insider buying since the beginning of November, meanwhile, has totaled just $1.47 billion. That is a small fraction of the amount of selling during the period and merely half the amount of insider buying during the November to December 2007 period, according to data from TrimTabs.

The return of insider selling to levels last seen in late 2007 brings back visions of a Dow Jones Industrial Average that was trading 2,000 points higher than it is today, although it was in the early stages of a historic tumble as fears of a growing credit crisis were beginning to spread.

Three years and many bank bailouts later, the economy and the market are in recovery mode. The Dow has rebounded 75% from its crisis low hit in March 2009, recently trading at highs not seen since September 2008.

That climb alone gives reason for corporate executives to take some profits, especially given the recent uncertainty over whether the Bush-era tax cuts would be extended.

"It would be prudent for insiders to take advantage of the favorable tax environment coupled with their share prices having gone up dramatically," said Quincy Krosby, chief market strategist at Prudential Financial.

Nevertheless, at a time when the market is looking for signs of confidence from top executives who have an inside look into business conditions, the jump in insider selling is keeping investors on their toes.

"If the trend continues in January and February when we have certainty about the tax deal and when the sales by Bill Gates and Steve Ballmer are done, then I would be very worried," said Vincent Deluard, executive vice president of TrimTabs.

Jennifer Hodson contributed to this article.

Write to Donna Kardos Yesalavich at donna.yesalavich@dowjones.com and Arden Dale at arden.dale@dowjones.com

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THE WALL STREET JOURNAL.

Business
GE Sees Growth At Core Units

By Paul Glader And Bob Sechler
774 words
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General Electric Co.'s Jeffrey Immelt said the company's giant industrial arm will return to growth in 2011 and help generate solid earnings gains over the next two years, reflecting continued improvement in the economy and GE's core businesses.

Mr. Immelt's comments, delivered to investors Tuesday as part of the GE chief executive's annual outlook, held a notable change in tone from recent years, when his remarks dwelled on repairing the company's damaged finance arm and weathering the recession.

"It's more fun to be here today than it was two years ago," Mr. Immelt said.

A year ago, Mr. Immelt acknowledged that investors had been "put through a lot" after GE was forced to make a historic dividend cut to conserve cash and lost its cherished Triple-A credit rating. This year, the company has been steadily climbing back. Last week, it announced its second dividend increase in five months and said GE Capital could start making cash payments up to GE again in 2012.

"Things are definitely getting better," Mr. Immelt said, speaking from the stage of "Saturday Night Live" in New York's Rockefeller Center. "We see across the portfolio things getting better."

Ticking another repair job off the list, Mr. Immelt said that GE would no later than October buy back the $3 billion in preferred stock it sold to Warren Buffett's Berkshire Hathaway Inc. to boost liquidity during the financial crisis.

One missing piece, however, has been a return to growth in the conglomerate's industrial businesses, which produce heavy gear for the energy, aviation and transportation sectors.

Mr. Immelt said revenue at GE's industrial businesses, excluding acquisitions, would rise by around 5% next year after a flat performance in 2010, driven by health care, transportation and services, though wind power sales would be down and higher research and development costs will weigh on operating earnings. Growth in the industrial businesses will accelerate in 2012, he said.

This year, GE has seen declining equipment order rates in some of its industrial businesses, which tend to involve big-ticket items that pick up well after economies start to recover, when buyers are more confident.

Overall, the company reported $110 billion in revenue for the first nine months of 2010, a 5% decrease from the same period last year, and $7.1 billion in profits, down 11%.

GE has moved to bolster its industrial businesses via acquisitions, particularly in the energy field. The company announced an agreement to buy the U.K.'s Wellstream Holdings PLC for $1.25 billion this week. In October, GE announced a $3 billion acquisition of Dallas-based Dresser Inc. from private equity firms.

Executives at the conglomerate said in October that GE has the firepower to spend "$30 billionish" on acquisitions over the next two to three years. Mr. Immelt said investors should expect more "bolt-on" acquisitions of $1 billion to $3 billion in size.

"I have no compulsion to spend $20 billion on acquisitions in coming years," he said. "There's never going to be one magic bullet with GE."

One fillip could come from the tax-cut proposal worked out between President Barack Obama and Republican congressional leaders. "The move on taxes ... is certainly going to help the economy," said Mr. Immelt, who is among a number of business leaders due to meet with the president Wednesday. "I feel this is all quite positive, in the last week or so."

GE is also ramping up spending on R&D, producing products for a wider range of budgets and focusing on emerging markets like China and India, where it has struggled to meet growth targets in the past.

GE also plans to invest more than $2 billion through 2012 to boost research and development in China and fund new local joint ventures in areas such as technology and financial services. It has major joint ventures with Chinese companies in areas such as aviation, wind power and high-speed rail.

"There's no one strategy in China," Mr. Immelt said. "We have a nuanced strategy in China."

Beginning next year, GE will start reporting an earnings figure that strips out noncash changes in the value of its pension obligations. It will continue to reflect the actual cost of meeting those obligations. Low interest rates make future pension obligations look bigger now, an issue weighing on the earnings of a number of big industrial companies.

Write to Paul Glader at paul.glader@wsj.com and Bob Sechler at bob.sechler@dowjones.com

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THE WALL STREET JOURNAL.

Agenda
Europe
Small Can Be Beautiful in Job Creation

By Patience Wheatcroft
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Europe
English

If every small and medium-size business within the European Union were to take on two new employees, that would create about 46 million jobs. That would significantly shorten Europe's unemployment queues. Although it is big companies that have been assiduously courted by governments, the fact is that it is firms with fewer than 250 employees that create the most jobs in the EU.

The same is true in the United States, where small businesses generated 64% of net new jobs over the 15 years to 2009, according to the government's Small Business Administration. But in Europe, that figure has in recent years been as high as 80%, the European Commission reported in 2008.

Once EU governments have a chance to look beyond their current, and understandable, preoccupation with austerity budgets, public spending cuts, tax increases and the future of the single currency, they will need to focus on the other essential for steering a route out of the current economic malaise: growth.

Major corporates will get bigger but that will not necessarily drive growth in Europe. Whether their trade be in finance or food, textiles or technology, the majors will be investing in the world's growth markets. They want and need to be positioning themselves to enjoy the burgeoning wealth of Brazil, India, Russia and China. Uncertainty over the future of Europe inevitably influences their investment decisions. Why would a chief executive choose to invest millions of dollars in opening a new plant in Portugal, for instance, when there is such concern over the state of the country's economy? Why take a bet on the euro zone when there is swirling debate over whether that zone can continue to exist in its current form?

Appetite for risk may have returned astonishingly speedily to some parts of the banking world but caution is the prevailing watchword in most corporate boardrooms. So it is to small businesses that governments must look to provide growth. The difficulty with this is that most small businesses stay very small. Many are and remain sole traders. True entrepreneurs, which breed thriving businesses and create jobs, remain relatively scarce.

Investment bank Goldman Sachs analyzed employment growth in U.K. firms between 2002 and 2005 and 2005 and 2008 and found that more than two-thirds created no net jobs. The job creation came largely from firms with at least 10 employees. Once they had reached this level, those that grew averaged an impressive growth rate of an annualized 20% or more over a three-year period. Yet figures from Eurostat show that what the organization terms "micro-enterprises," those with fewer than ten employees, represented 91.5% of businesses in Europe.

That statistic was reproduced, under the optimistic but wildly mistaken headline "Micro-businesses are the real giants of the European economy", when the EU launched its Small Business Act in 2008. That Act represented an attempt to improve the chances for small businesses in Europe. It rules that member states should lessen the regulatory burden on small firms, make it easier for them to win public sector work and help them to do business across the single market.

Reporting on the effect of the Act after its first full year on the European statute book, the EU registered a positive verdict about the way the administrative burden was being lessened but it remained concerned about a lack of funding for smaller firms. The European Investment Bank increased its lending to smaller firms in 2009 and member states have launched a variety of schemes to aid funding. Various banks have pledged their support for small firms. Lloyds, for instance, a year ago unveiled its "2012 Charter," with an ambitious pledge that "We'll help encourage and support 300,000 new businesses to start up by 2012." It also promised "We will meet every reasonable request for competitive commercially-priced finance (whether short-term or long-term) from viable business customers."

"Reasonable" and "viable" are terms which might allow scope for argument but no bank is going to want to lend money in response to unreasonable requests from unviable businesses.

Now Goldman Sachs, the investment bank used to dealing with corporate giants, has launched its own scheme to help small firms in Europe. It is based on an initiative the bank started in the U.S. in 2009 under the heading "10,000 Small Businesses". This was heralded as a $500 million scheme to unlock the growth potential of 10,000 small firms across the U.S. and had the backing of Warren Buffett, a major shareholder in Goldman. "Our recovery is dependent on hard working small business owners across America who will create the jobs that America needs," said Mr. Buffett, the chief executive of Berkshire Hathaway.

The European program is not talking about 10,000 small firms or jobs. It is a small-scale pilot that got under way in October in Leeds in the north of England. It will work with just 25 small firms and five social enterprises, not-for-profit organizations that can be important job creators.

The project aims to provide high-level business education for the leaders of these firms, support for their operations and help in accessing capital. If the pilot proves successful, there is the potential to extend the program geographically. But the emphasis will remain on keeping it local. "It will be firmly rooted in local communities, with the clear goal of creating new opportunities for local people, inspired and led by local people," explains the bank.

Goldman, along with the other banks, will soon be revealing the scale of their bonus payouts and they will, undoubtedly, be met with raucous criticism. In Leeds, however, Goldman's arrival has been greeted enthusiastically. And if its initiative helps turn small firms into large ones that can afford its services, that should be a cause for double celebration.

Write to Patience Wheatcroft at patience.wheatcroft@wsj.com

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THE WALL STREET JOURNAL.

Investing in Funds

MIXING IT UP; Resisting Gold's Glister; Adviser Tim Medley believes stocks will do far better than the precious metal

By Shefali Anand
1,404 words
6 December 2010
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R5
English

Despite gold's recent record highs, individual investors shouldn't get swayed into loading up on the metal, says Tim Medley, a financial adviser in Jackson, Miss.

"Given a choice between first-rate common stocks and gold over the next five to 10 years, I feel strongly that stocks will do much better," he says.

Mr. Medley says the current euphoria around gold—it is up 20% over the past year, compared with a gain of 11% for the Standard & Poor's 500-stock index—is similar to what he saw in the early 1980s, when gold reached record highs. He recalls attending a financial conference back then at which "the room for the lecture on gold was clearly overflowing." Shortly afterward, gold fell 60% and then went nowhere for the next 20 years. (On an inflation-adjusted basis, gold is still almost 40% below its 1980 peak.)

"There's no utility of gold," Mr. Medley says. "There's no organic growth." He attributes the recent gain in gold's value to fear. People, he says, are scared because the U.S. has been through a tumultuous period. But these gains are likely to be short-lived and could reverse if global confidence returns, he says.

In contrast, financially stable companies can grow from a net worth of a few hundred million dollars to a billion dollars over a few years, boosting their stocks along the way, he says. "We have an opportunity to buy stocks, both large companies and small companies, at pretty good prices," he says.

Mr. Medley doesn't buy any gold or gold funds for his clients, unless they specifically ask for it. Very few have, he says. However, some of the funds he owns have a small allocation to stocks of commodity companies.

An Exciting Place

In this column, we feature model portfolios from financial advisers who build client portfolios primarily with mutual funds and exchange-traded funds. Mr. Medley, a financial planner since 1977, founded Medley & Brown LLC in 1988. The firm currently manages $365 million, mostly for individuals.

Like millions of others, Mr. Medley's clients are concerned about the possibility of another major stock-market decline like the most recent one.

"Our caution to them is to not overlearn from 2008," he says. According to data from the 19th century onward, a stock-market crash like that one tends to happen once in 30 or 40 years, says Mr. Medley. It's "unlikely we'll see that in the next 15 to 20 years," he says, adding that he actually expects U.S. stock returns to "be above average" over the next 10 years.

Still, Mr. Medley and his investment team have started to look more at emerging markets as an important driver of global growth. "We simply buy into the story that the developing world is really going to be an exciting place to be," says Mr. Medley. Earlier this year, he bought his first emerging-markets fund.

Here he shares a model portfolio for individuals who are five or six years away from retirement. The portfolio has a weighted average expense ratio of 0.94%, and has returned 17.23% for one year and an average 4.3% a year over the past 10 years through Oct. 31, according to Mr. Medley.

U.S. STOCKS: There's a 55% allocation to U.S. stocks through 11 mutual funds, and one stock—Warren Buffett's Berkshire Hathaway Inc. Mr. Medley says the typical individual investor would do fine owning fewer funds, but he buys several to diversify the risk of investing too much with any one manager.

Mr. Medley and his investment team look for managers who have historically beaten their benchmarks. "We try to find wonderful managers and give them the money," says Mr. Medley. "Where they fit in the style box"—say, a small-cap growth fund or a midcap blend fund—"is not as important to us as it may be to others."

But he pays attention to factors such as the managers' ownership of their own funds. Studies show that funds in which managers have a large personal stake tend to perform better than others, says Mr. Medley. He also prefers buying funds managed by smaller companies that perhaps specialize in one type of investment, rather than funds offered by large companies such as Fidelity Investments or banks.

As an example, Mr. Medley allocates 5% of his U.S. stock portion to Skyline Special Equities, whose managers invest only in small stocks. "We prefer people that really have a focus," says Mr. Medley.

To get exposure to large and medium-size companies, Mr. Medley buys funds such as FMI Large Cap, Longleaf Partners and Sequoia, which get a 5% allocation each. Mr. Medley held onto his 5% allocation to Oakmark Select through its 36% loss in 2008 because he believed the firm has a good stock research team. "They did not all of a sudden become dumb," says Mr. Medley. Oakmark Select rose more than 52% in 2009, gaining twice as much as the S&P 500.

He owns Keeley All Cap Value, at 4%, because the managers have expertise in buying companies that have been spun off from larger companies or are coming out of a bankruptcy and restructuring.

Osterweis which gets a 4% allocation, held up better than its benchmark during the downturn, which is what Mr. Medley expects of the funds he buys. He says he was surprised that many of the other funds he owns didn't beat their indexes during the downturn because many of them did during the market crash of 2000-02.

For small-company investments, besides the Skyline fund, Mr. Medley allocates 2% to Schneider Small Cap Value, which he describes as "a volatile fund" because it, too, did poorly in the downturn but also came back with a bang.

FOREIGN STOCKS: The portfolio has a 32% allocation to foreign stocks.

Five out of the six funds Mr. Medley uses invest a majority of their money in companies of developed foreign countries but also own some stocks of developing countries. These are: Dodge & Cox International, which gets a 7% allocation; IVA International, which gets a 5% allocation; and three funds at 6% each: Oakmark International, Thornburg International Value and Tweedy, Browne Global Value.

The only dedicated emerging-markets fund is Lazard Emerging Markets Equity, at 2%. "We're probably going to add to that," Mr. Medley says.

BONDS: Unlike many advisers, who have increased their bond allocations to half or more of client portfolios to protect against a potential decline in stocks, Mr. Medley has stuck with a small bond allocation of just around 13%. "We just like equities over bonds," because historically, stocks have performed much better, he says. Besides, he says, he expects interest rates to rise over the next few years, which would hurt bond prices.

Mr. Medley says that advisers and individuals who are investing heavily in bonds need to be careful about eroding investors' savings. High-quality intermediate-term bonds are currently yielding around 4%, and after the adviser's 1% fee, there isn't much left for retired clients to withdraw. "How are you going to make the math work?" asks Mr. Medley. "Where's the protection from inflation?"

For very conservative clients, or for retired and elderly clients, Mr. Medley raises the bond allocation to somewhere between 25% and 40%. For clients who are withdrawing from their portfolio for income, Mr. Medley plans to start putting aside two years of withdrawals in a short-term bond fund as a safety bucket. If another year comes along when stocks fall 10% to 12%, clients could withdraw from their short-term bond fund and not have to touch their stocks.

For now, Mr. Medley doesn't have high expectations for his bond allocation. "We expect [to earn] the coupon, which is 4%," he says.

He allocates 5% to Dodge & Cox Income, 4% to Vanguard Intermediate-Term Investment-Grade and 3% to RidgeWorth Intermediate Bond. One percent of the portfolio is in a money-market fund.

Ms. Anand is a personal-finance columnist for The Wall Street Journal, based in New Delhi. Email: shefali.anand@wsj.com.

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Berkshire's Munger Cuts Holdings by 48%

By Erik Holm
270 words
24 November 2010
The Wall Street Journal
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C18
English

NEW YORK -- Charlie Munger, the vice chairman of Berkshire Hathaway Inc., transferred nearly half his holdings of the company's stock to a beneficiary of a family trust early this month.

The transfer, noted in a regulatory filing late Tuesday, was completed in connection with the death of Mr. Munger's wife, Nancy, in February. The filing seemed to indicate that the shares were distributed to a single person.

Mr. Munger's holdings in the company declined from 12,536 shares of Berkshire's Class A shares to 6,528 on Nov. 4, a decline of 48%.

The transferred shares are valued at about $712 million based on Tuesday's closing price of $118,575.

Mr. Munger now owns about 0.4% of Berkshire's outstanding stock.

Mr. Munger, 86 years old, has long been one of the closest confidants of Berkshire Chairman and Chief Executive Warren Buffett, though he has been less involved in Berkshire's day-to-day operations in recent years.

The transfer of the shares comes as both Mr. Munger and Mr. Buffett, 80, have taken steps that hint that they are preparing Berkshire for a time when they will no longer run the company.

In August, Berkshire announced plans to acquire the 20% of the shares of Wesco Financial Corp. that it doesn't already own.

Wesco has long been run by Mr. Munger, and he has said that the circumstances that led Berkshire to own just 80% instead of all of it were a "historical accident."

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THE WALL STREET JOURNAL.

Business

Gold's Rise Re-Crafts Jewelry; Designers Buy in Bulk, Switch to Silver So Keepsakes Don't Become Too Dear

By Liam Pleven And Ann Zimmerman
968 words
18 November 2010
The Wall Street Journal Online
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English

For jewelers, all that glitters this year isn't necessarily gold.

Big jewelry chains are scrambling to cope with the rising price of bullion while striving to keep their baubles affordable for consumers still cautious in their spending.

Some are cutting back on the amount of gold in their products and turning to less expensive metals from silver to tungsten. Jewelers also are buying precious metals in bulk at fixed prices to hedge the risk of further spikes.

Even so, jewelry prices are likely to rise due to higher material costs. This year, gold prices have risen 22%, settling Wednesday at $1,336.80 a troy ounce, near a record high in nominal terms. Silver is up 52% and platinum is up 12%. A 14 carat gold chain that cost $250 10 years ago now sells for over $1,000, said Brian Ree, co-founder of retailer GoldenMine.com Inc.

"If our costs go up, customers understand prices will go up as well," said Mark Aaron, vice president of investor relations at Tiffany & Co.

The moves are aimed at helping the industry recover from anemic sales in the last few years. U.S. jewelry sales fell 2.7% in 2008 and another 1.6% in 2009, according to market-research firm Mintel International Group Ltd.

Gold's growing favor among investors worried about inflation and falling currencies has made the gold market far less reliant on jewelry demand. Jewelry accounted for 52% of gold demand through the first three quarters of this year, down from 73% in 2005, according to GFMS Ltd., which tracks the gold market.

In tonnage terms, the amount of gold used for jewelry plummeted by 35% between 2005 and 2009.

The fall-off has coincided with the decade-long gold rally, driven by investor interest. Since the end of 2000, when the gold price settled at $272 a troy ounce, it has nearly quintupled.

Jewelers have scrambled to adjust. Ben Bridge Jeweler Inc., a division of Warren Buffett's Berkshire Hathaway Corp., is selling more silver and platinum items, and has added wedding bands made of cobalt and tungsten at its 73 stores in 12 mostly Western states, according to Jon Bridge, a company executive. The chain sells a men's size nine gold wedding band for $750; the same band in tungsten is $279.

"We've been looking at a lot of different alternatives," said Mr. Bridge. "Part of it is price driven, part of it is fashion driven."

Signet Jewelers Ltd., which operates more than 900 Kay Jewelers stores in the U.S., is taking traditional gold pieces and re-designing them to use greater amounts of silver in its place, said Ed Hrabak, senior vice president of merchandising.

"I could add a pound of silver and still not equal the amount of gold," he said. Silver was $25.50 a troy ounce on Wednesday, a fraction of the cost of gold.

Still, gold continues to hold its allure. Regardless of the spiraling gold prices, Katelyn Collier, a Dallas publicist who married two months ago, bought her husband a wedding band made of white gold. "The jeweler convinced me it was more durable and would hold its value better," Ms. Collier says.

David Lamb, managing director of jewelry at the World Gold Council, a mining trade group, said in an email that some jewelers are "rotating product styles more frequently and investing in new inventory to keep customers coming back to their stores."

At online retailer Blue Nile, an 18 carat white gold wedding band for a woman costs $580; a platinum version costs $1,230.

With precious metals prices up broadly, some big merchants also are attempting to contain costs by buying large amounts at a preset price, a strategy called hedging. Such contracts can help protect companies from unexpected increases in costs. On the other hand, a retailer could wind up paying more than it has to if the price drops below the level set in the contract."We don't do it to speculate, but just to smooth out the price bumps," said Signet's Mr. Hrabak.

Tiffany has a hedging program for platinum and silver, but not for gold, which the company uses less of, said Mr. Aaron. About 40% of Tiffany's products are diamonds set in platinum and 30% are silver jewelry.

Tiffany's customers are "less price-sensitive," said Adrianne Shapira, a Goldman Sachs analyst, though she said in a recent research report that higher precious metals costs could "pressure" the firm's margins in 2011.

Mr. Aaron declined comment on the report, but he said metal costs are a component of price, as are labor and gems. If gold goes up 20%, the price tag won't go up by the same amount.

The cost-containment strategies are intended to help jewelers take advantage of improving sentiment. Consumers who said they want jewelry as a holiday present rose 13% from a year ago, according to a study conducted for the National Retail Federation by BIGresearch.

For department stores, that means being able to hold prices at key thresholds, such as $99, because consumers are unwilling to pay more for what are seen as luxury items, said Ms. Shapira. "It's all pretty much discretionary."

Limiting the impact on consumers may prove critical to the industry's health. The Mintel study found that jewelry sales hit a recent high in 2007 at $50.2 billion, but forecast they would stay below $50 billion in 2010 dollars through 2015.

Write to Liam Pleven at liam.pleven@wsj.com and Ann Zimmerman at ann.zimmerman@wsj.com

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Today's Markets

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Deals & Deal makers

AMP Makes a New Bid

For AXA Asia Pacific

SYDNEY—AXA Asia Pacific Holdings Ltd. is considering a new takeover proposal submitted by French parent AXA SA and AMP Ltd. that may conclude a yearlong battle for the wealth manager.

The deal, valued at about 13 billion Australian dollars (US$12.8 billion), would be a coup for AMP, whose previous bid was rejected by the target in favor of an all-cash offer from National Australia Bank Ltd. in December. The NAB deal was later blocked by the Australian Competition and Consumer Commission, which said it wouldn't oppose a takeover by AMP of AXA Asia Pacific, which is sometimes called AXA APH.

The latest cash-and-stock offer has a floor of A$6.43 a share—the same level as NAB's all-cash offer—subject to AMP's share price remaining above A$4.50. AMP closed at A$5.45.

"It would be very hard for the AXA APH board to say it wasn't a good idea given they accepted A$6.43 from NAB, and this deal comes with an ACCC green light," said Brett le Mesurier, an analyst at Axiome Equities.

AXA Asia Pacific's shares finished up 6.8% at A$6.17.

AMP plans to keep the Australian and New Zealand assets of AXA Asia Pacific and sell the Asian business to AXA SA. The French insurer owns 54% of the target company, but AXA Asia Pacific is controlled by a largely independent board.

Cynthia Koons

and Rebecca Thurlow

Hedge Funds

SEC to Discuss Rules Requiring Registration

WASHINGTON—The Securities and Exchange Commission will meet Friday to consider new rules to force hedge funds and other private funds to register with the agency and to undergo exams.

The SEC, which placed a notice of the meeting on its website, also will vote on proposing rules to quadruple the threshold for SEC oversight of investment advisers, to $100 million of assets under management from $25 million. Under such a move, thousands of smaller hedge funds and other investment advisers would be overseen by state regulators.

The proposed rules, which the agency hasn't fully revealed yet, would implement provisions of the new Dodd-Frank financial law. The commission would open a public-comment period before voting on any final rules.

At Friday's meeting, the five-member commission also will consider proposing rules to set requirements for new data warehouses mandated by the Dodd-Frank law. The commission will then vote on proposed rules to require market participants to report pricing, volume and other transaction data on security-based swaps to the warehouses.

Jessica Holzer

Deals & Deal Makers

Lone Star Funds to Sell Korean Bank to Hana

Lone Star Funds agreed to sell its 51% stake in Korea Exchange Bank to Hana Financial Group Inc., according to a person close to the transaction, a surprise deal that thwarts a rival attempt by Australia & New Zealand Banking Group Ltd. to purchase the stake.

Lone Star's stake is valued at about $3.8 billion based on KEB's latest share price. While the exact terms of the deal weren't known, Hana would likely pay a premium of 10% or more to the current market value, the person said. Lone Star and Hana have signed a memorandum of understanding, and a sales and purchase agreement is expected to follow within several weeks, the person added. The deal will require regulatory approval.

A Hana-KEB tie-up could create a strong domestic Korean player that marries Hana's strength as a retail commercial bank with KEB's dominance in trade finance and foreign exchange.

Lone Star, of Dallas, acquired the stake for $1.3 billion in 2003. Its attempts to sell it have been dogged by scandal and court cases as well as bad timing. It hired Credit Suisse Group in March to manage the KEB stake sale.

Peter Stein

and Alison Tudor

Banking

U.S. Bancorp to Acquire BofA Unit for $35 Million

NEW YORK—U.S. Bancorp will pay as much as $35 million for Bank of America Corp.'s securitization trust business, a deal that could lift U.S. Bancorp's revenue by more than $100 million a year.

The deal, which includes U.S. and European businesses, covers a few thousand active securitized transactions and boosts the structured-finance trust business of U.S. Bancorp.

The bank expects the deal to add more than $10 billion in deposits but have a "minimal" impact on its Tier 1 common capital ratio, a gauge of bank strength that is a centerpoint of new U.S. financial regulations. The bank said it would add to earnings in 2012.

Bank of America has been shedding what it terms noncore assets as Chief Executive Brian Moynihan looks to narrow the focus of the bank. A spokesman said BofA decided this year that the securitization trust wasn't essential and had stopped taking new business.

It was acquired as part of BofA's purchase of LaSalle Bank Corp. from ABN Amro Holding NV in 2007.

David Benoit

Regulators

ECB's Weber Says Basel III Won't Stifle Growth

FRANKFURT—New international standards for the capital banks must hold "won't significantly hamper" economic expansion, a member of the European Central Bank's governing council said on Monday, rebuffing talk that the new Basel III rules on bank lending will lead to a credit crunch.

"It's crucial that the decisions of the [Group of 20] summit are now being quickly translated into national law," said Axel Weber. But while the capital rules will make financial institutions "significantly more robust," a default of a single bank can't be ruled out, he said.

"There may be a smaller number of players in future as some will exit because they cannot fulfill the new regulatory requirements," cautioned Mr. Weber, who also is president of Germany's Bundesbank.

Speaking at the start of Euro Finance Week, a meeting of top bankers and policy makers, Mr. Weber said questions remain over the definition of "systemically important" financial institutions, but warned against "overemphasizing" the issue. "I am sure we will find a solution by the end of next year," Mr. Weber said.

Mr. Weber endorsed an agreement by the Group of 20 industrial and emerging economies reached last weekend calling for big global banks to hold bigger capital cushions to protect against losses. But he said policy makers should also consider the use of "bail-in instruments," which would require bondholders to convert their debt into equity before any government rescue takes place.

At the same event, top executives from several major European banks warned against over-regulating financial markets, which bankers fear could make Germany and other countries less attractive as financial centers.

Nina Koeppen

Banking

UBS Struggles to Sell

Investors on Its Goals

ZURICH—UBS AG faces an uphill struggle Tuesday to convince investors it can achieve midterm goals that include making 15 billion Swiss francs ($15.2 billion) in annual pretax profit, following its investment bank's money-losing third quarter, analysts say.

The Zurich-based bank has made considerable progress since it faced investors last November, returning to overall profitability, stemming withdrawals from wealthy clients and putting a messy U.S. tax evasion probe into offshore accounts largely behind it. Still, investors aren't yet convinced that Chief Executive Oswald Grübel's success so far in turning the bank around is enough to hit the goals he has set.

"UBS is now one year into a three-to-five-year turnaround plan and the targets don't look any more achievable than they did 12 months ago," Bank of AmericaMerrill Lynch analyst Derek DeVries wrote in a note to investors. He rates the stock at neutral with a 20.20 Swiss franc target price.

UBS's stock price appears to bear out this view. The shares are barely higher since UBS's last investor event, where the targets were laid out. It ended Monday trading at 16.94 francs, up 0.3% on the day.

Katharina Bart

Real Estate

General Growth Reaps

An Extra $700 Million

Mall owner General Growth Properties Inc., which last week ended its 19-month bankruptcy, will reap more than $700 million in additional capital from its secondary public offering of 155 million new shares this week.

General Growth, which owns 183 U.S. malls, announced late Monday that it priced its offering at $14.75 per share. Trading of the company's stock closed Monday at $15.40, unchanged from the Friday close, in 4 p.m. composite trading on the New York Stock Exchange.

The company's offering was part of a "clawback" option on $6.8 billion of capital already pledged to it by five big investors led by Brookfield Asset Management Inc. Those investors agreed earlier this year to provide General Growth the capital in exchange for new shares amounting to two thirds of the company's total.

Kris Hudson

Who's News

McGraw-Hill Names CFO

In Organizational Shuffle

McGraw-Hill Cos. hired Dean Foods Co.'s Jack Callahan Jr. as chief financial officer and announced an organizational split of its financial-services business that sees the Standard & Poor's credit agency classified as an independent segment.

The changes come as the textbook publisher and financial-information provider has increased profit through S&P. McGraw-Hill's higher-education division has also seen strong results as it offers more digital learning programs.

Dean Foods said earlier this month Mr. Callahan planned to leave at the end of November for a similar role at a public company but didn't name the position. Previously, he had served in management roles at PepsiCo Inc. and General Electric Co.

Mr. Callahan succeeds Robert Bahash, who was named president of the company's education business. The former head, Peter Davis, left "to pursue other career opportunities," McGraw-Hill said Monday.

Deven Sharma will remain president of S&P, which was previously part of the company's financial-services segment. Other parts of that business—including S&P Indices and Capital IQ—now make up McGraw-Hill Financial, led by Lou Eccleston. Mr. Eccleston previously served as head of the company's fixed-income risk-management-services division.

Matt Jarzemsky

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Global Finance: Investors Shine Light On Firms They Favor

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16 November 2010
The Wall Street Journal
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C3
English

Some of the investing world's top names disclosed their stockholdings on Monday, and there were a few surprises.

Four times a year, many investors who manage more than $100 million are required to disclose holdings in certain types of securities, including stocks, within 45 days of the end of a given quarter.

Most hedge-fund managers and others wait until the last possible moment to make these filings, and the disclosures to the Securities and Exchange Commission cover the quarter ending Sept. 30.

The so-called 13-F disclosures give the public a relatively fresh look inside the portfolios of major money managers such as Warren Buffett, George Soros and John Paulson. They are often the investing public's first notice that closely watched figures have reversed course on a given sector or major company.

John Paulson

Hedge-fund manager John Paulson drew down holdings in the U.S. financial-services industry, reporting no stake in Goldman Sachs Group Inc. and reduced stakes in firms including Citigroup Inc., Bank of America Corp. and J.P. Morgan Chase & Co.

Mr. Paulson, who runs Paulson & Co., gave no mention in his most recent Securities and Exchange Commission filing of the 1.1 million-share Goldman stake he previously reported. The filing shows that his Citigroup holdings fell to 424 million shares from 507 million, while Bank of America holdings dropped to 138 million from 168 million and J.P. Morgan Chase to 23.7 million from 25.7 million.

-- Brendan Conway

Warren Buffett

Warren Buffett's Berkshire Hathaway Inc. took a $52 million stake in Bank of New York Mellon Corp. in the third quarter, while reducing or eliminating positions in several other stocks.

Berkshire sold all shares of Home Depot Inc., CarMax Inc., Iron Mountain Inc., NRG Energy Inc. and trash-hauler Republic Services Inc.

Berkshire also reduced holdings of Comcast Corp., Ingersoll-Rand PLC, Nalco Holding Co., Nike Inc. and Fiserv Inc. Comcast and Nike had been in Berkshire's portfolio for several years, while Fiserv was a position Berkshire first disclosed just three months ago. All but Nike had been valued at less than $250 million at the end of the second quarter.

-- Erik Holm

George Soros

Billionaire investor George Soros's hedge fund bought more shares of blue chips AT&T Inc. and Monsanto Co. in the third quarter.

Mr. Soros, who has said that gold is the ultimate bubble, reduced his direct ownership stake in the SPDR Gold Trust, a gold-backed exchange-traded fund, by 501,300 shares to 4.7 million shares.

The fund also reported a new position in drug maker Dendreon Corp., disclosing it purchased 1.8 million shares valued at $74.8 million at the end of the third quarter.

-- Brett Philbin

David Einhorn

Greenlight Capital Inc., run by hedge-fund manager David Einhorn, in the third quarter bought 525,000 more shares in Apple Inc., and added stakes in Broadridge Financial Solutions, Ingram Micro Inc., and semiconductor solutions provider Verigy Ltd.

The filings showed Greenlight also boosted holdings in offshore drilling company Ensco PLC, home-building and mortgage-banking company NVR Inc., Symmetricom Inc. and reinsurer Transatlantic Holdings Inc.

-- Amy Or

Carl Icahn

Billionaire investor Carl Icahn reported he has taken new investments in toy maker Mattel Inc. and building-products maker Masco Corp.

Mr. Icahn, known for his activist stances and battles with boards, said in his 13-F filing that he built up a stake of 2.43 million shares in Mattel and 5.02 million shares in Masco, two bets that lean on the U.S. consumer spending money.

But at the same time, he reported no stakes as of Sept. 30 in two of his more high-profile holdings, fast-food chain Wendy's/Arby's Group Inc. and Yahoo Inc.

-- David Benoit

Bill Ackman

Activist investor Bill Ackman's Pershing Square Capital Management has exited restaurant-chain owner Yum Brands Inc. for the quarter ended Sept. 30, according to regulatory filings. Yum owns KFC, Pizza Hut and Taco Bell.

In the SEC filing, Mr. Ackman also disclosed reduced stakes in both Kraft Foods Inc. and Target Corp. in the third quarter.

Last month, Mr. Ackman, an activist investor who often takes large stakes, disclosed a 16.5% stake in J.C. Penney Co.

He has also disclosed an 11% stake in Fortune Brands Inc., as he felt shares are undervalued.

-- Amy Or

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Corrections & Amplifications
Corrections & Amplifications

213 words
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A2
English

Todd Combs, an investment manager joining Berkshire Hathaway Inc., is a candidate to succeed Warren Buffett as the company's chief investment officer. Tuesday's Deal Journal column incorrectly implied that Mr. Combs is in line to succeed Mr. Buffett as Berkshire's chief executive officer. The company has identified three other candidates for the CEO job.

(See: "Global Finance: Deal Journal / Breaking Insight From WSJ.com" -- WSJ November 9, 2010)

A graphic with a Tuesday front-page article about the backlash against the Federal Reserve's bond-buying program incorrectly highlighted a map of Poland instead of Germany to accompany a quote by Germany's finance minister. A correct version of the graphic can be found at WSJ.com/Corrections.

Neena Abraham is an associate professor at Baylor College of Medicine in Houston. A Tuesday Health & Wellness article about the use of stomach drugs with Plavix incorrectly gave Dr. Abraham's affiliation as Baylor University.

(See: "Health & Wellness: Use of Stomach Drugs With Plavix Is Backed" -- WSJ November 9, 2010)

Readers can alert The Wall Street Journal to any errors in news articles by e-mailing wsjcontact@wsj.com or by calling 888-410-2667.

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Global Finance: Deal Journal / Breaking Insight From WSJ.com

By Shira Ovide
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Corrections & Amplifications

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(WSJ November 10, 2010)

(END)

Why Are SEC,

Buffett at Odds?

Oracle's Security Costs

Not Deemed Form of Pay;

The Agency Begs to Differ

In a little-noticed bit of correspondence with the Securities and Exchange Commission, Warren Buffett's Berkshire Hathaway got into an odd tiff with the agency over how to disclose the company's payments for Mr. Buffett's personal and home-security services.

The total tab for Mr. Buffett's security: $344,490. That isn't even enough to buy three measly shares of Berkshire class A stock.

The question is, why?

The SEC in May asked Berkshire to revise its proxy statement to reflect the company's payments for Mr. Buffett's security services. In its proxy this March, Berkshire didn't include the payments as part of Mr. Buffett's compensation, but did mention them in its "compensation discussion and analysis," a fairly dull regurgitation of how much and why a company pays executives and directors. Berkshire told the SEC that is plenty of disclosure.

"We do not believe that personal and home security services provided for Mr. Buffett should be deemed a form of compensation," Berkshire responded to the SEC division of corporate finance in a letter.

Berkshire said in its response that it mentions Mr. Buffett's security expense in its proxy statement "to provide information to our shareholders that we deemed to be relevant when considering the election of Mr. Buffett as a director."

Berkshire then offered a halfway measure to the SEC. The company said it would put the disclosure in the "related persons transactions," the part of the proxy in which companies disclose payments to relatives of directors or executives, and business dealings with companies of directors.

Not so fast, the SEC said.

The agency responded in a letter: "We believe that the personal and home security services for Mr. Buffett are not integrally and directly related to the performance of Mr. Buffett's job, and we believe that those services confer a direct benefit that has a personal aspect. . . . Please confirm that in future filings you will disclose the cost of personal and home security services in the Summary Compensation Table."

Berkshire finally caved in.

"We agree that personal and home security services provided for a named executive officer should be reported under 'All Other Compensation' in the Summary Compensation Table. Accordingly, in future filings we will disclose costs related to personal and home security, to the extent provided for Mr. Buffett or any other named executive officer, in the Summary Compensation Table," Berkshire said.

It isn't clear why the SEC raised this issue with Berkshire now. In at least the prior two years, Berkshire has disclosed how much it pays to protect Mr. Buffett, one of America's most high-profile business executives. Such expenses are fairly commonplace, even for CEOs most people couldn't pick out of a lineup. McKesson, for example, paid $129,041 for home-security devices and other security-related services for CEO John Hammergren.

Of course, the Journal has reported on another instance when the SEC took issue with Berkshire disclosures, over how it told Burlington Northern shareholders about an offer to buy the company last year.

Nor is it clear why Berkshire was arguing over including security expenses from the formal disclosure of Mr. Buffett's pay, something that is fairly standard for other companies. Perhaps one factor is the mystique surrounding the relatively low pay for Mr. Buffett. Adding in the security expenses would significantly pad Mr. Buffett's reported compensation.

Mr. Buffett and Berkshire Vice Chairman Charlie Munger each have been paid an annual salary of $100,000 for more than a quarter-century, Berkshire has said. And they don't take the standard corporate bigwig perks, like using company jets or joining country clubs on the company's dime. Mr. Buffett's compensation from Berkshire, including director fees, is about $175,000. Presumably, Berkshire will need to pay likely Buffett successor Todd Combs a little more.

Serena Ng contributed to this article.

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Fund Track
DWS Takes Different Path To Invest in Commodities

By Katherine Wegert
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8 November 2010
The Wall Street Journal Online
WSJO
English

Trying to appeal to investors seeking direct exposure to metals and other natural resources and wanting to look beyond stocks, DWS Enhanced Commodity Strategy Fund (trading symbol: SKNRX) invests in a blend of commodity swaps backed by short-duration bonds.

Fund mangers Darwei Kung and Bill Chepolis decide how much exposure they want in commodities and overweight the assets that look cheap based on a comparison of short- and long-term prices. They use swaps and futures contracts to gain exposure to the commodities market and also invest in bonds that serve as collateral for the commodities positions. The actively managed fund can adjust its exposure to commodities depending on market conditions.

"We're finding a lot of interest in the space, but most people already own stock in the largest commodity companies," says Mr. Kung. "So, we wanted to do something different."

The fund used to invest in stocks but now looks only at the most liquid resources to minimize risk and to give investors direct exposure to commodities. The depth and transparency in the gold, oil and aluminum markets help the portfolio managers follow price changes and find returns. They invest in commodities contracts with a range of maturities to mitigate market volatility.

Roughly a third of the DWS fund's commodities holdings are in energy swaps, including natural gas, crude oil and heating oil. Another third is spread between agricultural commodities like corn, soybeans and wheat, with 20% in industrial metals. It also has some exposure to swaps of precious metals, such as gold, and livestock.

A swap is the exchange of one security for another. It is similar to futures contracts, but swaps allow investors to invest more capital than they are required to hold. The fund has entered into swap agreements with some big market players, including UBS, Bank of AmericaMerrill Lynch and Goldman Sachs Group. The bonds with shorter durations protect investors from rising interest rates because they reach maturity within a couple of years.

Flows into these kinds of funds have been strong this year as investors hedge against future inflation risk and capitalize on growth in emerging markets, notes Kathryn Young, a mutual-fund analyst at Morningstar. However, investors need to be mindful of the fixed-income component, which can be a "pretty big driver of returns," she said. "This isn't a plain-vanilla strategy."

The fund had $654 million in assets and a three-star rating from Morningstar. It is up 17.54% over the past year, while the Morningstar Long-Only Commodity Index gained 16.45% over the same period, according to the research firm. The fund declined 7.51% over the past three years as the Morningstar index slipped about 1.7%.

Mr. Chepolis, the 49-year-old manager of the bond unit of DWS Enhanced Commodity Strategy Fund, says he takes a conservative approach to investing to support the returns made by the commodity swaps.

Half of his bond-collateral holdings are in short-term Treasurys, but the fund also has exposure to high-grade corporate bonds. This compares to typical commodity exchange-traded funds that use only Treasury bills as collateral. The fund currently holds bonds of Berkshire Hathaway Inc. and Duke Power Co.

"Our focus is on commodities, and we try to play it safe with fixed income," notes co-manager Mr. Kung, 41. "We want to make this as pure a commodities play as possible."

Write to Katherine Wegert at katherine.wegert@dowjones.com

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THE WALL STREET JOURNAL.

Earnings
Berkshire Net Falls as Derivatives Weigh

By Erik Holm
842 words
6 November 2010
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WSJO
English

Warren Buffett-led Berkshire Hathaway Inc. said third-quarter profit fell 7.7% to $2.99 billion as a weak dollar and concerns about low interest rates led to losses in the company's derivatives portfolio. Those losses offset the effect of adding railroad Burlington Northern Santa Fe Corp. to the conglomerate's suite of businesses.

The derivatives losses, for now at least, are an accounting matter; there is no money going out the door because of the third-quarter loss. Mr. Buffett has urged shareholders to pay attention to operating earnings and book value in evaluating the firm. By those measures, the insurer improved over last year's third quarter.

Operating earnings, which exclude the derivatives and some other investment results, were $2.79 billion, or $1,692 per Class A share, up from $2.06 billion in last year's third quarter.

Book value rose 4.8% in three months to $90,823 a Class A share. Net income was $2.99 billion, or $1,814 a share, compared with $3.24 billion, or $2,087 a share, a year earlier.

The 36% increase in operating profit was driven in part by Berkshire's $26.5 billion purchase of the 77.5% of Burlington that Berkshire hadn't already owned. The deal, the biggest acquisition of Mr. Buffett's long career, was completed in February. The railroad company added $706 million in profit to Berkshire's third-quarter result.

Berkshire's insurance operations, typically the largest portion of the company's business, reported a 42% decrease in operating profit, to $199 million, driven by a $237 million underwriting loss at the reinsurance operation run by Ajit Jain.

While Berkshire units that insure large risks have been slow to sell coverage because of low prices in the industry, profits and premiums rose at Geico, its car-insurance unit. Geico added about 132,000 customers in the quarter, Berkshire said, and added an additional 75,000 drivers in October, compared with 30,000 in October 2009.

Investment income at the insurance units also fell, dropping 14% to $873 million. The investment portfolio includes preferred shares in companies including Goldman Sachs Group Inc. and General Electric Co., which Mr. Buffett bought for Berkshire at the depths of the financial crisis in 2008. Berkshire warned that investment income will likely continue to fall as those companies redeem the preferred shares and Mr. Buffett has to reinvest the proceeds in securities yielding far less than the 10% interest he charged both companies.

Profit nearly doubled to $645 million at the company's manufacturing, service and retailing operations in the latest quarter, with the firm attributing the improvement to its NetJets plane-leasing unit and TTI, a distributor of electronic components. Various Berkshire divisions sell paint, make chocolate and ice cream, deliver food, and produce energy, among many other things, making their aggregate result a bellwether for the broader economy. Berkshire said revenue increases at TTI were due to "recovering consumer demand for electronic products, as well as to manufacturers replenishing depleted raw material inventories."

The derivatives portfolio includes $38.2 billion of notional value in contracts tied to the performance of four stock indexes. Losses on the so-called equity-index puts were $700 million in the quarter, compared with a gain of $220 million a year earlier. Berkshire attributed the loss to reduced interest-rate assumptions and a weaker U.S. dollar, which both offset the favorable impact of increases in three of the four equity index values.

While Berkshire typically is required to account for the movement of the indexes and other factors that influence the value of the derivatives each quarter, it doesn't mean that Mr. Buffett's firm is taking in or paying out money on the derivatives. That is because Mr. Buffett, the company's chairman and chief executive, structured the contracts to have no collateral requirements.

That has served Berkshire well so far, because the indexes are out of the money, meaning they are below the point they were at when Mr. Buffett sold the derivatives. The deals state that Berkshire would pay out only when the contracts expire, beginning in 2018, and only then if the indexes remain below where they started when Mr. Buffett made the deals.

Berkshire appeared to have bought shares of Wells Fargo & Co. and sold shares in Procter & Gamble Co. in the third quarter, as its cost basis on the two stocks changed. The cost basis on Berkshire's Wells Fargo holdings rose 6.2% to $7.86 billion while P&G fell 1.8% to $4.32 billion. Fuller details on Berkshire's stock holding are typically disclosed in a separate, much-watched quarterly report that hasn't been filed yet. The deadline to file that report is Nov. 15.

Berkshire reported after the close. In 4 p.m. New York Stock Exchange composite trading, its Class B shares rose 76 cents, or 0.9%, to $83.72.

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Berkshire Net Falls As Derivatives Weigh

By Erik Holm
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6 November 2010
The Wall Street Journal
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English

Warren Buffett-led Berkshire Hathaway Inc. said third-quarter profit fell 7.7% to $2.99 billion as a weak dollar and concerns about low interest rates led to losses in the firm's derivatives portfolio. Those losses offset the effect of adding railroad Burlington Northern Santa Fe to the conglomerate's suite of businesses.

The derivatives losses, for now at least, are an accounting matter; there is no money going out the door because of the third-quarter loss. Mr. Buffett has urged shareholders to pay attention to operating earnings and book value in evaluating the firm. By those measures, the insurer improved over last year's third quarter.

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Profit nearly doubled to $645 million at the company's manufacturing, service and retailing operations in the latest quarter, with the firm attributing the improvement to its NetJets plane-leasing unit and TTI, a distributor of electronic components.

Various Berkshire divisions sell paint, make chocolate and ice cream, deliver food, and produce energy, among many other things, making their aggregate result a bellwether for the broader economy.

Berkshire reported after the close. In 4 p.m. New York Stock Exchange trading, its Class B shares rose 76 cents to $83.72.

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Financial Briefing Book: Nov. 5

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INITIAL PUBLIC OFFERINGS

Green Power Flat in Debut; Costamare Starts With Dip

Enel Green Power SpA shares closed flat Thursday on their first day of trading, as investors remain wary of the renewable-energy sector.

The shares ended at €1.60 ($2.26) in Milan, the same as the IPO price, as more than 159 million shares, or almost 10% of the amount sold to investors, changed hands. Earlier Thursday, the shares were down as much as 4.4%. The shares were listed in Italy and Spain. Enel SpA raised about €2.6 billion ($3.67 billion) by selling a 32.5% stake in its renewables unit, in Europe's biggest initial public offering since 2007.

Elsewhere in the IPO market, shares of marine shipping company Costamare Inc. lost ground on their first day of trading. The company had cut the offering price ahead of the listing. Costamare's stock opened at $12 a share on the New York Stock Exchange, flat with its initial-public-offering price. It sold 13.3 million shares at a level below its $15-to-$17 range. In 4 p.m. composite trading, shares fell 15 cents, or 1.3%, to $11.85.

Liam Moloney and Lynn Cowan

Earnings Report

BNP Profit Climbs 46% As Loan Provisions Fall

BNP Paribas SA, France's largest bank by market capitalization, reported a 46% rise in third-quarter net profit as provisions for bad loans continued to shrink and the integration of Belgian bank Fortis gained pace.

The Paris lender also said new international banking rules due to be gradually applied between 2013 and 2018 will have "a significant, but manageable impact on the group's risk-weighted assets."

Net profit in the three months to Sept. 30 increased to €1.9 billion ($2.7 billion) from €1.3 billion, beating analyst expectations of €1.72 billion.

Revenue in the quarter rose 2% to €10.86 billion from €10.66 billion in the same period in 2009, as retail banking and asset management offset a decline in investment banking.

WestLB, which is based in the German state of North Rhine-Westphalia, said in a statement Thursday that it regrets the termination of the talks.

Elena Berton

Deals & Deal Makers

Germany's BayernLB, WestLB End Merger Talks

State-controlled wholesale banks BayernLB and WestLB said Thursday that they terminated merger talks after just six weeks, dashing hopes for substantial progress on consolidation in the German Landesbanken sector.

BayernLB bank said its management board decided at its meeting Wednesday that the bank won't continue the talks, as "the economic advantages of a possible merger compared with BayernLB's stand-alone earnings power wouldn't outweigh the typical challenges involved in a merger of this size."

WestLB, which is based in the German state of North Rhine-Westphalia, said in a statement that it regrets the termination of the talks.

Ulrike Dauer

EARNINGS REPORT

Litigation Charges Dent Zurich Financial's Profit

Zurich Financial Services reported a 22% drop in third-quarter net profit after taking a $295 million provision related to a litigation settlement.

The Swiss insurance company said net profit fell to $751 million in the three months ended Sept. 30, from $968 million a year earlier, well below analysts' call for $895 million. Business operating profit fell 21% to $1.2 billion, with a goodwill impairment charge in Russia in the third quarter contributing to the drop.

Anita Greil

Vietnamese Currency

Central Bank Rules Out

Devaluation of the Dong

Vietnam's central bank said Thursday it will sell U.S. dollars on the local market to relieve pressure on the sliding Vietnamese dong.

A state official ruled out further devaluation of its currency this year.

With inflation remaining stubbornly high at near double-digit levels, the government has been under pressure to further devalue its local unit.

The dollar has risen more than 7% against the dong on the unofficial market in the last month, prompting a significant increase in the price of various goods and commodities.

A Wall Street Journal Roundup

Swiss Reinsurance Co.

Insurer Will Repay Warren Buffett's Loan

Swiss Reinsurance Co. said it has reached a deal with Warren Buffett's Berkshire Hathaway to repay a multibillion-dollar bond that helped the company stay afloat during the financial crisis.

The bond payback came as Swiss Re said its net profit rose to $618 million in the three months ended Sept. 30, from $314 million a year earlier, helped by strong underlying reinsurance operations and the absence of a charge that hurt year-earlier results.

Goran Mijuk

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Earnings
Swiss Re to Repay Buffett Bond

By Goran Mijuk
833 words
4 November 2010
08:29 PM
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English

ZURICH—Swiss Reinsurance Co. said it has reached a deal with Warren Buffett's Berkshire Hathaway to repay a multibillion-dollar bond that helped the company stay afloat during the financial crisis.

The bond payback came as Swiss Re on Thursday said its net profit rose to $618 million in the three months ended Sept. 30 from $314 million a year earlier, helped by strong underlying reinsurance operations and the absence of a charge that hurt year-earlier results.

Although the bond payback will result in a $1 billion pretax charge in the fourth quarter stemming partly from interest-rate payments and currency moves, the repayment of the original three billion Swiss franc ($3.09 billion) convertible bond—which under the agreement was fixed at 120% of the bond's nominal value—was taken by analysts as a sign that Swiss Re has regained its full financial strength after it was hit by a series of write-downs during the financial crisis.

Many analysts had expected Swiss Re to only repay the bond in March 2011—the earliest possible repayment date under the original contract—but some were concerned that it might not have paid back the loan in time, something that risked diluting its share base if Berkshire Hathaway had decided to convert the capital instrument into Swiss Re stock.

"We are pleased to report that our improved capital position allowed us to reach an agreement to repay Berkshire Hathaway, with no additional charge for bringing forward the repayment date," Chief Executive Stefan Lippe said. "This reduces the uncertainty in the market and gives investors clarity," he added.

Chief Financial Officer George Quinn said that Swiss Re and Berkshire Hathaway had been in "permanent contact" and decided to speed up the repayment. He said that after the payback Swiss Re would still have "substantial excess capital," but declined to provide an absolute figure. Berkshire Hathaway couldn't be reached for comment.

If, under the terms of the contract, the perpetual convertible bond—which paid Berkshire Hathaway a 12% annual interest rate—hadn't been paid off by 2012, the U.S. investment firm would have had the chance to convert it into Swiss Re shares and increase Mr. Buffett's Swiss Re stake to about 20% from around 3% currently.

Since Mr. Buffett earlier this year also bought a stake in German rival Munich Reinsurance Co., analysts believed Berkshire Hathaway may continue to broaden its insurance and reinsurance empire by buying substantial stakes in European players. Among others, Berkshire Hathaway owns U.S. firms such as car insurer Geico and reinsurer General Re.

"The early repayment reduces the risk that earnings will be diluted as Berkshire Hathaway won't swap the bond into shares," said Stefan Schürmann, insurance analyst at Bank Vontobel. "It also increases the chances that Swiss Re will receive a higher credit rating over the next 12 months," he said.

Swiss Re needed to tap Berkshire Hathaway's funds in February 2009 after hefty impairments linked to credit default swaps hurt the company's balance sheet and prompted Standard & Poor's to cut the Swiss firm's double-A rating.

Credit ratings are of paramount importance to reinsurers, which provide insurance services to primary insurers, usually taking over the riskiest policies. A high rating level and a solid capital cushion help a reinsurer attract business as insurers need to make sure that their business partner can pay out claims in times of crisis.

The restructuring efforts that followed Berkshire Hathaway's financial aid, which included a series of top management and board changes, in October prompted S&P to revise the outlook of Swiss Re's single-A rating upward as the Swiss firm got rid of many risky assets and improved the resilience of its franchise.

Third-quarter figures partly reflected the company's improved strength. Although its premium income dropped 8% to $5.05 billion from $5.5 billion a year earlier, Swiss Re's technical results improved. The company's combined ratio, which reflects underlying profitability in property and casualty business and compares premiums to cost and claims, stood at 76.4%, a rarity in the reinsurance business, where a level below 100% means that the underlying business is profitable.

Also, the company's shareholder equity, which indicates an insurer's ability to tap funds in times of crisis, rose to $29.9 billion, up from $25.34 billion a year earlier, reflecting the company's efforts to improve its balance sheet.

Although Mr. Lippe warned that reinsurance policy prices will remain subdued and that interest rates will keep a lid on the industry's efforts to generate investment returns—insurers invest the bulk of their premiums in bonds and stocks—he said that Swiss Re sees organic growth potential and also has room for takeovers as the industry is set to consolidate further.

Write to Goran Mijuk at goran.mijuk@dowjones.com

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Financial Briefing Book: Nov. 5

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J
C2
English

INITIAL PUBLIC OFFERINGS

Green Power Flat in Debut;

Costamare Starts With Dip

Enel Green Power SpA shares closed flat Thursday on their first day of trading, as investors remain wary of the renewable-energy sector.

The shares ended at 1.60 euros ($2.26) in Milan, the same as the IPO price, as more than 159 million shares, or almost 10% of the amount sold to investors, changed hands. Earlier Thursday, the shares were down as much as 4.4%. The shares were listed in Italy and Spain. Enel SpA raised about 2.6 billion euros ($3.67 billion) by selling a 32.5% stake in its renewables unit, in Europe's biggest initial public offering since 2007.

Elsewhere in the IPO market, shares of marine shipping company Costamare Inc. lost ground on their first day of trading in New York.

The company had cut the offering price ahead of the listing. Costamare's stock opened at $12 a share on the New York Stock Exchange, flat with its initial-public-offering price. It sold 13.3 million shares at a level below its $15-to-$17 range. In 4 p.m. composite trading, shares fell 15 cents, or 1.3%, to $11.85.

-- Liam Moloney and Lynn Cowan

EARNINGS REPORT

BNP Profit Climbs 46%

As Loan Provisions Fall

BNP Paribas SA, France's largest bank by market capitalization, reported a 46% rise in third-quarter net profit as provisions for bad loans continued to shrink and the integration of Belgian bank Fortis gained pace.

Net profit in the three months to Sept. 30 increased to 1.9 billion euros ($2.7 billion) from 1.3 billion euros, beating analyst expectations of 1.72 billion euros.

Revenue in the quarter rose 2% to 10.86 billion euros from 10.66 billion euros in the same period in 2009, as retail banking and asset management offset a decline in investment banking.

-- Elena Berton

DEALS & DEAL MAKERS

Germany's BayernLB,

WestLB End Merger Talks

State-controlled wholesale banks BayernLB and WestLB said Thursday that they terminated merger talks after just six weeks, dashing hopes for substantial progress on consolidation in the German Landesbanken sector.

BayernLB bank said that its management board decided at its meeting Wednesday that the bank won't continue the talks, as "the economic advantages of a possible merger compared with BayernLB's stand-alone earnings power wouldn't outweigh the typical challenges involved in a merger of this size."

WestLB said in a statement that it regrets the termination of the talks.

-- Ulrike Dauer

EARNINGS REPORT

Litigation Charges Dent

Zurich Financial's Profit

Zurich Financial Services reported a 22% drop in third-quarter net profit after taking a $295 million provision related to a litigation settlement.

The Swiss insurance company said net profit fell to $751 million in the three months ended Sept. 30, from $968 million a year earlier, well below analysts' call for $895 million.

-- Anita Greil

VIETNAMESE CURRENCY

Central Bank Rules Out

Devaluation of the Dong

Vietnam's central bank said Thursday it will sell U.S. dollars on the local market to relieve pressure on the sliding Vietnamese dong.

A state official ruled out further devaluation of its currency this year.

With inflation remaining stubbornly high at near double-digit levels, the government has been under pressure to further devalue its local unit.

The dollar has risen more than 7% against the dong on the unofficial market in the last month, prompting a significant increase in the price of various goods and commodities.

-- A WSJ Roundup

SWISS REINSURANCE CO.

Insurer Will Repay

Warren Buffett's Loan

Swiss Reinsurance Co. said it has reached a deal with Warren Buffett's Berkshire Hathaway to repay a multibillion-dollar bond that helped the company stay afloat during the financial crisis.

The bond payback came as Swiss Re said its net profit rose to $618 million in the three months ended Sept. 30, from $314 million a year earlier.

-- Goran Mijuk

IN THE COURTS

Trial of SocGen Trader

Will Remain Open

The courtroom will remain open in the criminal trial of a former Societe Generale SA trader accused of stealing the French bank's proprietary computer code.

Last week, federal prosecutors asked U.S. District Judge Jed Rakoff in Manhattan to seal the courtroom for portions of Samarth Agrawal's criminal trial in order to protect SocGen's trade secrets.

-- Chad Bray

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THE WALL STREET JOURNAL.

Europe Markets
Europe's Markets Hit Two-Year Highs

By Ishaq Siddiqi
805 words
4 November 2010
12:51 PM
The Wall Street Journal Online
WSJO
English

Blue-chip indexes in the U.K. and Germany hit their highest levels in more than two years as European stocks surged in response to the Federal Reserve's $600 billion program to boost the world's largest economy.

The Fed's latest dose of medicine to stimulate U.S. growth boosted stocks around the globe, with U.S. and Asian stocks also trading higher. The one loser: the dollar. It fell against major currencies. Gold and oil prices rose.

Overall, the Stoxx Europe 600 index closed up 1.6% at 270.83, its highest close since April 15. Among national indexes, the U.K.'s FTSE 100 gained 2% to 5862.79, its highest level since June 9. Germany's DAX reached its highest level since June 17, 2008 by adding 1.8% to 6734.69. In France, the CAC-40 index gained 1.9% to 3916.78, a six-month high. Late in Europe, the Dow was up 1.7% at 11405.93, flirting with its highest close since the collapse of Lehman Brothers in September 2008.

Economic data continued to surprise to the upside, with the October euro-zone purchasing managers index for the services sector revised up a touch from the preliminary flash estimate.

Corporate earnings also drove stocks higher. France's BNP Paribas gained 3.7% as it reported a 46% jump in third-quarter net profit, helping propel banking stocks higher. Société Générale rose 4.5% and Crédit Agricole jumped 4.9%.

Unilever added 6.3% as its net profit jumped on rising sales in emerging markets.

Higher commodity prices pushed up mining stocks. BHP Billiton shares rose 6.6%, while Xstrata shares added 7.1%. Separately, the Canadian government rejected BHP Billiton's $38.6 billion bid for Potash Corp. of Saskatechewan.

Both the European Central Bank and Bank of England left monetary policies unchanged, as was widely expected.

In the U.S., initial unemployment claims rose 20,000 to 457,000 in the week ended Oct. 30, the Labor Department said in its weekly report. The previous week's figures were revised upward to 437,000 from 434,000. Economists surveyed by Dow Jones Newswires had expected claims would rise by 11,000.

Additionally, U.S. productivity bounced back in the third quarter as output growth rose and labor costs edged lower. Nonfarm business productivity rose at a 1.9% annual rate in the July to September period after falling by 1.8% in the second quarter, according to the Labor Department.

Late in Europe, the dollar was at 80.71 yen, down from 81.14 yen late Wednesday in New York. The euro was at $1.4218, up from $1.4121, while the U.K. pound was at $1.6259, up from $1.6091.

The euro backed off its highest levels of the day as reporters quizzed ECB President Jean-Claude Trichet on Ireland's fiscal troubles and the possibility that it would need to be bailed out. He didn't provide any definitive answers.

Among commodities, gold for December delivery on the Comex division of the New York Mercantile Exchange rose 3.1% to $1379.10 an ounce. In the oil market, light, sweet crude for December delivery gained $1.47 to $86.16 a barrel.

Friday's economic agenda will be dominated by the October employment report in the U.S.. A pending home sales is also due out in the U.S. In the U.K., producer price data comes out and in the euro-zone, retail sales and German industrial orders data are scheduled for release.

In major market action: Alcatel-Lucent tumbled 7.9%. The group posted a surprise third-quarter profit, but analysts were disappointed by underlying profit and cash generation.

Shares of Man Group soared nearly 15% after the hedge-fund manager said assets under management at the end of September were $40.5 billion, or about $1 billion higher than it had previously estimated.

Rolls-Royce Group slumped 5% after Quantas Airways grounded its Airbus A380 flights after one aircraft made an emergency landing due to a faulty engine. Rolls-Royce is the maker of the engines on that flight. Shares of Airbus owner EADS fell 4%.

In Germany, Heidelberg Cement surged 8.9% after the firm reported strong earnings. But sportswear maker Adidas shed 3.3% as its third-quarter results disappointed analysts.

Deutsche Telekom lost 1.7% after the company's third-quarter sales fell short of market estimates.

Swiss Reinsurance rallied 6.4% as the firm doubled third-quarter profit and said it will repay a loan to Warren Buffett's Berkshire Hathaway Inc. ahead of schedule.

Barbara Kollmeyer contributed to this article.

Write to Andrea Tryphonides at andrea.tryphonides@dowjones.com

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THE WALL STREET JOURNAL.

Business
Australian Rail IPO Marks Bet on Coal

By David Winning
697 words
3 November 2010
The Wall Street Journal Online
WSJO
English

SYDNEY—Australian coal hauler QR National Ltd. will lobby U.S. investors Thursday to support its five billion Australian dollar (US$4.9 billion) initial public offering, hoping that a surge in appetite for rail stocks that followed Warren Buffett's takeover of Burlington Northern Santa Fe Corp. will override any concern over price and the surging Australian dollar.

The IPO is Australia's biggest in several years and comes at a time when coal demand in China is booming. It underscores why Singapore Exchange Ltd. this month made a multibillion-dollar offer for its Australian counterpart, ASX Ltd., as it sought to tap pent-up demand for resource-related stocks.

"I think U.S. investors will see QR as a way of playing the resources boom without the risk of investing in mining companies," said Phil King, chief investment officer at Sydney-based hedge fund Regal Funds Management. He said that Regal will be buying QR shares and "taking a material position for the firm."

QR is pitching its shares as a play on China's demand for natural resources because Australia provides much of the coal needed by China's booming economy. QR is Australia's largest coal hauler in terms of tonnage moved.

Still, QR Chief Executive Lance Hockridge may face a tough task selling the IPO to investors, who will weigh the benefits of Australia's resource-led boom against its currency risk. The Australian dollar is hovering near 27-year highs, making assets denominated in the currency appear expensive to holders of U.S. dollars.

Some investors, notably hedge funds, may view participating in the QR offering as a way to hedge against existing currency risk in their portfolios, and possibly bet on the Australian dollar moving even higher against the greenback.

QR declined requests for an interview with Mr. Hockridge ahead of the investor meetings, which are known collectively as a road show. The meetings will take place in Boston, New York, San Francisco, Los Angeles and Toronto.

The market's view of railroad stocks changed last November, when Mr. Buffett's Berkshire Hathaway Inc. bought Burlington Northern in a deal that valued the company at US$26.3 billion. The 31% premium paid by Mr. Buffett helped trigger a rerating of the industry. Shares in Canadian National Railway Co. are up 33% over the past year, versus a 14% rise in the Dow Jones Industrial Average.

QR is being marketed at 21 to 25 times estimated earnings per share for the 2011 fiscal year. That is above many companies listed in Australia and higher than the ratio implied by Mr. Buffett's bid for BNSF.

If Mr. Buffett's investment in BNSF was a wager on the long-term strength of the U.S. economy as it emerges from a prolonged recession, QR's shares represent a bet on China and India's rapid economic growth, the company says.

Coal accounts for 70% of China's total energy use. A boom in steelmaking has strained the domestic supply of coking coal, which is used to make steel. That has created opportunities for both Australian miners, which provided two-thirds of the coking coal China imported last year, and the firms that transport cargoes by rail to ports for export.

QR ships more than 500,000 metric tons of coal daily, mostly to eight terminals on the coasts of Queensland and New South Wales states. Many of these terminals are earmarked for expansion.

The company plans A$3.8 billion in capital spending through fiscal 2012, mainly to underpin the growth of its coal and iron-ore freight business. But that program will depend on cash flow remaining strong and a A$3 billion debt facility. Proceeds from the IPO will go to the government of Queensland, which currently owns the company.

Queensland plans to keep 25% to 40% of the company following its listing, but will look to reduce that ownership stake through fiscal 2012. The railroad is due to list on the Australian Securities Exchange on Nov. 22.

Write to David Winning at david.winning@dowjones.com

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Global Finance: Deal Journal / Breaking Insight From WSJ.com

By Shira Ovide and Serena Ng
442 words
3 November 2010
The Wall Street Journal
J
C3
English

How a Photog

Caught Combs

Berkshire's New Manager

Has Been Tracked Down

At His Local Hockey Rink

How do you hunt down the most wanted man on Wall Street?

If you are photographer J. Gregory Raymond, you pound the phones to tap your sources in the financial world, and then you camp out at a local ice-hockey rink armed with a camera, long lens, and a 20-year-old yearbook photo.

Mr. Raymond, a photographer in Connecticut, over the weekend snapped the first publicly available pictures of Todd Combs, named last week as an investment manager to oversee a significant portion of the roughly $100 billion investment portfolio of Warren Buffett's Berkshire Hathaway Inc. Until now, no one (including The Wall Street Journal) was able to publish a photo of Mr. Combs, even though he was named to one of the most high-profile jobs in the investing universe. Berkshire hadn't released a photo despite the importance of the Combs appointment.

The impromptu photo studio was hardly a fashionable choice: the Stamford Twin Rinks ice-skating rink.

Mr. Raymond said he had tips from sources that Mr. Combs would be at the rink to watch his child's hockey game on Friday. "I did my due diligence," said Mr. Raymond, who nevertheless showed up at the rink not sure if Combs would even be there.

He was, and Mr. Raymond said he then approached Mr. Combs to relay a rehearsed, but honest explanation that he was there to take photos for Bloomberg News. There was no jumping out of bushes (if there are bushes at ice-hockey rinks), no TMZ-style confrontation. "The best tactic, I thought, was being totally upfront," Mr. Raymond said.

"He knew the jig was up," Mr. Raymond said, referring to Mr. Combs. "He was most gracious in a rather uncomfortable situation." Mr. Combs stood, in V-neck sweater and jeans, for about 50 photos in the rink's less-than-natural lighting, Mr. Raymond said.

One complication: No one really knew what Mr. Combs looked like. So Mr. Raymond had to identify Mr. Combs using the only public image to that point: a photo from Mr. Combs's Sarasota, Fla., high-school yearbook. Mr. Raymond said he was able to pick out the 39-year-old Mr. Combs right away based on his teenage likeness. "It's always the eyes."

Mr. Buffett confirmed on Tuesday that the image is of Mr. Combs. "Unless he has a twin," the Oracle zinged.

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THE WALL STREET JOURNAL.
ASIA EDITION

Australian rail IPO: a bet on coal demand

By David Winning
658 words
3 November 2010
The Wall Street Journal Asia
AWSJ
22
English

SYDNEY -- Australian coal hauler QR National Ltd. will lobby U.S. investors Thursday to support its five billion Australian dollar (US$5 billion) initial public offering, hoping that a surge in appetite for rail stocks that followed Warren Buffett's takeover of Burlington Northern Santa Fe Corp. will override any concern over price and the surging Australian dollar.

The IPO is Australia's biggest in several years and comes at a time when coal demand in China is booming. It underscores why Singapore Exchange Ltd. this month made a multibillion dollar offer for its Australian counterpart, ASX Ltd., as it sought to tap pent-up demand for resource-related stocks.

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Still, QR Chief Executive Lance Hockridge may face a tough task selling the IPO to investors, who will weigh the benefits of Australia's resource-led boom against its currency risk. The Australian dollar is hovering near 27-year highs, making assets denominated in the currency appear expensive to holders of U.S. dollars.

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THE WALL STREET JOURNAL.
U.S. EDITION

Corporate News: Corporate Watch

663 words
2 November 2010
The Wall Street Journal
J
B2
English

NEW YORK TIMES CO.

Publisher to Issue Debt

To Repay Mexican Investor

New York Times Co. on Monday said it plans to raise $225 million through a debt offering that will help the publisher pay back a loan from Mexican telecom billionaire Carlos Slim.

The publishing company said the offering of 6.625% senior notes due in 2016 will be used for "general corporate purposes including, among other things, to pay down debt and other financial obligations as part of the company's refinancing strategy," according to a statement.

Last month, Times Co. Chief Executive Janet Robinson said the company wants to pay back a $250 million loan from Mr. Slim by January 2012, three years before the payment is due. Times Co. borrowed the money in January 2009, at 14% interest.

-- Russell Adams

TERRA FIRMA

Firm Told It Can't Pursue

Damages Against Citigroup

Terra Firma Capital Partners Ltd. can't pursue punitive damages against Citigroup Inc. in a legal dispute over the private-equity company's acquisition of EMI Group PLC in 2007, a judge ruled.

Guy Hands, Terra Firma's founder, claims he was misled by David Wormsley, a top Citi investment banker in Europe, about whether Cerberus Capital Management Ltd. planned to make a competing bid for the British recording company in the days before the auction closed in May 2007. Terra Firma was the only bidder.

Monday, U.S. District Judge Jed Rakoff in Manhattan rejected Terra Firma's argument it should be able to pursue punitive damages, which would have been on top of any potential damages for fraud.

A spokesman for Terra Firma declined comment late Monday on the judge's ruling. Citi, which acted as adviser to EMI on the deal and funded part of Terra Firma's offer, denies wrongdoing and says it is confident it will prevail in the trial.

-- Chad Bray

DYNEGY

Regulatory Board Approves

Blackstone Buyout Deal

Dynegy Inc. said the Federal Energy Regulatory Commission approved its plan to be acquired by Blackstone Group LP and sell four gas-fueled plants to NRG Energy Inc.

Dynegy shareholders are slated to vote Nov. 17 on Blackstone's proposed leveraged buyout of the company for about $542 million and billions in assumed debt. Four facilities would then be sold to NRG for $1.36 billion.

The federal approval removes an obstacle to the deal, but it is still subject to state-level approvals. There has been some pushback to the deal. In October, activist investor Carl Icahn called the valuation inadequate as he and a group of affiliated investment entities reported a 10% stake in Dynegy. Earlier, hedge-fund manager Seneca Capital LP reported a 9.3% stake in the company, in what may have been another move to oppose Blackstone's offer.

-- Matt Jarzemsky

MIDAMERICAN ENERGY

Company Is Nearing Deal

On High-Voltage Projects

A joint venture of American Electric Power Co. and Berkshire Hathaway Inc.'s MidAmerican Energy Holdings Co. has signed memorandums of understanding, which are similar to letters of intent, to develop two extra-high-voltage transmission projects in the Midwest expected to cost $2.25 billion.

Some $675 million of that would come from the venture, and the projects are intended to strengthen electricity infrastructure in the Midwest by stringing the transmission lines from the Indiana-Ohio border west into Iowa. The development of the substantial wind-power resources of the Plains states hinges, in part, on the construction of new transmission lines to ship that electricity to distant urban centers of demand.

The projects, say those involved, are the first commercial transmission proposals supported by the recently completed SMARTransmission study, an effort to develop a conceptual 20-year transmission plan for the Midwest. The SMART study was led by the AEP/MidAmerican venture and co-sponsored by a group of several Midwest utilities, including of those two companies as well as Exelon Corp.

-- Kevin Kingsbury

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THE WALL STREET JOURNAL.

Business
AEP, MidAmerican Plan Transmission Projects

By Kevin Kingsbury
324 words
1 November 2010
10:49 AM
The Wall Street Journal Online
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English

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The memorandums of understanding were signed with a MidAmerican unit and Exelon. The joint venture would team with Exelon to develop 420 miles of line from the Indiana-Ohio line to Illinois at a projected cost of $1.6 billion. Construction would likely take place between 2015 and 2018, depending on the timing of regulatory approvals from Iowa, Illinois and Indiana. Transmission projects across the country have run up against obstacles because of local concerns over routing and interstate conflicts over the sharing of costs.

The venture would then team up with the MidAmerican unit to develop another 180 miles from the end of the Exelon project in Illinois into Iowa. That $650 million project is expected to be operational by 2019.

The AEP and MidAmerican joint venture said costs would be broadly allocated within their respective regions.

Write to Kevin Kingsbury at kevin.kingsbury@dowjones.com

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THE WALL STREET JOURNAL.
U.S. EDITION

Investing in Funds: A Monthly Analysis --- Fund Fiend: Scrutinizing a Star Fund --- Fairholme's impressive gains aren't driven solely by smart stock picking

By Tom Lauricella
558 words
1 November 2010
The Wall Street Journal
J
R4
English

Fairholme Fund manager Bruce Berkowitz has been lauded as a star stock picker in the mold of Warren Buffett. But it's worth asking some tough questions about his track record.

Fairholme has gained an average of almost 9% a year for the past five years, compared with average annual gains of roughly 2% for both the Standard & Poor's 500-stock index -- Fairholme's benchmark -- and the fund's large-blend Morningstar category.

But neither is a clean comparison. Unlike most peers, Fairholme has long held lots of cash and more recently bonds -- now a combined 40% of assets. In a decade where cash and bonds outperformed stocks, both helped returns.

Mr. Berkowitz also at times has had nearly 20% of the fund invested in Mr. Buffett's Berkshire Hathaway Inc., benefiting from Berkshire's cash stockpile and, of course, Mr. Buffett's own stock picking.

More subtle is the boost the fund has gotten from new money even as stock prices have fallen. Fairholme has taken in $13 billion over the past five years, while many other value managers have had investors pull money out of their funds. That has allowed Mr. Berkowitz to average down -- buy more of a stock the fund already holds at lower prices than the initial investment, which lowers the shares' average cost. That means he can make a profit on some stocks even if he starts buying high and sells at a much lower price, as long as that lower price is still above the average price he paid for the shares.

That advantage would disappear should the inflow of cash dry up. And if investors started pulling money out of the fund, it could be forced to sell some shares at a loss.

Mr. Berkowitz declined to discuss his stock picking or provide data on its contributions to returns.

It's impossible for investors to see the precise impact of averaging down on the fund's returns. But Fairholme's reports provide some hints.

On Nov. 20, 2008, the fund owned 9.7 million St. Joe Co. shares at an average cost of $32.17. By late 2009, it had bought 13.8 million more shares at an average cost of $22.02. That means the fund's average cost for the combined shares was about $26. It's still a big loss -- St. Joe is just north of $20 today -- but the damage has been eased.

A review of the fund's top holdings since 2005 suggests a fair amount of selling below initial purchase prices, as in the case of Mohawk Industries Inc., or positions where prices were in similar ranges at the time of the first purchases and the sales, such as those in Pfizer Inc. and Forest Laboratories Inc. Mr. Berkowitz started buying current top pick Sears Holdings Corp. while it was at least 54% above its current price.

Of course he has winners, such as Humana Inc. and Leucadia National Corp. Fairholme shareholders have certainly been in the right place. But it's not clear how much of the fund's success is due to stock-picking skill.

Document J000000020101101e6b100005

THE WALL STREET JOURNAL.

Money
Invest Like Warren Buffett, And Maybe Even Do Better

By Andrew Bary
411 words
31 October 2010
The Wall Street Journal Online
WSJO
English

Warren Buffett has compiled an awesome investment record over 45 years as CEO of Berkshire Hathaway, but he's not infallible.

Mr. Buffett has made several equity purchases for Berkshire in recent years that now trade below the company's cost, including U.S. Bancorp (USB), ConocoPhillips (COP), Kraft Foods (KFT), Wells Fargo (WFC) and French drug maker Sanofi-Aventis (SNY).

All of these are financially strong companies with reasonable price/earnings multiples. Assuming Mr. Buffett hasn't made a mistake, these stocks are attractive now, and investors can buy them for less than what Berkshire paid. (Berkshire has two classes of shares, the famously expensive A shares, BRKA, sell for about $120,000 each; B shares, BRKB, are about $80.)

U.S. Bancorp, for instance, trades around $24, below Berkshire's cost of $31. Sanofi's U.S.-listed shares change hands for $33, while Berkshire paid an average of about $40. Mr. Buffett has added to Berkshire's sizable holdings of Wells Fargo in recent years and paid around $32. The bank's shares currently fetch about $26.

Mr. Buffett declined to discuss his stocks with Barron's. But he has viewed Wells Fargo as one of the country's best-run major banks with an enviable, low-cost deposit base. U.S. Bancorp historically has generated high returns. ConocoPhillips has been selling assets and seeking to boost returns after some major acquisitions. Conoco, at $61, trades for 10 times projected 2010 profits.

There are several notable winners in Berkshire's famed $55 billion equity portfolio, including Coca-Cola (KO), Procter & Gamble (PG) and American Express (AXP).

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Many pros think that, after performing poorly over the past 10 years, U.S. blue-chip stocks may be one of the best investments in the world during the next 10 years. Investing in stocks with Mr. Buffett's imprimatur could be a good way to execute that strategy.

For more stories, see barrons.com.

Write to Andrew Bary at Andrew.Bary@dowjones.com

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Barron's Insight
Invest Like Warren Buffett, And Maybe Even Do Better

By Andrew Bary
411 words
31 October 2010
The Wall Street Journal Sunday
SNJR
2
English

Warren Buffett has compiled an awesome investment record over 45 years as CEO of Berkshire Hathaway, but he's not infallible.

Mr. Buffett has made several equity purchases for Berkshire in recent years that now trade below the company's cost, including U.S. Bancorp (USB), ConocoPhillips (COP), Kraft Foods (KFT), Wells Fargo (WFC) and French drug maker Sanofi-Aventis (SNY).

All of these are financially strong companies with reasonable price/earnings multiples. Assuming Mr. Buffett hasn't made a mistake, these stocks are attractive now, and investors can buy them for less than what Berkshire paid. (Berkshire has two classes of shares, the famously expensive A shares, BRKA, sell for about $120,000 each; B shares, BRKB, are about $80.)

U.S. Bancorp, for instance, trades around $24, below Berkshire's cost of $31. Sanofi's U.S.-listed shares change hands for $33, while Berkshire paid an average of about $40. Mr. Buffett has added to Berkshire's sizable holdings of Wells Fargo in recent years and paid around $32. The bank's shares currently fetch about $26.

Mr. Buffett declined to discuss his stocks with Barron's. But he has viewed Wells Fargo as one of the country's best-run major banks with an enviable, low-cost deposit base. U.S. Bancorp historically has generated high returns. ConocoPhillips has been selling assets and seeking to boost returns after some major acquisitions. Conoco, at $61, trades for 10 times projected 2010 profits.

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For more stories, see barrons.com.

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THE WALL STREET JOURNAL.

Earnings
Microsoft Adopts Website Release for Earnings

By Andrew Morse And Ian Sherr
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Another company is taking its earnings straight to the Web.

On Thursday, software giant Microsoft Corp. published its fiscal first-quarter earnings exclusively on its website, joining a small but growing number of U.S. companies that are skipping the tried-and-true method of announcing financial news via press releases. Google Inc., Expedia Inc. and BGC Partners Inc. have already adopted the practice.

The move extends Internet technology's slow erosion of the market for traditional means of disclosing financial information. If it continues to spread, Web disclosure could eventually cut press-release distributors like PR Newswire and Business Wire out of the loop.

Critics worry Web-based disclosure puts small investors at a disadvantage. Microsoft, however, reckons that sending shareholders, analysts and reporters directly to its investor Web page exposes them to more information than could fit in a single earnings document, allowing them to make more thorough evaluations of its business.

"By really pushing people to our site, they can see additional information that they wouldn't see if they only looked at our press release," said Dennie Kimbrough, a member of the Redmond, Wash.-based company's investor relations team.

For now, press releases remain the primary means of announcing financial information. But a handful of companies, typically Internet-focused tech outfits, have been pushing new methods of disclosure. Companies like Google have moved toward disclosing more financially sensitive information solely on their official blogs.

Sun Microsystems became a prominent, early advocate of Internet disclosure in 2007, when the company—now owned by Oracle Corp.—announced it would publish its earnings on its website before distributing them through traditional means.

The Securities and Exchange Commission issued general guidance to companies in 2008, saying they could use the Web to meet public-disclosure requirements. Later, some companies began using the Web for releasing results, though the New York Stock Exchange says it still expects its listed companies to put out material information through press releases.

Publishing on websites allows companies to cut down the amount of work involved in preparing earnings releases, offer investors more complete information and save a few dollars.

"Obviously they'd like to drive as much traffic to their websites as possible," said Dominic Jones, who runs IR Web Reporting International Inc., a Vancouver-based consultancy.

Not everyone is as enthusiastic, and some warn small investors will suffer. Stocks often begin moving instantly when earnings news is released. Big financial institutions and real-time financial media can afford to invest in technology that scrapes companies' websites and quickly aggregates sensitive information. Small investors, meanwhile, could get stuck surfing.

"Why would you make them track the website of every company they're interested in as opposed to the business wire?" said Boris Feldman, a lawyer at Wilson Sonsini Goodrich & Rosati. "Why would you do that to your shareholders?"

Scott Mozarsky, PR Newswire's chief commercial officer, says very few clients have canceled contracts to publish on the Web. He says PR Newswire earns its fees, catching over 300,000 mistakes in press releases every year.

"Sometimes it's a big deal," Mr. Mozarsky said. "There's the wrong table, wrong spelling of an executive's name, wrong time for a call."

PR Newswires is a subsidiary of U.K.-based United Business Media Ltd. Business Wire is owned by Berkshire Hathaway Inc.

PR Newswires says it knows of only 12 companies disclosing results solely over the Web.

Still, companies may adopt the practice more widely as they pump money into their investor-relations websites. Microsoft says it's also a great way to cut down on additional work. Ms. Kimbrough, of Microsoft, says that in the past she'd have to check the press release going out on each newswire, in addition to the company's source document, each time a change was made. Because other departments also had to approve the alteration, amendments often became time-consuming.

"It's a time saver," Ms. Kimbrough says. "It's one less check mark."

Jacob Bunge contributed to this article.

Write to Andrew Morse at andrew.morse@wsj.com and Ian Sherr at ian.sherr@dowjones.com

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Heard on the Street
Overheard: Moynihan's Slip

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Investors wanting Bank of America to take back mortgage securities were buyers of a "Chevy Vega" who "want it to be a Mercedes," the bank's CEO, Brian Moynihan, claimed last week. So at a conference on Wednesday, David Grais, a lawyer representing bond investors, displayed a cartoon depicting Mr. Moynihan as a car salesman hawking the 1970s-era dud. Perhaps Mr. Moynihan will think twice before he next implies that his firm sells lemons.

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overheard@wsj.com

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THE WALL STREET JOURNAL.
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The Big Read: For investing legend, trader is 'a 100% fit' for no-fuss culture --- Todd Combs is favored to run Berkshire's billions after his job application wowed Buffett and others

By Serena Ng, Susan Pulliam and Gregory Zuckerman
1,829 words
28 October 2010
The Wall Street Journal Europe
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The new heir apparent to Berkshire Hathaway Inc.'s roughly $100 billion investment portfolio came to the job the old-fashioned way: He applied for it.

Wall Street was still agog Tuesday about Warren Buffett's selection of Todd Combs, a little-known 39-year-old fund manager who is the leading contender to take over Mr. Buffett's portfolio when the investing legend dies or retires.

Mr. Combs was one of hundreds of people who responded to an unconventional "help wanted" request Mr. Buffett made in early 2007. But his initial inquiry didn't distinguish itself.

Undaunted, the low-key father of three, who lives in Darien, Conn., recently sent another letter to Berkshire Vice Chairman Charles Munger asking for a meeting. Mr. Munger said in an interview that he gets "hundreds" of such requests each year, but "something in his request piqued my interest."

The two soon met for a lunch that extended well into the afternoon at the California Club in downtown Los Angeles. Mr. Munger later phoned Mr. Buffett and told him, "this is a guy I am sure you are going to like," Mr. Munger recalls.

Mr. Buffett says he and Mr. Munger were sold on Mr. Combs not only because of his ability and intelligence but also because they were convinced he would fit in to Berkshire's no-fuss culture.

Mr. Combs, a Sarasota, Fla., native who is still partial to his alma mater Florida State Seminoles football team, struck a lasting impression, Mr. Buffett says. He and Mr. Munger arrived at the decision based on the same kind of "gut check" they make with acquisitions of companies.

"He is a 100% fit for our culture," Mr. Buffett says. "I can define the culture while I am here, but we want a culture that is so embedded that it doesn't get tested when the founder of it isn't around. Todd is perfect in that respect."

Other Berkshire shareholders had a less enthusiastic response to the news. Following Monday afternoon's announcement that Mr. Combs would join Berkshire as an investment manager, Berkshire's Class A shares on Tuesday fell $1,575, or 1.3%, to $123,455 in 4 p.m. New York Stock Exchange composite trading while the broader market edged higher. The stock dropped further Wednesday, down $2,600, or 2.1%. to $120,855.

Mr. Combs's rise to one of the most visible, and high-pressure, posts in American business doesn't follow a typical path of privilege and pedigree.

"He is smart, and he can adapt," says Sheryl Lucante, who was the maid of honor at his wedding to wife April. "When he got into this business, he didn't know anybody."

After graduating from Florida State in 1993, he worked as an analyst for a state financial regulator, a job that gave him insights into the inner workings of banks and fraud investigations.

He then joined auto insurer Progressive Corp., working in the department that analyzes risks and sets rates for auto-insurance policies. It was there he met Chuck Davis, a company director, who would later help him get his hedge fund started.

People who have worked with Mr. Combs say he is curious about the workings of the financial world, with a deep understanding of finance, business and regulation. He does his own research and spends a significant amount of time reading newspapers and arcane financial documents, such as insurers' statutory filings and prospectuses for securities backed by pools of assets.

In 2000, Mr. Combs enrolled in Columbia Business School, where in his second year he was one of 40 students picked for its Value Investing Program, which had just gotten off the ground. There, Mr. Combs learned techniques to identify and analyze out-of-favor stocks from professional money managers and renowned finance professors including Bruce Greenwald.

Richard Hanley, manager of Hambletonian Partners LP, a hedge fund in New York, taught a course called "Applied Value Investing" at Columbia Business School as an adjunct professor in 2002. "When you teach, you see some people that just go through the motions," Mr. Hanley says, "and some people who genuinely want to make money. That's where Todd's head was."

Mr. Combs, recalls Mr. Hanley, "stood out in his level of intensity among a very intense group of M.B.A.s all trying to get to the front of the line." Was Mr. Combs far and away the best student Mr. Hanley ever taught, much as Mr. Buffett was the greatest student that Benjamin Graham ever had? "I don't remember saying to myself, 'This guy is the next Warren Buffett,' " says Mr. Hanley, "but he probably had the greatest desire to win."

After completing business school in 2002, Mr. Combs quickly found work. Scott Sipprelle, a former Morgan Stanley managing director and hedge-fund manager who is now running for U.S. Congress, gave Mr. Combs his start in the hedge-fund world when he hired him to analyze financial stocks held by his firm, Copper Arch Capital LLC. He says Mr. Combs, a heavy coffee drinker, worked long hours and created voluminous spreadsheets packed with data used to assess the probability of negative events happening to financial-services firms.

Copper Arch, which had roughly $1 billion in assets at its peak, modeled itself after Mr. Buffett's style of investing, targeting a long-term investment horizon, holding a fairly concentrated portfolio of stocks, and trying to understand its core holdings intimately. "We called Warren Buffett the spiritual mentor of the firm; we talked about him constantly, read and debated his annual letters, and analyzed his portfolio religiously," says Mr. Sipprelle, who has never met the billionaire investor in person.

Mr. Combs left Copper Arch in 2005 when a new opportunity came along. Greenwich, Conn.-based Stone Point Capital had for the last few years been looking to start a fund that would invest in the stocks of publicly traded companies using similar principles as its core operations, which generally only bought stakes in private companies.

Mr. Davis, Stone Point's chief executive, says he interviewed dozens of candidates before focusing on Mr. Combs, who he had kept track of following his days at Progressive. After "nine months of intensive back and forth, we decided to back him," say Mr. Davis, whose firm provided $35 million of seed money and operational resources to help Mr. Combs start his fund, Castle Point Capital Management LLC.

Mr. Combs seemed more excited about shares in his portfolio than most managers, says Jared Perry, who helps run investment firm Stonehorse Capital, which signed up as an investor in Mr. Combs's fund.

When Mr. Combs meets clients outside the office, there is little chitchat. He lights up when the subject of the market is broached and launches into a discussion of his biggest investment positions. "It's tough to find someone that passionate and thoughtful," said Mr. Perry.

In 2006 and 2007, as the bubble in credit markets grew, Mr. Combs's skills spotting problem areas started to become apparent. He found construction loans in Florida's slowing real-estate market and traced their origination to banks in the Midwest, and identified financial firms that had large exposures to illiquid assets and were heavily reliant on short-term funding that could dry up suddenly.

Mr. Combs profited by "shorting" the stocks of some financial companies as markets crumbled. By early 2006, Mr. Combs had become downbeat about the prospects for Fannie Mae and Freddie Mac, the mortgage lenders that two years later would run into deep trouble and be rescued by the government.

Mr. Combs's short positions on financial shares helped him manage through the financial crisis and the market's meltdown, though he didn't emerge unscathed. Mr. Combs suffered losses of a little more than 5% in 2008, though that return trounced the overall market's.

As markets collapsed in September 2008, and his fund lost 9% during that month, clients say Mr. Combs was disappointed but quite calm, unwilling to sell shares he believed in.

Last year, his hedge fund rebounded, rising just over 6%, a figure below the overall market's gain. So far this year, Mr. Combs's fund has lost about 4%, according to an investor. That is worse than the 6% gain of the Standard & Poor's 500-stock index.

Others who became fans of Mr. Combs say that, unlike many hedge-fund managers, he spent little time sharing investment ideas with others in the business, preferring to develop his own ideas. But some were less impressed after examining Mr. Combs's operation, part of the reason his firm hasn't grown larger than $400 million.

Among his current investors: Insurance company Axis Capital and Walton Investment Partnership, which invests for sons of Wal-Mart founder Sam Walton, and a "prominent New York museum," according to documents provided to an investor.

Clients say Mr. Combs has done a better job watching out for downside risk than he has finding huge gainers. Focusing on banks, brokerage firms and insurance companies, Mr. Combs's returns since launching his firm in November 2005 are a cumulative 34%, according to an investor.

Around the office, Mr. Combs is low-key, wearing khaki pants and a button-down shirt, rarely wearing a tie and jacket, say those who know him. He spends many Sundays in the office, sometimes calling his clients to discuss investment positions. A photograph of his family is prominent on his desk, along with tall piles of research materials and annual reports.

That hard work was present when Mr. Combs was a Columbia student. His former teacher Mr. Hanley told the class he would award a $10 gold piece -- then worth about $175, he recalls -- for the stock pick with the best performance over the next sixth months.

About half the class chose to work in pairs, but Mr. Combs decided to work alone, recalls his former professor. And Mr. Combs also differed from many of the other students in going short. While Mr. Hanley can't recall the name of the stock Mr. Combs bet against, he remembers that it was "a leveraged, energy-related stock" that went down at least 50% over the coming sixth months, handily beating all the other stocks selected by the class.

"I'd completely lost track of Todd until 4:30 p.m. [Monday] afternoon," says Mr. Hanley. "I still owe him the $10 gold piece, but now I know how to get a hold of him." The coin, he says, is now worth about $750.

Jason Zweig contributed to this article.

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UniCredit takes a giant step backward

Italy has fought hard to convince the world it has an open, modern banking system that is no longer prey to domestic politics and hostile to foreigners. The latest management upheavals at UniCredit, six weeks after former Chief Executive Alessandro Profumo was ejected in a boardroom coup, suggest little has changed. Thanks to domestic political interference, one of Europe's biggest banks has been badly destabilized and its management weakened at a time when it faces major strategic challenges.

The management shake-up is a fudge designed to allow all sides to claim victory in the battle over UniCredit's future strategy. The appointment of Roberto Nicastro as general manager was a victory for the Italian foundations, which account for 12% of the votes but a third of the board and want UniCredit to focus on Italian retail banking. But the head of the investment-banking division will report directly to CEO Frederico Ghizzoni, a move designed to appease those worried UniCredit might abandon its international, universal bank model, which is vital to the bank's future growth.

But the fact that Sergio Ermotti, the head of the investment-banking division and one of Mr. Profumo's most highly regarded deputies, is to leave is a clear sign the foundations have prevailed. The head of the German and Austrian units will also report directly to the CEO, reflecting nervousness in those countries over Italian political interference.

This should alarm shareholders. UniCredit's overwhelming challenge is the weakness of its domestic Italian banking operations, a function partly of the structural weakness of the Italian banking market at a time of ultralow interest rates and, more importantly, as a result of UniCredit's bloated cost base. Mr. Profumo's efforts to rationalize the Italian operations were repeatedly thwarted by the foundations, notably when they blocked his restructuring plans earlier this year, precipitating his dispute with the board.

Yet Chairman Dieter Rampl's coup against Mr. Profumo has further weakened the bank's management relative to the foundations. With one CEO's scalp already in their trophy cabinet, the foundations are unlikely to shrink from opposing future efforts to cut costs in Italy. Meanwhile, their demands for higher dividends will make it harder for the bank to invest in profitable growth opportunities.

Mr. Rampl can't be blamed for the deficiencies of an Italian corporate governance system that allows individual shareholders board representation, which they can then use to pursue their self-interests. But his decision to side with the foundations against Mr. Profumo was an error of judgment that has badly weakened his position as a defender of wider shareholder interests. It is surely right he should leave, but shareholders shouldn't hold out hope that any successor will prove a more successful champion.

-- Simon Nixon

Telenor shares have starry prospects

Telenor is the northern light of the telecom sector. The Norwegian telecom firm is the world's sixth-largest by subscribers. It has one of the sector's largest exposures to emerging markets and an affluent home market in a smartphone boom. Telenor has upgraded its 2010 revenue forecasts, while concerns over its Indian business look overdone. Its shares offer the potential to shine.

True, Telenor's yield currently is around half that of European telecom peers. But next year, its yield should be in line with the 6.5% sector average. Management is targeting a return of as much as 60% of post-tax profit to shareholders. That looks achievable, given strong cash flows and very low net debt.

And while Telenor faces rising competition and price pressures in Norway, declining mobile revenues in its home market are less severe than for many. Nordic economies aren't hurting like those in Southern Europe. Mobile data revenues are booming, up 45% from a year earlier.

Meanwhile, Telenor offers more than twice the growth potential of rivals. Telenor is forecast to increase its Ebitda at an annual 3% to 2013, the fastest rate of European peers. Much of that is due to Asia, responsible for just under half of its sales. Third-quarter Asian revenue grew 13%, beating consensus forecasts. Businesses in Bangladesh, Pakistan, Thailand and Malaysia look strong.

Emerging-market exposure does bring risk. India, where Telenor launched 2009 into one of the world's most competitive telecom markets, remains a concern. India absorbs the majority of group capital expenditure, while Telenor's estimates of profitability by 2013 look optimistic, given strong competition and regulatory risk. But that is a longstanding gripe. Third-quarter revenue came in well above expectations, while Telenor's forecasts for both 2010 capital expenditure and Ebitda losses were reduced.

Stripping out its Indian business, Telenor trades at 5.2 times 2010 Ebitda, versus 5.4 times for the sector, according to Citigroup. That looks too low, given its growth potential. Despite clouds in emerging markets, there is plenty to catch investors' eyes.

-- Hester Plumridge

EDF survives

an expensive

U.S. divorce

Paying to get out of a marriage that isn't working isn't unusual. But in the U.S. nuclear industry, where foreign operators require local partners to build and operate new plants, going it alone isn't a long-term option. Electricite de France has plenty of work ahead to make good on a multibillion-dollar trans-Atlantic gamble that just got more expensive. It has paid $250 million in cash and stock to part ways with Constellation Energy Group.

CEG can feel pleased with the outcome. It has relinquished its share of the utilities' joint venture committed to developing as many as four new nuclear-power stations, which could cost $15 billion or more. CEG also has given up a $2 billion put option that would have forced EDF to buy 11 non-nuclear facilities that it didn't want.

EDF's ties to CEG go back to 2007, when they agreed to form the Unistar Nuclear Energy JV. A year later, the ties got closer, when EDF outbid Waffen Buffet's MidAmerican Holdings for CEG, agreeing to pay $4.9 billion for 49% of Constellation Energy Nuclear Group, which operates CEG's nuclear fleet. EDF also provided a backstop financing facility in the form of the put option.

The marriage went sour this year. CEG, a midsize U.S. utility, pulled out of talks with the federal government over loan guarantees for the first of the new nuclear plants that Unistar would build on the grounds the investment no longer made sense. CEG also threatened to exercise the put option.

Faced with a costly unraveling of its U.S. strategy, EDF has made the best of a bad job. It retains its CENG stake. It has full control of Unistar. It can pursue the federal loans and other regulatory approvals on its own. But before it can proceed with building and operating new plants, the French state-controlled utility will have to line up a new partner with the endurance necessary for an increasingly sluggish U.S. nuclear renaissance.

-- Matthew Curtin

Overheard: Moynihan's Slip

Investors wanting Bank of America to take back mortgage securities were buyers of a "Chevy Vega" who "want it to be a Mercedes," the bank's CEO, Brian Moynihan, claimed last week. So at a conference on Wednesday, David Grais, a lawyer representing bond investors, displayed a cartoon depicting Mr. Moynihan as a car salesman hawking the 1970s-era dud. Perhaps Mr. Moynihan will think twice before he next implies that his company sells lemons.

Besides his succession planning, one of Warren Buffett's more notable investments is making news: $5 billion of preferred stock and warrants in Goldman Sachs bought by Berkshire Hathaway at the height of the financial crisis in late 2008. Goldman might repay early. If it did so today, and Berkshire exercised the warrants, the implied internal rate of return would be a juicy 31%.

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EARNINGS

BBVA's Earnings Slide,

Hurt by Higher Costs

Banco Bilbao Vizcaya Argentaria SA on Wednesday reported a 17% drop in third-quarter net profit as costs rose and lending margins were squeezed at its Spanish retail-banking operations.

BBVA, Spain's second-largest bank by assets behind Banco Santander SA, said net profit for the quarter was 1.14 billion euros ($1.58 billion) compared with 1.38 billion euros a year earlier.

Net interest income fell 5.5% to 3.25 billion euros from 3.43 billion euros. Net interest income is the difference between what a bank charges for loans and what it pays on deposits and for other sources of funding.

Chief Operating Officer Angel Cano said BBVA expects lending margins to remain under pressure, before recovering in the second half of next year.

BBVA's operations in Spain and Portugal weighed on earnings with a 15% drop in profit to 501 million euros. In Mexico, BBVA's other large market, profit rose 5.1% to 451 million euros.

-- Christopher Bjork

INSURANCE

Sun Life Financial to Sell

Unit to Berkshire Hathaway

Sun Life Financial Inc. has agreed to sell its life-reinsurance business to Warren Buffett's Berkshire Hathaway Life Co., a move that enables the Canadian life insurer to bolster its highly watched regulatory capital levels.

Berkshire is buying a reinsurance unit that has life insurance in force of 113 billion Canadian dollars (US$110.38 billion) and 70 people in offices in Canada, the U.S. and Ireland. Terms weren't disclosed. The transaction is expected to close Dec. 31.

Low interest rates are causing havoc for Canada's life insurers. Sun Life also is selling noncore assets to redeploy capital into areas where it sees growth, namely in the U.S., in Asia and in its wealth-management business.

-- Caroline Van Hasselt

THE MADOFF FRAUD

Picower Widow Selling

Connecticut Estate

The widow of Jeffry Picower, the financier who was one of the biggest beneficiaries of Bernard Madoff's fraud, is in contract to sell a 28-acre estate in Fairfield, Conn. It was listed for just under $7.5 million several months ago.

The billionaire, who drowned in a pool at his Palm Beach, Fla., residence in 2009, bought the estate in the rural Greenfield Hill area with wife, Barbara, in 1981.

Mr. Picower's estate, which left $200 million to his wife and $25 million to his daughter Gabrielle, is in ongoing negotiations to hand over assets Mr. Picower received from Mr. Madoff. The money would go toward repaying Mr. Madoff's victims. In an April report to a bankruptcy court, the trustee, Irving Picard, wrote that he was seeking more than $6.7 billion from several Picower-related entities. The attorney for Mr. Picower's estate, William Zabel, said on Wednesday that a settlement could be reached in a few months. Proceeds from the sale of the Fairfield estate go to Mrs. Picower, Mr. Zabel said.

-- Juliet Chung

EARNINGS

ANZ Profit Rises 53%

On Lower Loan Charges

Australia and New Zealand Banking Group Ltd. on Thursday booked a 53% increase in full year net profit, as lower charges for problem loans helped bolster earnings.

Melbourne-based ANZ said net profit for the year ended Sept. 30 rose to 4.50 billion Australian dollars (US$4.38 billion) from A$2.94 billion a year ago.

The group's closely watched cash profit -- a smoothed measure which strips out volatile items -- rose to A$5.13 billion from A$3.38 billion, beating the average estimate of A$4.88 billion by five analysts polled by Dow Jones Newswires.

-- Lyndal McFarland

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Overheard: Moynihan's Slip

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[Financial Analysis and Commentary]

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overheard@wsj.com

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Deal Journal
Sun Life to Sell Unit to Berkshire Hathaway

By Caroline Van Hasselt
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27 October 2010
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TORONTO—Sun Life Financial Inc. has agreed to sell its life reinsurance business to Warren Buffett's Berkshire Hathaway Life Co., a move that enables the Canadian life insurer to bolster its highly watched regulatory capital levels.

Berkshire is buying a reinsurance unit that has life insurance in-force of C$113 billion (US$110.38 billion) and 70 people in offices in Canada, the U.S. and Ireland. Terms weren't disclosed. The transaction is expected to close Dec. 31.

Low interest rates are wreaking havoc for Canada's life insurers, prompting them to consider asset sales. Sun Life is also selling noncore assets to redeploy capital into areas where it sees growth, namely in the U.S., where it is making a big push to expand, in Asia and in its wealth-management business.

"Our reinsurance business is profitable but it is not a growth area," said Sun Life Chief Executive Don Stewart in a statement.

The transaction is expected to increase Sun Life's minimum continuing capital and surplus requirements, or MCCSR, by 10 to 14 percentage points, the company said. Its MCCSR ratio was 210% as of June 30.

A ratio of 100% means the company has adequate capital. The Office of the Superintendent of Financial Institutions, responsible for setting policy and monitoring the financial-services industry, requires life insurers to maintain an MCCSR ratio of at least 120% and expects them to target a ratio of at least 150%.

While Sun Life has much lower interest-rate sensitivity than its larger Canadian rival Manulife Financial Corp., analysts expect declining benchmark government bond yields to hurt third-quarter earnings, as the life insurers are forced to revise their actuarial assumptions on policies. Rising equity markets are expected to offset somewhat the impact of lower rates.

Sun Life and Manulife report their third-quarter results next week.

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THE WALL STREET JOURNAL.
U.S. EDITION

Goldman's '50-Year' Sells Well

By Katy Burne
395 words
27 October 2010
The Wall Street Journal
J
C16
English

NEW YORK -- Goldman Sachs Group Inc. sold $1.3 billion in 50-year bonds Tuesday -- its longest senior bond ever -- at par to yield 6.125% a year.

The sale was targeted at private, or individual, investors. But institutional investors accounted for about 20% of the buyers, according to a person familiar with the deal, who speculated that the interest could have come from hedge funds. The offering was increased from an originally announced $250 million because of demand.

The senior unsecured bonds are expected to be rated A1 by Moody's Investors Service, A by Standard & Poor's Rating Service and A+ by Fitch Ratings. The minimum buy-in was $25 apiece and 52 million of the bonds were on offer overall, up from 10 million when the deal was announced Monday.

Collectively, all the buyers in the $1.3 billion deal will earn $79.6 million a year on the bonds, compared with the $500 million Warren Buffett's Berkshire Hathaway Inc. is reportedly paid each year for its $5 billion investment in Goldman's comparatively risky preferred stock in September 2008.

The bonds can be redeemed by Goldman at their original face value of $25 at any time after the first five years. Proceeds from the sale will be used for general corporate purposes, which often includes repaying debt. The Wall Street Journal recently reported that the firm was looking to pay back Mr. Buffett's 2008 investment, but Goldman hasn't confirmed this.

The firm has done large preferred and hybrid securities offerings before, but not senior debt maturing this far out, according to a person familiar with the deal. Goldman was sole bookrunner on the deal, supported by the retail brokerage arms of Wells Fargo & Co., Bank of AmericaMerrill Lynch, Citigroup Inc. and UBS AG.

Until Tuesday, Goldman's longest-dated debt went out 30 years, according to Dealogic data. The firm last issued 30-year debt in the amount of $2.75 billion in December 2007, according to Dealogic data, and its most recent sterling-denominated deal was for GBP 325 million in January 2008. It paid 6.75% and 6.875% in nominal interest on those bonds, respectively. A spokesman declined to comment on the new issue.

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THE WALL STREET JOURNAL.

Business

Buffett: Combs Is 'a 100% Fit'; Trader Is Favored to Run Berkshire's Billions After Job Application Wowed Them

By Serena Ng, Susan Pulliam And Gregory Zuckerman
1,817 words
26 October 2010
The Wall Street Journal Online
WSJO
English

The new heir apparent to Berkshire Hathaway Inc.'s roughly $100 billion investment portfolio came to the job the old-fashioned way: He applied for it.

Wall Street was still agog Tuesday about Warren Buffett's selection of Todd Combs, a little-known 39-year-old fund manager who is the leading contender to take over Mr. Buffett's portfolio when the investing legend dies or retires.

Mr. Combs was one of hundreds of people who responded to an unconventional "help wanted" request Mr. Buffett made in early 2007. But his initial inquiry didn't distinguish itself.

Undaunted, the low-key father of three, who lives in Darien, Conn., recently sent another letter to Berkshire Vice Chairman Charles Munger asking for a meeting. Mr. Munger said in an interview that he gets "hundreds" of such requests each year, but "something in his request piqued my interest."

The two soon met for a lunch that extended well into the afternoon at the California Club in downtown Los Angeles. Mr. Munger later phoned Mr. Buffett and told him, "this is a guy I am sure you are going to like," Mr. Munger recalls.

Mr. Buffett says he and Mr. Munger were sold on Mr. Combs not only because of his ability and intelligence but also because they were convinced he would fit in to Berkshire's no-fuss culture.

Mr. Combs, a Sarasota, Fla., native who is still partial to his alma mater Florida State Seminoles football team, struck a lasting impression, Mr. Buffett says. He and Mr. Munger arrived at the decision based on the same kind of "gut check" they make with acquisitions of companies.

"He is a 100% fit for our culture," Mr. Buffett says. "I can define the culture while I am here, but we want a culture that is so embedded that it doesn't get tested when the founder of it isn't around. Todd is perfect in that respect."

Other Berkshire shareholders had a less enthusiastic response to the news. Following Monday afternoon's announcement that Mr. Combs would join Berkshire as an investment manager, Berkshire's Class A shares on Tuesday fell $1,575, or 1.3%, to $123,455 in 4 p.m. New York Stock Exchange composite trading while the broader market edged higher.

Mr. Combs's rise to one of the most visible, and high-pressure, posts in American business doesn't follow a typical path of privilege and pedigree.

"He is smart, and he can adapt," says Sheryl Lucante, who was the maid of honor at his wedding to wife April. "When he got into this business, he didn't know anybody."

After graduating from Florida State in 1993, he worked as an analyst for a state financial regulator, a job that gave him insights into the inner workings of banks and fraud investigations.

He then joined auto insurer Progressive Corp., working in the department that analyzes risks and sets rates for auto-insurance policies. It was there he met Chuck Davis, a company director, who would later help him get his hedge fund started.

People who have worked with Mr. Combs say he is curious about the workings about the financial world, with a deep understanding of finance, business and regulation. He does his own research and spends a significant amount of time reading newspapers and arcane financial documents, such as insurers' statutory filings and prospectuses for securities backed by pools of assets.

In 2000, Mr. Combs enrolled in Columbia Business School, where in his second year he was one of 40 students picked for its Value Investing Program, which had just gotten off the ground. There, Mr. Combs learned techniques to identify and analyze out-of-favor stocks from professional money managers and renowned finance professors including Bruce Greenwald.

Richard Hanley, manager of Hambletonian Partners LP, a hedge fund in New York, taught a course called "Applied Value Investing" at Columbia Business School as an adjunct professor in 2002. "When you teach, you see some people that just go through the motions," Mr. Hanley says, "and some people who genuinely want to make money. That's where Todd's head was."

Mr. Combs, recalls Mr. Hanley, "stood out in his level of intensity among a very intense group of MBAs all trying to get to the front of the line." Was Mr. Combs far and away the best student Mr. Hanley ever taught, much as Mr. Buffett was the greatest student that Benjamin Graham ever had? "I don't remember saying to myself, 'This guy is the next Warren Buffett,' " says Mr. Hanley, "but he probably had the greatest desire to win."

After completing business school in 2002, Mr. Combs quickly found work. Scott Sipprelle, a former Morgan Stanley managing director and hedge-fund manager who is now running for Congress, gave Mr. Combs his start in the hedge-fund world when he hired him to analyze financial stocks held by his firm, Copper Arch Capital LLC. He says Mr. Combs, a heavy coffee drinker, worked long hours and created voluminous spreadsheets packed with data used to assess the probability of negative events happening to financial-services firms.

Copper Arch, which had roughly $1 billion in assets at its peak, modeled itself after Mr. Buffett's style of investing, targeting a long-term investment horizon, holding a fairly concentrated portfolio of stocks, and trying to understand its core holdings intimately. "We called Warren Buffett the spiritual mentor of the firm; we talked about him constantly, read and debated his annual letters, and analyzed his portfolio religiously," says Mr. Sipprelle, who has never met the billionaire investor in person.

Mr. Combs left Copper Arch in 2005 when a new opportunity came along. Greenwich, Conn.-based Stone Point Capital had for the last few years been looking to start a fund that would invest in the stocks of publicly traded companies using similar principles as its core operations, which generally only bought stakes in private companies.

Mr. Davis, Stone Point's chief executive, says he interviewed dozens of candidates before focusing on Mr. Combs, who he had kept track of following his days at Progressive. After "nine months of intensive back and forth, we decided to back him," say Mr. Davis, whose firm provided $35 million of seed money and operational resources to help Mr. Combs start his fund, Castle Point Capital Management LLC.

Mr. Combs seemed more excited about shares in his portfolio than most managers, says Jared Perry, who helps run investment firm Stonehorse Capital, which signed up as an investor in Mr. Combs's fund.

When Mr. Combs meets clients outside the office, there is little chitchat. He lights up when the subject of the market is broached and launches into a discussion of his biggest investment positions. "It's tough to find someone that passionate and thoughtful," said Mr. Perry.

In 2006 and 2007, as the bubble in credit markets grew, Mr. Combs's skills spotting problem areas started to become apparent. He found construction loans in Florida's slowing real-estate market and traced their origination to banks in the Midwest, and identified financial firms that had large exposures to illiquid assets and were heavily reliant on short-term funding that could dry up suddenly.

Mr. Combs profited by "shorting" the stocks of some financial companies as markets crumbled. By early 2006, Mr. Combs had become downbeat about the prospects for Fannie Mae and Freddie Mac, the mortgage lenders that two years later would run into deep trouble and be rescued by the government.

Mr. Combs's short positions on financial shares helped him manage through the financial crisis and the market's meltdown, though he didn't emerge unscathed. Mr. Combs suffered losses of a little more than 5% in 2008, though that return trounced the overall market's. As markets collapsed in September 2008, and his fund lost 9% during that month, clients say Mr. Combs was disappointed but quite calm, unwilling to sell shares he believed in.

Last year, his hedge fund rebounded, rising just over 6%, a figure below the overall market's gain. So far this year, Mr. Combs's fund has lost about 4%, according to an investor. That is worse than the 6% gain of the Standard & Poor's 500-stock index.

Others who became fans of Mr. Combs say that, unlike many hedge-fund mangers, he spent little time sharing investment ideas with others in the business, preferring to develop his own ideas. But some were less impressed after examining Mr. Combs's operation, part of the reason his firm hasn't grown larger than $400 million.

Among his current investors: Insurance company Axis Capital and Walton Investment Partnership, which invests for sons of Wal-Mart founder Sam Walton, and a "prominent New York museum," according to documents provided to an investor.

Clients say Mr. Combs has done a better job watching out for downside risk than he has finding huge gainers. Focusing on banks, brokerage firms and insurance companies, Mr. Combs's returns since launching his firm in November 2005 are a cumulative 34%, according to an investor.

Around the office, Mr. Combs is low-key, wearing khaki pants and a button-down shirt, rarely wearing a tie and jacket, say those who know him. He spends many Sundays in the office, sometimes calling his clients to discuss investment positions. A photograph of his family is prominent on his desk, along with tall piles of research materials and annual reports.

That hard work was present when Mr. Combs was a Columbia student. His former teacher Mr. Hanley told the class he would award a $10 gold piece—then worth about $175, he recalls—for the stock pick with the best performance over the next sixth months.

About half the class chose to work in pairs, but Mr. Combs decided to work alone, recalls his former professor. And Mr. Combs also differed from many of the other students in going short. While Mr. Hanley can't recall the name of the stock Mr. Combs bet against, he remembers that it was "a leveraged, energy-related stock" that went down at least 50% over the coming sixth months, handily beating all the other stocks selected by the class.

"I'd completely lost track of Todd until 4:30 p.m. [Monday] afternoon," says Mr. Hanley. "I still owe him the $10 gold piece, but now I know how to get a hold of him." The coin, he says, is now worth about $750.

Jason Zweig contributed to this article.

Write to Serena Ng at serena.ng@wsj.com, Susan Pulliam at susan.pulliam@wsj.com and Gregory Zuckerman at gregory.zuckerman@wsj.com

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THE WALL STREET JOURNAL.

Earnings
BYD's Net Suffers as Stimulus Wanes

By Joanne Chiu
607 words
26 October 2010
03:45 PM
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WSJO
English

HONG KONG—BYD Co. reported lackluster earnings, reflecting a decline in car sales in China amid reduced government incentives and lower margins in the company's battery business.

The car maker, based in Shenzhen, China, didn't break out third-quarter results, reporting a 3.8% rise in net profit for January through September to 2.43 billion Chinese yuan (US$365 million) from 2.34 billion yuan a year earlier..

Analysts said that suggested a tough third quarter, as BYD reported a profit of 2.42 billion yuan for the first half. The difference between BYD's nine-month and first-half results indicated that third-quarter net profit plunged to 11.34 million yuan from 1.16 billion yuan a year earlier.

Revenue for the nine-month period rose 31% to 34.5 billion yuan.

The news sent shares down 10% in Hong Kong to end at 51.05 Hong Kong dollars (US$6.58).

"Investors were overoptimistic on BYD's performance, and I expect some downward earnings revisions going forward to reflect its margin squeeze amid intensifying competition for its battery division and slower growth of its auto business," said Johnny Wong, an analyst at Yuanta Research. Mr. Wong said BYD's third-quarter gross profit margin likely fell to 14.9% from 21.4% in the first half, in part because of rising labor costs.

Credit Suisse said sluggish auto sales coupled with margin deterioration severely affected BYD's third-quarter profit. "We do not expect a major turnaround in the medium term, given the structural problems within BYD's sales network," it said in a note to clients.

Some analysts had expressed concerns over BYD's relationship with its car dealers as slower auto sales and rising inventory levels in recent months have forced dealers to withdraw from BYD's sales network.

BYD's results were released just weeks after investor Warren Buffett made a high profile visit to BYD's operations in China to reaffirm his long-term interest in the company. Mr. Buffett described BYD as a "young and energetic" company and said he believes the company will play an important role in new energy technology. MidAmerican Energy Holdings Co., a unit of Mr. Buffett's Berkshire Hathaway Inc., holds a 9.89% stake in BYD.

The Chinese battery and car maker, which began as a manufacturer of rechargeable lithium-ion and nickel batteries and later branched out into producing cars and cellphone parts, caught the attention of Mr. Buffett because of its background in battery production.

Growth in Chinese auto sales remained healthy in the first half after the nation last year overtook the U.S. as the world's biggest auto market. But growth has begun to moderate as the Chinese government removed stimulus measures that supported car purchases. In August, softening domestic demand for automobiles prompted BYD to slash its 2010 auto sales target by 25% to 600,000.

BYD's domestic car sales rose a modest 4% in July from a year earlier. But sales fell 19% in August and dropped 25% last month even as the company launched new models.

Analysts said they expect only moderate growth in car sales for BYD in coming quarters, given strong competition against other domestic car makers and foreign joint ventures.

Analysts have also expressed concern that BYD has put too much attention on developing battery technology at the expense of focusing on the quality of its cars. BYD's cars, which are targeted mainly at first-time car buyers, tend to be less expensive than competing brands.

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THE WALL STREET JOURNAL.
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Buffett Flags a Successor --- Fund Manager Named Leading Candidate as Next Investment Chief at Berkshire

By Susan Pulliam and Serena Ng
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The Wall Street Journal
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A1
English

Warren Buffett tapped a little-known hedge fund manager as the leading candidate to succeed him as the chief investment officer of Berkshire Hathaway Inc. when the legendary stock picker eventually steps down.

Berkshire named Todd Combs, manager of a small hedge fund from Connecticut, to oversee a portion of Berkshire's roughly $100 billion investment portfolio. The surprise appointment will be a challenge for Mr. Combs, 39 years old, whose fund recently had only about $400 million in assets and primarily invested in the shares of financial-services companies. Mr. Combs didn't return calls for comment.

The succession plan at Berkshire is among the most high-profile in modern American corporate history. Mr. Buffett, who turned 80 in August, has said he will likely split his job in two -- into separate CEO and investing functions -- and adds that he has no current plans to step down.

Mr. Combs is "not going to take over the whole investment function as long as I'm around," Mr. Buffett said in an interview. "I have this dual position as CEO and CIO and I will remain in that."

Berkshire has previously identified three candidates who could succeed Mr. Buffett in the CEO role. Though the company hasn't named them officially, the front-runner is widely seen as David Sokol, a 53-year-old Omaha native who is chairman of Berkshire unit MidAmerican Energy Holdings and chief executive of NetJets, which sells fractional-ownerships of jets to companies and individuals.

For now, Mr. Buffett says he will remain in his role as chief investment officer and that Mr. Combs will oversee a portfolio with a size he "feels comfortable with" and "scale up until he has a chance to get fully invested" over the next several months. Such a schedule would allow Mr. Combs to become invested without his returns and his pay -- which will be tied to his performance versus that of the Standard & Poor's 500 stock index -- being brought down by holding large amounts of cash.

For Mr. Combs, managing a much heftier portfolio than he's used to will make generating big gains harder because it will take sharper price moves to buoy a larger asset base.

Mr. Combs will join a company that has fewer than two dozen employees in its corporate office, but owns over 70 businesses that collectively had more than 257,000 employees at the end of 2009. The businesses run the gamut from Geico insurance and See's Candies to Dairy Queen and railroad operator Burlington Northern Santa Fe.

The surprise announcement came after two candidates -- including Chinese-American hedge fund manager Li Lu, and another individual Mr. Buffett was interested in -- took themselves out of the running for the job, Mr. Buffett said. The emergence of Mr. Li as a contender was the subject of a July page-one article in The Wall Street Journal.

The reaction of these two candidates underlines some of the challenges for Berkshire in filling the shoes of one of the most famous investors in history. Talented investment managers can receive pay totaling billions of dollars over a career. Filling Mr. Buffett's shoes won't likely lead to that kind of eye-popping pay, says Mr. Buffett, who earns $100,000 in salary as CEO of Berkshire, though he's been enriched through his holding of Berkshire shares.

"You'll make a lot of money in this job but you won't make billions," Mr. Buffett says.

Mr. Buffett says Mr. Li "decided he would prefer to be where he was. In effect he didn't want the job. I think he made a lot of money doing what he is doing and he has a very good position in life." Mr. Li has developed a close relationship with Charles Munger, Berkshire's 86-year old vice chairman, and manages a large portion of Mr. Munger's family's money that isn't in Berkshire.

Mr. Li said, "I've decided to stay where I am." He declined to elaborate further.

Mr. Comb's fund, Greenwich, Conn.-based Castle Point Capital, was launched in 2005 with seed money from private-equity firm Stone Point Capital. Mr. Combs' fund focuses on stock investing -- both buying and selling "short," or betting on price declines. Castle Point has earned cumulative returns of about 34% since the fund launched, according to an investor who read a letter sent by Mr. Combs to clients explaining he was closing his firm to join Berkshire. Over the same period, the S&P 500 index fell 5.1%.

One of Castle Point's biggest holdings is U.S. Bancorp, whose stock is also held by Berkshire. Berkshire has had an unrealized loss on U.S. Bancorp, but Mr. Combs appears to have earned a profit on it since acquiring the shares in the second quarter of 2009, according to regulatory filings. The filings indicate Mr. Combs snapped up other bank stocks, including Western Union Co. and State Street Corp., in the first half of 2009, after the worst of the financial crisis.

Castle Point also recently held stocks of derivatives exchange operator CME Group Inc., commercial lender CIT Group Inc., and Goldman Sachs Group Inc. It owns pieces of several insurers, including property and casualty insurer Chubb Corp.and auto insurer Progressive Corp. In the five years he has run Castle Point, he bought and sold Berkshire shares twice.

Before going into hedge funds, Mr. Combs worked at a Florida bank regulator and in the pricing department of Progressive. People who know him say he then studied securities analysis at Columbia University, and ran a portfolio of financial stocks for a hedge fund that closed some two years after he left.

"He is extremely well-trained, reads 500 pages a week and does his own deep-dive research," said Chuck Davis, chief executive of Stone Point, who helped Mr. Combs start his own fund five years ago.

Mr. Buffett said Mr. Combs has been running in a horse race set up by Berkshire in 2005 to pick his eventual replacement. The billionaire investor described the announcement as a "significant step. If I die tonight the board has something in place."

Gregory Zuckerman contributed to this article.

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26 October 2010
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CORPORATE BOARDS

Caterpillar's Owens to Join

Morgan Stanley's Board

Morgan Stanley said it has named outgoing Caterpillar Inc. Chairman James Owens to its board, effective Jan. 1.

Mr. Owens, 64 years old, served as chief executive of Caterpillar from 2004 until June 2010, and will step down from the chairman role at the maker of construction equipment on Nov. 1.

His addition to the board brings the number of directors at the investment bank back up to 13. In May, Charles Noski, chief financial officer of Northrop Grumman Corp., left the board when he was named Bank of America Corp.'s finance chief.

Mr. Owens's election brings the number of independent directors at Morgan Stanley to 10 from nine on Jan. 1.

-- Brett Philbin

DEAL & DEAL MAKERS

Autotrader.com Buys

Kelley Blue Book

Autotrader.com is expected to announce Tuesday the $500 million-plus acquisition of venerable Kelley Blue Book Co., the best-known provider of information about the value of new and used cars. The deal will unite two closely held companies in an effort to create the leading player for car buyers using the Internet to research purchases.

AutoTrader.com acts as a middleman for car sellers and buyers. Originally known for its blue-bound guides, Kelley Blue Book now does most of its business on the Internet, where it provides vehicle information, including up-to-date resale values and what buyers are paying for new vehicles.

-- Gina Chon

COMMERCIAL REAL ESTATE

British Land Signs

'Cheese Grater' Pact

The U.K.'s second-largest landlord, British Land Co. PLC, on Monday said it has signed a joint-venture agreement with Oxford Properties -- the real-estate arm of the Omers Worldwide Group of Cos., one of Canada's largest pension funds -- to develop the Leadenhall Building, dubbed the "cheese grater" because of its tapered design.

The 47-story Leadenhall building, which will cost GBP 340 million to develop, will combine public space, retail and leisure facilities with office space.

The building, which will be one of the tallest in the City of London, is to be raised on stilts, opening up the space below to the public.

-- Anita Likus

REGULATION

Berkshire Defends

Accounting to SEC

Berkshire Hathaway defended its decision not to write down $1.86 billion in unrealized losses sustained for more than a year in its share holdings of Kraft Foods and U.S. Bancorp.

The SEC said in an April letter to Berkshire that the losses appeared to be more than temporary.

"We believe it is reasonably possible that the market prices of Kraft Foods and U.S. Bancorp will recover to our cost within the next one to two years assuming that there are no material adverse events affecting these companies or the industries in which they operate," Berkshire Chief Financial Officer Marc Hamburg wrote.

-- Liz Moyer and Brett Philbin

DERIVATIVES

Credit Agricole Unit Sued

Over Marketing of CDOs

A group of Channel Islands investment companies sued Credit Agricole SA's investment bank, claiming fraud in the marketing and sale of three collateralized-debt obligations.

The lawsuit claims Credit Agricole Corporate and Investment Bank secretly allowed a hedge fund to select weak and poor quality assets underlying two of the CDOs.

The hedge fund then bet against the success of the investments, according to the complaint. A Credit Agricole spokeswoman said the suit is related to Credit Agricole's litigation against IKB in the U.K. "We are confident this counter-action by IKB is without merit," she said.

-- Chad Bray

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THE WALL STREET JOURNAL.

Business

Berkshire Hathaway Defends Decision on Accounting to SEC

By Liz Moyer And Brett Philbin
247 words
25 October 2010
11:33 AM
The Wall Street Journal Online
WSJO
English

NEW YORK—Berkshire Hathaway defended its decision not to write down $1.86 billion in unrealized losses sustained for more than a year in its share holdings of Kraft Foods and U.S. Bancorp.

In a May 7 letter to the Securities and Exchange Commission, Berkshire responded to questions from the agency about why it did not take the write-downs. The SEC said in an April letter to Berkshire that the losses appeared to be more than temporary.

"We believe it is reasonably possible that the market prices of Kraft Foods and U.S. Bancorp will recover to our cost within the next one to two years assuming that there are no material adverse events affecting these companies or the industries in which they operate," Berkshire's Chief Financial Officer Marc Hamburg wrote in the letter.

Berkshire acquired the shares in 2006 and 2007. In the letter the company said the credit crisis of 2008 negatively affected the market price of its holdings.

As of March 31, Berkshire said in the letter the share prices of Kraft and U.S. Bancorp had gained 11.3% and 15%, respectively, since Dec. 31, 2009. Berkshire noted it has the ability to hold securities for a long period, implying it can wait for the shares to rebound.

Mr. Hamburg was not immediately available for comment.

The letter was reported on by Reuters on Monday.

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THE WALL STREET JOURNAL.
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Goldman Eyes Its Buffett Tab --- Wall Street Firm Considers Repayment of Its $5 Billion IOU to Berkshire

By Liz Rappaport and Serena Ng
822 words
21 October 2010
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C1
English

Goldman Sachs Group Inc. is considering paying back a $5 billion investment from Warren Buffett's Berkshire Hathaway Inc. that bolstered the securities firm during the worst of the financial crisis, according to people familiar with the situation.

Goldman announced Berkshire's cash investment in September 2008, a vote of confidence that helped Goldman raise an additional $5 billion the next day despite the chaos that was sinking shares of financial firms. Goldman has the option to redeem the preferred shares held by Berkshire for $5.5 billion, though the move would trigger a charge of $1.6 billion and require approval by the Federal Reserve.

Before deciding to invest in Goldman, Mr. Buffett turned away other Wall Street firms that came looking for help. But he drove a hard bargain with Goldman, including big dividends and curbs on the sale of Goldman shares by company executives.

It isn't clear if executives at the New York company have sought formal Fed approval yet, but they are looking closely at whether to use a small chunk of the firm's $173 billion in excess liquidity to unwind the investment, people familiar with the matter said.

One reason for the potential move: Hefty dividend payments of 10% a year on Berkshire's "perpetual" preferred shares have cost Goldman about $1 billion so far. The payout is equivalent to more than $1.3 million a day -- or $15 a second.

Goldman could also replace the costly capital from Berkshire with much cheaper funding now available in the debt markets. Goldman's unsecured bonds currently yield between 2% and 6.5%, and long-term interest rates are near record lows.

Berkshire's preferred stake "is costly, non-useful capital in the new environment, and likely to be redeemed . . . in the near term," Guy Moszkowski, an analyst at BofA Merrill Lynch Global Research, wrote in a report Wednesday.

Now that it is emerging from the crisis, Goldman has a comfortable financial cushion that includes $75.66 billion of shareholders' equity at the end of the third quarter. Such capital is a key indicator of Goldman's ability to withstand losses.

Goldman has ample wiggle room to repay Berkshire even under the new Basel III capital guidelines. The proposed guidelines call for banks to have a Tier 1 common equity ratio of at least 7%. That is a more strenuous type of capital than the Tier 1 capital boosted by Berkshire's infusion.

Goldman said Tuesday that its Tier 1 common capital ratio likely will rise to 11% by the end of 2011. Repaying Berkshire wouldn't affect that ratio.

"Our hope is that we are finding opportunities to use it,"" Goldman Chief Financial Officer David Viniar said Tuesday after the company reported third-quarter earnings, referring to deployment of the firm's excess capital and liquidity.

Mr. Viniar said executives would rather not increase Goldman's dividend or buy back common shares, even though to replenish employee stock grants it has repurchased about $3 billion in common shares this year.

He didn't discuss Berkshire's preferred shares.

Repaying the $5 billion investment also would remove restrictions that prevent Goldman Chief Executive Lloyd Blankfein, other top Goldman executives and their spouses and estates from selling more than 10% of their shares in the firm.

Mr. Buffett requested the curbs, in place until October 2011 or the full redemption of Berkshire's preferred shares, when the deal was reached. It was completed in October 2008.

As part of the deal, Berkshire also got warrants to purchase as many as 43.5 million Goldman common shares at about $115 apiece before Oct. 1, 2013. Goldman shares were trading near that level at the time of the infusion, but have rebounded sharply since then. On Wednesday, Goldman shares rose $2.88, or 1.8%, to $159.60 in New York Stock Exchange trading.

Since the warrants themselves have significant value, some analysts have predicted that Mr. Buffett would exercise them only close to the 2013 expiration date in order to maximize his returns.

Berkshire's investment in Goldman came shortly before the U.S. government launched the Troubled Asset Relief Program in a move to pump capital into banks and other financial institutions, including Goldman, mostly through the purchase of preferred shares by the Treasury Department.

In mid-2009, Goldman repaid its $10 billion TARP infusion. That generated a profit for the U.S. government, while freeing Goldman from restrictions to repurchase other preferred stock or its common shares.

During 2008 and 2009, Berkshire invested about $21 billion in Goldman, General Electric Co., Swiss Reinsurance Co., Dow Chemical Co. and Wm. Wrigley Jr. Co.

Those holdings generate about $2.1 billion in annual dividends and interest for Berkshire.

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THE WALL STREET JOURNAL.

Business

Goldman Eyes Its Buffett Tab; Wall Street Firm Would Take Care of Its $5 Billion IOU to Warren Buffett

By Liz Rappaport and Serena Ng
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English

Goldman Sachs Group Inc. is considering paying back a $5 billion investment from Warren Buffett's Berkshire Hathaway Inc. that bolstered the securities firm during the worst of the financial crisis, according to people familiar with the situation.

Goldman announced Berkshire's cash investment in September 2008, a vote of confidence that helped Goldman raise an additional $5 billion the next day despite the chaos that was sinking shares of financial firms. Goldman has the option to redeem the preferred shares held by Berkshire for $5.5 billion, though the move would trigger a charge of $1.6 billion and require approval by the Federal Reserve.

Before deciding to invest in Goldman, Mr. Buffett turned away other Wall Street firms that came looking for help. But he drove a hard bargain with Goldman, including big dividends and curbs on the sale of Goldman shares by company executives.

It isn't clear if executives at the New York company have sought formal Fed approval yet, but they are looking closely at whether to use a small chunk of the firm's $173 billion in excess liquidity to unwind the investment, people familiar with the matter said.

One reason for the potential move: Hefty dividend payments of 10% a year on Berkshire's "perpetual" preferred shares have cost Goldman about $1 billion so far. The payout is equivalent to more than $1.3 million a day—or $15 a second.

Goldman could also replace the costly capital from Berkshire with much cheaper funding now available in the debt markets. Goldman's unsecured bonds currently yield between 2% and 6.5%, and long-term interest rates are near record lows.

Berkshire's preferred stake "is costly, non-useful capital in the new environment, and likely to be redeemed…in the near term," Guy Moszkowski, an analyst at BofA Merrill Lynch Global Research, wrote in a report Wednesday.

Now that it is emerging from the crisis, Goldman has a comfortable financial cushion that includes $75.66 billion of shareholders' equity at the end of the third quarter. Such capital is a key indicator of Goldman's ability to withstand losses.

Goldman has ample wiggle room to repay Berkshire even under the new Basel III capital guidelines. The proposed guidelines call for banks to have a Tier 1 common equity ratio of at least 7%. That is a more strenuous type of capital than the Tier 1 capital boosted by Berkshire's infusion.

Goldman said Tuesday that its Tier 1 common capital ratio likely will rise to 11% by the end of 2011. Repaying Berkshire wouldn't affect that ratio.

"Our hope is that we are finding opportunities to use it," Goldman Chief Financial Officer David Viniar said Tuesday after the company reported third-quarter earnings, referring to deployment of the firm's excess capital and liquidity.

Mr. Viniar said executives would rather not increase Goldman's dividend or buy back common shares, even though to replenish employee stock grants it has repurchased about $3 billion in common shares this year.

He didn't discuss Berkshire's preferred shares.

Repaying the $5 billion investment also would remove restrictions that prevent Goldman Chief Executive Lloyd Blankfein, other top Goldman executives and their spouses and estates from selling more than 10% of their shares in the firm.

Mr. Buffett requested the curbs, in place until October 2011 or the full redemption of Berkshire's preferred shares, when the deal was reached. It was completed in October 2008.

As part of the deal, Berkshire also got warrants to purchase as many as 43.5 million Goldman common shares at about $115 apiece before Oct. 1, 2013. Goldman shares were trading near that level at the time of the infusion, but have rebounded sharply since then. On Wednesday, Goldman shares rose $2.88, or 1.8%, to $159.60 in New York Stock Exchange trading.

Since the warrants themselves have significant value, some analysts have predicted that Mr. Buffett would exercise them only close to the 2013 expiration date in order to maximize his returns.

Berkshire's investment in Goldman came shortly before the U.S. government launched the Troubled Asset Relief Program in a move to pump capital into banks and other financial institutions, including Goldman, mostly through the purchase of preferred shares by the Treasury Department.

In mid-2009, Goldman repaid its $10 billion TARP infusion. That generated a profit for the U.S. government, while freeing Goldman from restrictions to repurchase other preferred stock or its common shares.

During 2008 and 2009, Berkshire invested about $21 billion in Goldman, General Electric Co., Swiss Reinsurance Co., Dow Chemical Co. and Wm. Wrigley Jr. Co.

Those holdings generate about $2.1 billion in annual dividends and interest for Berkshire.

Goldman's $5 billion investment from Berkshire delivered a much-needed shot in the arm to the financial system. Just before the deal, Lehman Brothers Holdings Inc. tumbled into bankruptcy, Merrill Lynch & Co. sold itself to Bank of America Corp., and American International Group Inc.'s liquidity crisis forced a massive U.S. government bailout.

Panicked investors worried that other Wall Street securities firms could lose access to funding as credit markets froze. Just before Berkshire's investment, Goldman got federal approval to become a bank-holding company.

Write to Liz Rappaport at liz.rappaport@wsj.com and Serena Ng at serena.ng@wsj.com

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THE WALL STREET JOURNAL.

Business

Munich Re Gets A Buffett Boost; Berkshire Hathaway raises stake to more than 10% and plans to take more of the reinsurer

By William Launder And Erik Holm
572 words
20 October 2010
The Wall Street Journal Online
WSJO
English

FRANKFURT—German reinsurer Munich Re said billionaire investor Warren Buffett continues to increase his stake in the company and that he plans to raise the holdings further over the next year.

Mr. Buffett and the company he heads, Berkshire Hathaway Inc., now own more than 10% of Munich Re, the Munich-based company said in a regulatory filing. The stake is valued at around €2.1 billion ($2.9 billion), based on Munich Re's current market capital.

Munich Re reiterated that Mr. Buffett doesn't plan to influence the company's management or dividend policy.

Collins Stewart Europe analyst Ben Cohen said Mr. Buffett's move is likely aimed only at finding a stable investment, as opposed to taking a strategic view on Munich Re. "He likes the shares and they remain fairly cheap against book value," Mr. Cohen said. "And even if the reinsurance market remains sluggish, it probably at the very worst moves sideways in giving you a decent payout."

Despite the wording of Munich Re's regulatory filing, which mentions Mr. Buffett by name, the vast majority of the investment is held by Berkshire and its subsidiaries. Mr. Buffett said in May that his personal portfolio contained 100,000 shares of the reinsurance company.

Mr. Buffett increased Berkshire's stake in Munich Re to just under 8% in April from around 3% in March. The latest filing says Mr. Buffett and Berkshire intend "to acquire further voting rights within the next twelve months."

Mr. Buffett didn't respond to requests for comment left with an assistant before business hours in Omaha, Neb., where Berkshire is based.

Analysts have previously suggested that Mr. Buffett's investment in Munich Re could indicate that reinsurance rates could rise in the future, boosting profit for Munich Re and its rivals. Berkshire itself is one of those rivals; it owns and operates its own insurance operations, including General Re and Berkshire Hathaway Reinsurance Group.

Mr. Buffett and his insurance lieutenant, Ajit Jain, cut back the amount of coverage that Berkshire Hathaway Reinsurance Group sells this year because they haven't been satisfied with the going rate for the types of protection the unit offers. Mr. Buffett said in May that Munich Re was "an attractive investment" and one that "has nothing to do with our activities in reinsurance."

Berkshire's investments also include Munich Re's main rival, Swiss Reinsurance Co. Berkshire bought a 3% stake in Swiss Re in January 2008. Mr. Buffett's firm has assumed 20% of Swiss Re's property-casualty business for five years, and Berkshire bought a block of life reinsurance from its rival early this year. Swiss Re also got an injection of three billion Swiss francs ($3.1 billion) from Berkshire in 2009. The securities Mr. Buffett purchased in the private deal pay Berkshire 12% interest annually.

A spokeswoman for Munich Re said the company "was pleased about every shareholder" but wouldn't provide further details.

Munich Re Chief Executive Nikolaus von Bomhard said earlier this year that he welcomed Mr. Buffett's investment as an indication that he approved of the company's strategy.

Munich Re shares were up 0.9% in afternoon Frankfurt trading.

Write to William Launder at william.launder@dowjones.com

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Heard on the Street / Financial Analysis and Commentary

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English

Chinese officials revive the rate surprise

It has been nearly two years since the People's Bank of China moved interest rates. It hasn't lost its capacity to surprise.

Effective Wednesday, the central bank will raise its benchmark one-year lending and deposit rates by one-quarter of a percentage point each.

This was unexpected: Most China-watchers had been assuming the PBOC was happy to rely on quantitative measures to tighten policy, such as increasing the amount of reserves banks are required to keep with it.

The sudden increases suggest there could be gremlins lurking in the next round of Chinese economic data, due Thursday. Consumer-price inflation has already crossed above Beijing's 3% target for 2010. In August, the annual rate was 3.5%.

This is above the rate offered on savings accounts, even with the one-year deposit rate now at 2.5%, a situation that could fuel asset bubbles as savers seek better returns. Beijing has spent much of this year trying to cool the country's property market with partial success: Tuesday's rate increase could be seen as consistent with those efforts.

That the quarter-point increase alone doesn't eliminate the negative rate problem -- the gap between the inflation rate and yields available on savings accounts -- suggests the PBOC has more tightening to do. But a series of rate increases will pose problems as well.

Inflows of hot money, already rising on expectations of appreciation in China's currency, will be encouraged further by higher interest rates, especially as the U.S. Federal Reserve considers more quantitative easing.

The PBOC also is raising rates after a lending binge that had everyone from local governments to companies to mortgage holders taking on extra debt. That could explain why the seemingly symmetric rate rise has its asymmetric elements. While five-year deposit rates were raised by 0.6 percentage point, for example, all lending rates beyond one year are up by only 0.2 percentage point.

That will squeeze margins at Chinese banks somewhat. But it also shows that while the PBOC still isn't averse to inflicting surprises, it doesn't mind softening the blow for borrowers.

-- Andrew Peaple

Munich Re: Buffett's bottom-fishing

When Warren Buffett writes a check, the world peers over his shoulder. The veteran investor's decision to raise his stake in Munich Re, the world's largest reinsurer, from 3% to more than 10%, is a case in point. The reinsurance industry may be challenged by soft pricing and low investment income, but it has rarely looked so cheap. Even if catalysts for a rerating look thin on the ground, Mr. Buffett can afford to take the long-term view.

Reinsurers face some chilling winter winds. Low bond yields and cash returns have cut investment income, and the stock market is spooked by regulatory uncertainty. After 2009's equity-market recovery and low incidence of natural disasters, the industry was left with excess capital, which losses from Chile's earthquake and the Deepwater Horizon oil spill haven't dented. Overcapacity is depressing prices.

But longer-term dynamics look more favorable. A big disaster could wipe out capital and weaken smaller players, as well as boost pricing. Uncertainty over future regulation won't last forever. Valuations already are low. Reinsurers are trading around tangible net asset value, and Munich Re at just 0.95 times, well below the sector's 1.2 times recent average.

Shareholders also are benefiting from strong balance sheets via dividends and buybacks. Munich Re yields a prospective 5.6% for 2010, estimates Credit Suisse, high relative to the market, and above closest peer Swiss Re. Munich Re's share-buyback program, initiated in May, targets a 1 billion euro ($1.4 billion) repurchase by April 2011. Strong cash generation suggests this could be extended next year, and dividends maintained or increased.

Mr. Buffett's interest in reinsurers is longstanding. Berkshire Hathaway acquired top 10 global firm General Re in 1998; in 2008 it took a 3% stake in Swiss Re. Munich Re investors will hope that, in Mr. Buffett's words, "time is the friend of the wonderful company." Mr. Buffett certainly seems to have faith.

-- Hester Plumridge

Is all clear

in euro-zone

bond market?

For battered euro-zone government-bond investors, good news at last. Peripheral bond yields are falling, the European banking system is strengthening and the outlook for a successful round of 2011 budgets is improving. The European Central Bank last week stopped buying bonds under its market-stabilization program for the first time since May. The worst of the crisis may finally be behind the market -- at least for 2010.

Greek 10-year bond yields have fallen three percentage points in six weeks. Irish and Portuguese yields have dropped around one point, reflecting both governments' increased efforts to reduce deficits in 2011. Further gains are possible, since spreads to Germany remain wide. U.S. quantitative easing, seen as highly likely, should buoy risk appetite, although China's rate-increase announcement Tuesday led to a small setback.

Euro-zone governments, excluding Greece, have now completed 85% of their 2010 borrowing, according to Deutsche Bank. The European Financial Stability Facility is up and running. Further support may be made available for Greece.

Risks remain. France must avoid watering down its pension reform. The ECB must be careful in its dogged attempts to exit from its unconventional policies, particularly while peripheral countries and banking systems still can't access financial markets easily. Its bond-purchase program should be kept open as an available tool. The ECB's relatively hawkish stance may yet cause problems as the euro strengthens and core yields rise.

Next year, Europe will face fresh challenges, with austerity biting deeper as even Germany starts to rein in its budget deficit. Bond redemption pressures for Portugal and Spain arrive in March and April. But for now, the euro-zone government-bond market appears to have stabilized after a tumultuous year.

-- Richard Barley

Overheard: Forced Sobriety

In 2003, Bank of England governor Mervyn King dubbed the period from the early 1990s to the early 2000s the "nice" decade -- standing for non-inflationary consistently expansionary; even then he warned the good times couldn't go on like that. Sure enough, in his latest speech, Mr. King declares the legacy of the financial crisis will be a "sober" decade: 10 years of savings, orderly budgets and equitable rebalancing. Not as much fun, but perhaps better for economic health.

Seventy-five percent of respondents to a recent poll in China said they had never heard of dissident Liu Xiaobo, this year's Nobel Peace Prize winner, Chinese newspaper Global Times reported. Yet nearly 60% said the Nobel committee should rescind the prize and apologize to the Chinese people.

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overheard@wsj.com

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Global Finance: Munich Re Gets A Buffett Boost

By William Launder and Erik Holm
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20 October 2010
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FRANKFURT -- Munich Re said billionaire investor Warren Buffett continues to increase his stake in the German reinsurer and that he plans to raise the holdings further over the next year.

Mr. Buffett and the company he heads, Berkshire Hathaway Inc., now own more than 10% of Munich Re, the company said in a regulatory filing. The stake is valued at 2.1 billion euros ($2.9 billion), based on Munich Re's current market capital.

Munich Re reiterated that Mr. Buffett doesn't plan to influence the company's management or dividend policy.

Collins Stewart Europe analyst Ben Cohen said Mr. Buffett's move is likely aimed only at finding a stable investment, as opposed to taking a strategic view on Munich Re.

"He likes the shares and they remain fairly cheap against book value," Mr. Cohen said.

"And even if the reinsurance market remains sluggish, it probably at the very worst moves sideways in giving you a decent payout," Mr. Cohen said.

Despite the wording of Munich Re's regulatory filing, which mentions Mr. Buffett by name, most of the investment is held by Berkshire and its subsidiaries. Mr. Buffett said in May that his personal portfolio contained 100,000 shares of the reinsurer.

Mr. Buffett increased Berkshire's stake in Munich Re to slightly less than 8% in April from about 3% in March. The latest filing says Mr. Buffett and Berkshire intend "to acquire further voting rights within the next 12 months."

Mr. Buffett didn't respond to requests for comment.

Analysts have previously suggested that Mr. Buffett's investment in Munich Re could indicate that reinsurance rates could rise in the future, boosting profit for Munich Re and its rivals.

Berkshire, of Omaha, Neb., itself is one of those rivals; it owns and operates its own insurance operations, including General Re and Berkshire Hathaway Reinsurance Group.

Mr. Buffett and his insurance lieutenant, Ajit Jain, cut the amount of coverage that Berkshire Hathaway Reinsurance Group sells this year because they haven't been satisfied with the going rate for the types of protection the unit offers.

Munich Re shares rose 0.8% in Frankfurt.

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Europe Markets
European Markets Move Lower

By Andrea Tryphonides And Ishaq Siddiqi
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19 October 2010
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The Wall Street Journal Online
WSJO
English

Mining and oil companies led European stock markets lower following a surprise increase in short-term interest rates by China. Mixed news about corporate earnings and weakness in the technology sector added to the losses.

The euro lost ground against the dollar, while oil and gold prices fell.

The Stoxx Europe 600 index closed down 0.5% at 265.24. The U.K.'s FTSE 100 index fell 0.7% to 5703.89, France's CAC-40 index ended down 0.7% at 3807.17 and Germany's DAX slipped 0.4% to 6490.69.

Basic-resource shares went into broad retreat after the People's Bank of China said it will raise its benchmark deposit and lending rates by 0.25 percentage point, effective Wednesday. Traders said the move, which most had not expected until next year, was a clear sign that China wants to tamp down its growth to fight off inflation.

The Stoxx Europe 600 index for basic resources ended down 2.5% as investors worried that the moves would cut into demand for commodities. Among individual stocks in the sector, Fresnillo, a miner of gold and silver, slumped 5.3%, while the steel company ArcelorMittal dropped 1.6%.

Meanwhile, technology stocks fell following Apple's results Monday. While the company's earnings beat forecasts, investors were disappointed by news of weaker-than-expected iPad sales and a downbeat outlook for the next quarter. The Pan Europe Stoxx 600 technology index ended 1.4% lower.

Stocks found some relief from news that U.S. housing starts increased 0.3% in September. Economists had expected a decline. While this helped U.S. homebuilders, other developments, such as China's rate increase, pushed most U.S. shares lower. European stocks followed suit.

Also on the earnings front, Bank of America posted a wider third-quarter loss, but its adjusted results beat estimates, while Goldman Sachs' earnings fell less than analysts expected. Both stocks edged higher.

There are no major euro-zone data due Wednesday, so all eyes will be on the U.K., where Chancellor George Osborne will announce details of the government's review of spending.

At the time of the European stock markets close, the euro was at $1.3808, compared with $1.3992 late Monday in New York. The pound traded at $1.5724, from $1.5932. The dollar was at 81.70 yen, from 81.18 yen.

The dollar's gains, combined with doubt about Chinese demand, put pressure on commodities prices. Late in Europe, light, sweet crude for November delivery was down $2.07 at $81.01 a barrel on the New York Mercantile Exchange. Gold for October delivery was down 2.1% at $1340.0 per troy ounce late in Europe on the Comex division of Nymex.

In major market action: As China tightened monetary policy, miners such as Xstrata fell 4.4%. The company also reported a fall in coal output. Vedanta Resources lost 3.5% and Rio Tinto dropped 3.2%.

Also in London, shares of Autonomy, a software company, gained 1.8%. The company said third-quarter profit rose 22% as sales increased by 9.9%.

In Paris, oil major Total lost 1.7%. Technology stocks were also weak, with services company Capgemini down 2.1% and equipment maker Alcatel-Lucent off 3.5%.

Banks continuned to gain ground following solid earnings in the U.S. Shares of Société Générale rose 1.7% and Natixis added 2.5%. Shares of Royal Bank of Scotland Group rose 1.4% and in Germany, Deutsche Bank rose 1.8%. Commerzbank was up 1.1%.

Shares of Munich Re gained 0.8% on news that Warren Buffett's Berkshire Hathaway Inc. lifted its stake in the reinsurer to more than 10% and said it would buy more shares over the next year.

Infineon Technologies fell 1.9% and SAP lost 1.1%.

Barbara Kollmeyer contributed to this article.

Write to Michele Maatouk at michele.maatouk@dowjones.com

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THE WALL STREET JOURNAL.

Business
NetJets to Order 50 Embraer Jets

By Peter Sanders
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English

ATLANTA—Business jet operator NetJets Inc. said on Monday it had signed an order for 50 new small business jets from Brazilian manufacturer Embraer, a sign that the company thinks the struggling business aircraft industry is poised for a rebound.

NetJets, a closely held unit of Berkshire Hathaway Inc., was hit hard by the recession when private jet travel suffered a major drop-off that began two years ago. The order for the 50 six-seat Phenom 300 jets includes an option for an additional 75. NetJets expects to take initial deliveries starting in 2013.

"We think the worst is behind us and the future is going to bring growth once again," David Sokol, NetJets' chairman and chief executive, said at a press conference announcing the order. "We have taken advantage of the down market period" to plan for future growth, he said.

At list prices, the value of the purchase could exceed $1 billion, according to NetJets. But customers typically receive hefty discounts from airplane manufacturers when placing large orders.

The deal, announced in Atlanta on the eve of the business aircraft industry's largest annual trade show, also provides a significant boost for Embraer, known officially as Empresa Brasileira de Aeronautica S.A., which recently introduced two small business jets into the ultra-competitive segment of the market.

Embraer has been fighting for market share for the past two years in the light business jet segment in the U.S. with established airplane-makers that include Textron Inc.'s Cessna Aircraft Co., Bombardier Inc.'s Learjet and Hawker Beechcraft Co.

The Phenom 300, with a list price of about $8 million, will join a NetJets fleet that includes a wide variety of planes from various manufacturers, though it will be the smallest plane the company offers. Embraer said it has agreed to certain in-cabin and other design modifications specifically for the NetJets order that will not be available to other customers.

NetJets, which grew rapidly in the past decade, was hit hard during the recession as it found that it had ordered and taken delivery of too many airplanes. When the downturn hit, many of the company's clients—who pay an upfront fee to buy an ownership portion of a plane, as well as an annual and per hour flight fee—were unable to make their financial commitments, putting the company in a bind.

In response, NetJets has significantly reduced its fleet, selling more than 75 aircraft this year. It has canceled more than 100 planes on order from a number of manufacturers, including Hawker Beechcraft and French plan-maker Dassault Aviation.

With the new Embraer order Mr. Sokol says the operator plans to replace some of its older small jets as the new Phenom jets come online.

The company has added new customers this year, he says, and has no plans to change its basic fractional ownership model. "We will complete the year substantially profitable," Mr. Sokol said.

Write to Peter Sanders at peter.sanders@wsj.com

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THE WALL STREET JOURNAL.

Business
Nuke Deal Is at Risk as Firms Face Off

By Gina Chon And Rebecca Smith
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English

A deal between two big utilities with nuclear ambitions that was struck during the financial crisis threatens to come unglued in a trans-Atlantic spat that could undermine French efforts to build reactors in the U.S.

Constellation Energy Group Inc., a Baltimore-based energy company, is considering a plan that would force its partner, French state-owned utility Electricité de France SA, to pay up to $2 billion to buy 12 of its power plants, people familiar with the matter said.

In response, EDF, which is Constellation's biggest shareholder, is threatening to sue Constellation. But in hopes of avoiding a confrontation, EDF sent a letter to Constellation Wednesday offering to buy the company out of a joint venture to build a nuclear plant only if Constellation doesn't force EDF to buy the plants, other people familiar with the matter said.

Constellation said in a statement it would discuss EDF's buyout offer with the company but expected EDF to remain committed to the put option.

The financial arrangement between the two power producers was struck in 2008 after Constellation's shares tumbled during the credit crisis on fears that it would lose access to credit.

The company agreed to sell itself to Warren Buffett's MidAmerican Energy, but EDF stepped in with a higher offer.

As part of the deal, EDF agreed to a put option in which it would buy the Constellation's 12 coal-fired power plants at the company's request.

Constellation has until the end of the year to exercise the option.

The growing animosity comes after Constellation said Friday that it wouldn't pursue a government-loan guarantee that is essential to its plans to build a multibillion-dollar nuclear reactor in Calvert Cliffs, Md., through UniStar Nuclear, a joint venture of EDF and Constellation created in 2005.

Constellation had expected the cost of the guarantee to be less than 3% of the amount borrowed, which was expected to be $7.6 billion. Jim Connaughton, Constellation's executive vice president of public policy, said the company was "very surprised" when it was told the cost of the guarantee would be 11.6%, or $880 million.

Constellation plans to decide on the put option to sell the coal-fired plants to EDF at a board meeting Oct. 22, though it could make its decision even earlier, some of the people familiar with the matter said.

They also cautioned that things could change at the last minute if the two sides find a way to settle their dispute in coming days, although that is increasingly unlikely.

If Constellation does exercise the put option, EDF is expected to sue. The option has a material-adverse-change clause attached to it, in addition to certain conditions that have to be satisfied before the put can be exercised, and EDF thinks those conditions haven't been met, some of the people familiar with the matter said.

Also in response to Constellation's threat, EDF said it dropped its longstanding objections to a potential sale of Constellation.

While EDF can't push such a sale because of a standstill agreement between the two, it would not stand in the way of a merger, some of the people familiar with the matter said.

Constellation is exploring alternatives and hasn't ruled out a sale, but it may be premature to discuss it given the current concerns about its relationship with EDF, some of the people familiar with the matter said.

The EDF-Constellation spat has implications beyond the two companies and has drawn the attention of the American and French governments. French President Nicolas Sarkozy wants French energy companies to expand their nuclear presence overseas. In the U.S., the Obama administration has pushed for a revitalization of the nuclear-power industry.

Without Constellation's cooperation, EDF has no immediate prospect for building a nuclear plant in the U.S. That could doom the near-term prospects for French Areva Inc.'s 1,600-megawatt EPR reactor in the U.S. The Calvert Cliffs plant was to be the "reference plant" that would be the model for construction of additional Areva reactors in the U.S.

The Constellation board may also discuss options for keeping the nuclear option at Calvert Cliffs. It could, for example, proceed with efforts to get a construction and operating license—good for 20 years—from the U.S. Nuclear Regulatory Commission.

The future of the nuclear project has also become an issue in the Maryland gubernatorial race.

Gov. Martin O'Malley, a Democrat running for reelection, has been meeting with company officials from both sides to try to save the project, and the jobs that would come with it.

Anupreeta Das contributed to this article.

Write to Gina Chon at gina.chon@wsj.com and Rebecca Smith at rebecca.smith@wsj.com

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THE WALL STREET JOURNAL.

Autos
Beijing Halts Construction of BYD Auto Plant

By Norihiko Shirouzu
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English

BEIJING—China's central government ordered BYD Co. to surrender land in a zoning dispute, a decision that is likely to slow the Chinese battery and auto maker's push to expand in the nation's growing auto market.

China's Ministry of Land and Resources also hit BYD with a 2.95 million yuan ($442,000) fine, the ministry said on its website Wednesday. The ministry confiscated 121 acres of land in the central Chinese city of Xian, where BYD executives said the company has been building a car assembly plant. BYD had hoped to start production at the complex as early as next year.

The ministry said zoning for the land was "illegally adjusted" to industrial use from agricultural use but didn't elaborate. The decision comes as some government officials have shown concern about excess capacity in the auto industry.

The land ministry also disciplined about a dozen government officials in Xian, the capital of Shaanxi province. Lu Yong, director of the planning department of the Shaanxi land and resources office, was removed from his post.

The Xian site was part of BYD's five-billion-yuan expansion to roughly double its car-production capacity in China, where executives said the company is capable of manufacturing 700,000 cars a year. In addition to Xian, where BYD has two existing plants, the company is increasing output in Shenzhen and adding a production complex in the central Chinese city of Changsha.

The company is "duly accepting the ministry's decision," said BYD spokesman Paul Lin. He said, however, that the move was "not likely to have material impact" on BYD's business, though he declined to elaborate.

Still, an individual close to BYD said the company, one of China's top-tier car brands, might have to look for a different site in Xian to build a third assembly plant and explore other options. Each existing plant in the city can produce 200,000 cars a year.

It wasn't immediately clear how much BYD spent to acquire the Xian site or how much it has invested at the location, which was to have production capacity of 200,000 cars a year. Mid American Energy Holdings Co., a unit of Warren Buffett's Berkshire Hathaway Inc., owns 10% of BYD.

The Chinese government's move adds to a series of setbacks for BYD this year. With demand slowing for its cars in China, BYD in August slashed its 2010 sales outlook by 25% to 600,000 vehicles. It also delayed plans to sell all-electric cars in California by year-end, although BYD executives have said the company plans to introduce its electric car, the e6, in the near future.

BYD said Wednesday that its car sales in China last month fell 25% from a year earlier to 33,085 cars, even as China's overall vehicle sales rose 19%.

Given the diminishing outlook for BYD's car business, Yale Zhang, an independent auto analyst in Shanghai, said the ministry's move "shouldn't be that damaging" for now. "It's not as if BYD's lacking capacity for auto production right now."

MidAmerican bought its stake in BYD two years ago after Mr. Buffett's longtime business partner, Charles Munger, learned of the company and its lithium-battery technology from hedge-fund manager Lu Li. Mr. Munger asked MidAmerican Chairman David Sokol to investigate.

Mr. Buffett said earlier this year that MidAmerican's initial $231 million investment is now worth about $1.5 billion. Mr. Li now is considered a leading candidate to run a chunk of Berkshire's investment portfolio. Mr. Sokol, a member of BYD's board since last year, is widely thought to be the leading candidate to succeed Mr. Buffett as Berkshire's chief executive.

Sue Feng and Erik Holm contributed to this article.

Write to Norihiko Shirouzu at norihiko.shirouzu@wsj.com

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Heard on the Street
EDF's Expensive U.S. Nuclear Option

By Matthew Curtin
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9 October 2010
The Wall Street Journal
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[Financial Analysis and Commentary]

Big French companies have a poor U.S. investment record: think Credit Lyonnais in banking, GDF Suez in water, Vivendi in entertainment.

Will Electricite de France join the hall of shame? That partly depends on the outcome of negotiations with Constellation Energy Group, which wants to exercise a $2 billion put option that would require EDF to buy 11 coal-fired power stations. With EDF threatening to walk away from the U.S. market, its international strategy could unravel.

EDF paid $4.5 billion for half of Constellation's nuclear business in 2008, beating MidAmerican Energy Holdings, which offered $4.7 billion for the whole company. EDF also bought an 8.4% stake in Constellation and offered the put option. Despite Constellation's improved position since then, it wants to exercise the put before it expire this year. That is upsetting for EDF, which does not want U.S. coal-fired plants.

Yet Constellation's nuclear ambitions are closely tied to EDF's through their venture to build up to four new reactors. For its part, EDF has threatened to quit the partnership, including agreements to buy some of Constellation's electricity output, or challenge it in court, if it exercises the put.

EDF is unlikely to walk away. Apart from crystallizing a loss on its Constellation investment, it would give up likely long-term growth in the U.S. nuclear industry, even if that is going to be slow to materialize.

EDF must hope Constellation backs down. It will struggle to close its 20% valuation discount to European peers, if it ends up paying even more for an already expensive seat at the U.S. nuclear table.

Document J000000020101009e6a900025

THE WALL STREET JOURNAL.

Business
Allied Irish to Raise $2 Billion Via M&T Stake

By Patricia Kowsmann
457 words
7 October 2010
09:41 AM
The Wall Street Journal Online
WSJO
English

LONDON—Allied Irish Banks PLC said it will raise about $2 billion from the sale of its 22.4% stake in M&T Bank Corp., a regional U.S. lender, through a public offering.

The Irish bank said Thursday that it had priced an offering of 26.7 million notes that will be converted into M&T shares at $77.50 each. M&T shares closed Wednesday at $78.91. The offering is fully underwritten by banks but hasn't yet been sold to investors.

The stock has fallen over the past 10 days following the collapse of talks with Banco Santander SA, which had offered to buy the 22.4% stake and merge M&T with its U.S. bank Sovereign Bancorp. Santander and M&T, however, couldn't agree on who would run the combined bank in the long term.

Since Santander walked away, analysts widely expected the stake would be sold at a discount.

"While the price achieved for AIB's stake in its U.S. regional bank is slightly disappointing when compared to previous estimates, the finality over its disposal is to be welcomed," NCB Stockbrokers analyst Ciaran Callaghan said Thursday.

The share conversion is subject to shareholder approval at a Nov. 1 meeting, Allied Irish said. The sale will result in a €900 million capital boost for the bank, which has been hard hit by the financial crisis and collapse of Ireland's property market.

The Irish government has required Allied Irish to raise a total of €10.4 billion. It has already raised about €2.5 billion from the sale of a stake in Poland's Bank Zachodni WBK to Santander, and it said it will launch a €5.4 billion share offering in November.

The government, which owns around 19% of the bank, will likely become a majority shareholder following the offering. Allied Irish acquired the stake in the Buffalo, New York bank when M&T bought Allied's U.S. retail bank, Allfirst Financial Inc. of Baltimore.

M&T, which operates throughout the Northeast and Mid-Atlantic, has seen profit climb in recent periods as it lowered loan-loss provisions and increased deposits. It has remained independent amid vast consolidation of the regional-banking market. The bank has a stock-market value of about $9.4 billion. Its shares were down 1.9% in midmorning trade on the New York Stock Exchange.

Warren Buffett's Berkshire Hathaway Corp. is a long-term shareholder of M&T, and as of June 30 held a 4.5% stake.

Write to Patricia Kowsmann at patricia.kowsmann@dowjones.com

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THE WALL STREET JOURNAL.

Business
Mobile-Home Makers Try To Stitch Together a Rebound

By James R. Hagerty And Serena Ng
945 words
30 September 2010
The Wall Street Journal Online
WSJO
English

CLARION, Pa.—Builders of manufactured homes—the kind constructed in a factory and often known to the public as mobile homes or trailers—missed out on the great American housing boom. Now some of them hope their industry has finally stopped imploding.

The Manufactured Housing Institute, or MHI, a trade group, earlier this month told its members that shipments in the first seven months of this year were up 6.4% from a year earlier, in part because of stimulus from federal tax credits offered to home buyers earlier this year.

That is encouraging news for Warren Buffett's Berkshire Hathaway Inc., owner of Clayton Homes Inc., by far the largest maker of manufactured housing, as well as a host of smaller rivals.

Lax lending practices in the 1990s—a prelude to what happened in the broader housing market several years later—led to a wave of repossessions of manufactured homes, leaving plenty of cheap used ones available and little demand for new products. Cheap credit for "site-built" homes—those built outdoors—lured people with modest incomes away from trailer parks.

As a result, shipments of manufactured homes in the U.S. began falling in 1999 and last year totaled just 49,789, the lowest since the 1950s and down 87% from 1998's total. By contrast, sales of site-built homes didn't start falling until 2006 and last year totaled 375,000, a decline of 71% from a peak in 2005.

The median price for site-built houses and condos was about $179,000 in August, according to the National Association of Realtors. Manufactured homes, which usually are sold without land, typically sell in a range of about $35,000 to $100,000.

"I don't think it gets a lot worse than it is," says Joe Stegmayer, chief executive of Cavco Industries Inc., a maker of manufactured homes, referring to the manufactured-home industry.

Mr. Stegmayer, meanwhile, is counting on a gradual rise in demand from retiring baby boomers and empty nesters seeking smaller houses, as well as first-time home buyers.

When Berkshire Hathaway bought Clayton for $1.7 billion in 2003, many in the industry thought they were near the bottom of a brutal downturn. But the pain continued.

Clayton has since acquired weaker rivals and become the dominant U.S. maker of manufactured homes, with a market share estimated at 45%. But earnings are down, largely because of a rise in provisions for losses on loans to buyers of the homes. Pretax profit was $187 million in 2009, down from $206 million in 2008 and $526 million in 2007. For this year's first half, Clayton's pretax profit was about level with the year-earlier period, Berkshire Hathaway says.

"I see this as a temporary blip for Buffett," says Paul Howard, an independent analyst in Glastonbury, Conn. "There's value in being the last person standing and being able to survive the downturn." Clayton officials and Mr. Buffett declined to comment.

The manufactured homes industry still plays a big role in housing, especially for low-income people, retirees and those living in rural areas. About 19 million people, or 6% of the U.S. population, live in manufactured homes, the MHI says. The industry employs around 75,000 people and annual sales are running at about $3.2 billion.

Today's manufactured homes often have sloping roofs and arched doorways, and are far different from the rectangular, flat-roofed shoe boxes of the 1960s. The industry notes that the materials that go into manufactured housing—such as pine studs and gypsum wallboard—are the same as those typically used in site-built homes.

Moreover, those products remain inside the factory during construction and aren't damaged by rain.

At a Champion Home Builders Inc. factory here, about 80 miles northeast of Pittsburgh, workers put together "modules," or box-like sections of homes, complete with flooring, plumbing, electrical wiring and carpet. The makings of an entire home can be completed in six days. Once delivered, the modules can be attached side by side, or stacked on top of each other to make two- or three-story homes.

Unfortunately, "people still think of the old trailer park and the eyesores," says Phyllis Knight, acting CEO of Champion.

Don Glisson, CEO of Triad Financial Services Inc., which finances manufactured-home sales, says the industry could use an image-building national advertising campaign, but "nobody wants to pony up the money because times are so tough."

A bigger disadvantage may be financing costs. Most manufactured homes are financed with personal-property loans, meaning the loan is secured only by the home and not the land, which is often leased from the operator of a housing community. Rates on such loans, which are considered riskier, are around 7% to 11%, compared with less than 5% for conventional home loans.

Although 2008 housing legislation required government-backed mortgage companies Fannie Mae and Freddie Mac to support financing for manufactured homes, the regulator of Fannie and Freddie, the Federal Housing Finance Agency, recently decided such loans should be funded only when backed by land as well as by homes. Most buyers of manufactured homes either don't own the land or don't want to mortgage it.

Unless the financing disadvantage is eliminated or reduced, "the manufactured-home industry seems destined to struggle and dwindle," Mr. Buffett said in his annual letter to shareholders earlier this year.

Write to James R. Hagerty at bob.hagerty@wsj.com and Serena Ng at serena.ng@wsj.com

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THE WALL STREET JOURNAL.
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Mobile-Home Makers Try To Stitch Together a Rebound

By James R. Hagerty and Serena Ng
873 words
30 September 2010
The Wall Street Journal
J
B1
English

CLARION, Pa. -- Builders of manufactured homes -- the kind constructed in a factory and often known to the public as mobile homes or trailers -- missed out on the great American housing boom. Now some of them hope their industry has finally stopped imploding.

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THE WALL STREET JOURNAL.

Markets
MasterCard, Berkshire Hathaway Cl B: Money Flow Leaders (MA, BRKB)

By MARKET DATA STAFF
85 words
13 September 2010
03:44 PM
The Wall Street Journal Online
WSJO
English

MasterCard Inc. topped the list in late trading for Buying on Weakness, which tracks stocks that fell in price but had the largest inflow of money. See the full list.

Berkshire Hathaway Inc. Cl B topped the list for Selling on Strength, which tracks stocks that rose in price but had the largest outflow of money. See the full list.

Go to Markets Data Center (WSJMarkets.com) for complete coverage.

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THE WALL STREET JOURNAL.
U.S. EDITION

New Securities Issues

972 words
9 September 2010
The Wall Street Journal
J
C7
English

The following were among recent offerings and pricings in U.S. and non-U.S. capital markets, with terms and syndicate manager, based on information provided by Dow Jones Newswires and Factiva. A basis point is one-hundredth of a percentage point; 100 basis points equal a percentage point.

CORPORATE

Burlington Northern Santa Fe LLC -- $750 million multitranche bond issue was priced Tuesday, according to a person familiar with the matter. Terms: Tranche 1: Amount: $250 million; maturity: 2020; yield: 3.616%; spread: 100 basis points more than Treasurys. Tranche 2: Amount: $500 million; maturity: 2040; yield: 5.074%; spread: 140 basis points more than Treasurys.

Goodrich Corp. -- $600 million bond issue was priced through lead managers Bank of America Securities, Citigroup, UBS, Wells Fargo, BNY Mellon, Credit Agricole, Credit Suisse and Deutsche Bank, according to a person familiar with the deal. Terms: Maturity: Feb. 1, 2021; coupon: 3.60%; price: 99.788%; yield: 3.625%; spread: 100 basis points more than Treasurys; settlement: Sept. 13, 2010 (flat); ratings: Baa2 (Moody's), triple-B-plus (S&P).

Home Depot -- $1 billion multitranche bond issue was priced Tuesday. Terms: Tranche 1: Amount: $500 million; maturity: 2020; yield: 2.626%; spread: 135 basis points more than Treasurys. Tranche 2: Amount: $500 million; maturity: 2040; yield: 3.67%; spread: 175 basis points more than Treasurys.

GLOBAL

Areva SA -- 750 million euro bond issue was priced for the French nuclear group, one of the banks running the sale said Wednesday. Banco Bilbao Vizcaya Argentaria SA, Citigroup Inc. and Royal Bank of Scotland Group PLC were lead managers on the deal, which has the following terms: Maturity: March 22, 2021; coupon: 3.5%; reoffer: 99.540; date: Sept. 22, 2010; spread: 100 basis points more than midswaps; denominations: 50,000 euros. The bonds are being sold under the borrower's euro medium-term-note program.

Danske Bank AS -- 1 billion euro bond issue was priced via joint bookrunners BNP Paribas SA, Danske Bank and UBS AG with the following terms: Maturity: Sept. 16, 2013; coupon: 55 basis points more than three-month euro interbank offered rate; reoffer: 99.911; date: Sept. 16, 2010; spread: 58 basis points more than three-month euribor; debt ratings: Aa3 (Moody's), single-A (S&P) and A+ (Fitch); denominations: 50,000 euros and increments of 1,000 euros thereafter; listing: London; interest: quarterly.

Commerzbank -- 1 billion euro bond issue was priced, according to one of the banks running the sale Tuesday. Commerzbank, BNP Paribas SA and DZ Bank AG were managers on the deal. Terms were as follows: Maturity: Sept. 16, 2020; coupon: 4%; reoffer: 99.797; date: Sept. 16, 2020; spread: 177 basis points more than the 2.25% Sept. 2020 bundisobligation; debt ratings: A3 (Moody's); denominations: 1,000 euros; interest: annual. The bonds are being sold under the borrower's euro medium-term-note program.

Italy -- $2 billion bond issue was priced. Deutsche Bank, Goldman Sachs International and Morgan Stanley were joint-lead managers on the deal. Maturity: Sept. 16, 2013; coupon: 2.125%; reoffer: 99.740; date: Sept. 16, 2010; spread: 120 basis points more than midswaps; debt ratings: Aa2 (Moody's), single-A-plus (S&P) and AA- (Fitch); denominations: 100,000 euros; 1,000 euros; listing: Luxembourg.

La Caisse d'Amortissement de la Dette Sociale -- $1.5 billion bond issue was priced for CADES as the French agency borrower is known, one of the banks running the sale said Wednesday. Credit Suisse AG, Goldman Sachs International, Royal Bank of Scotland PLC and UBS AG were bookrunners on the deal. Terms: Maturity:

Sept. 15, 2015; coupon: 1.875%; reoffer: 99.827; date: Sept. 15, 2010; spread: 27 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 1,000 euros; listing: Luxembourg; interest: annual.

Lloyds Banking Group -- $2 billion bond issue was priced for unit Lloyds TSB Bank PLC via lead managers Citigroup Inc., Deutsche Bank AG, Goldman Sachs Group Inc., J.P. Morgan Chase & Co. and Lloyds, one of the banks leading the deal said Wednesday. Terms: Maturity: 10 years; coupon: 6.5%; spread: 400 basis points more than 10-year treasurys; debt ratings: Aa3 (Moody's), double-A-minus (S&P) and A+ (Fitch).

Nationwide Building Society(U.K.) -- 1.25 billion euro bond issue was priced, one of the banks running the sale said Tuesday. HSBC Holdings PLC, Royal Bank of Scotland Group PLC, and UBS AG were joint-lead managers on the bond: Maturity: Sept. 14, 2015; coupon: 2.875%; reoffer: 99.583; date: Sept. 14, 2010; spread: 115 basis points more than midswaps; debt ratings: Aaa (Moody's), triple-A (S&P) and AAA (Fitch); denominations: 50,000 euros; 1,000 euros; listing: London.

North-Rhine Westphalia -- $1 billon bond issue was priced Wednesday for the German state via lead managers Deutsche Bank, HSBC Holdings and UBS. Terms: Maturity: Sept. 17, 2014; coupon: 1.625%; price: 99.569; date: Sept. 17, 2010; spread: 40 basis points more than midswaps; debt ratings: Aa1 (Moody's), double-A-minus (S&P) and AAA (Fitch); interest: annual.

Total SA -- 500 million euro bond issue was priced for Total Capital, a unit of the French oil company via lead managers Bank of AmericaMerrill Lynch and the Royal Bank of Canada Capital Markets, one of the banks running the sale said Wednesday. Terms: Maturity: Sept. 15, 2022; coupon: 3.125%; reoffer: 99.311; date: Sept. 16, 2010; spread: 48 basis points more than midswaps; debt ratings: Aa1 (Moody's), double-A (S&P), denominations: 1,000 euros; listing: Luxembourg and Paris. The bonds are being sold under the borrower's euro medium-term-note program.

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THE WALL STREET JOURNAL.

Autos
BYD's Sales Fell in August Amid Fewer Incentives

By Joanne Chiu And Yajun Zhang
433 words
7 September 2010
The Wall Street Journal Online
WSJO
English

Chinese car and battery maker BYD Co. said Monday its domestic car sales fell 5.9% in August, the fifth consecutive month-on-month decline, due to reduced government incentives for buyers.

BYD, 10%-owned by MidAmerican Energy Holdings Co., a unit of Warren Buffett's Berkshire Hathaway Inc., sold 31,069 cars in August, down from 33,046 in July, and 19% less than it sold in August last year, a BYD official said.

The Shenzhen-based company sold 353,129 cars in the January-August period, representing 58.9% of its adjusted full-year target.

Last month, BYD lowered its 2010 auto-sales target by 25%, to 600,000 from 800,000, due to slowing demand for cars, as well as production constraints because of an increased focus on larger cars.

Meanwhile, General Motors Co. China Vice President David Chen said Monday he hopes the Chinese government will extend electric-car subsidies to imported vehicles.

Mr. Chen said on the sidelines of a conference that Beijing's policy to subsidize only domestically produced electric cars would hurt foreign companies' competitiveness in China. In June, the government said it would provide subsidies for purchases of battery-powered cars and plug-in hybrids under a pilot program aimed at keeping the country competitive in the race to develop an electric-vehicle industry.

China's Ministry of Finance said it would launch the two-year program this year in five cities—Shanghai, Hangzhou, Changchun, Shenzhen and Hefei. Under the program, buyers of domestically produced electric vehicles would receive subsidies of up to 60,000 yuan ($8,800) a vehicle, and buyers of some domestically produced gasoline-electric hybrid automobiles will receive up to 50,000 yuan a vehicle.

"China is the only country that has different subsidy policies [for electric vehicles based on origin]," Mr. Chen said. "The U.S. government provides $7,500 for every electric car no matter where it comes from," he said. Mr. Chen made the comments after GM said it will start selling the Chevrolet Volt electric car in China in 2011.

Currently, foreign companies don't produce pure electric battery cars or plug-in hybrids in China. BYD is the only company that produces and sells advanced vehicles in China.

Mr. Chen also said GM is interested in building car-charging stations in China, which are mainly being constructed by State Grid Corp. and other Chinese power firms in the trial cities. He didn't elaborate.

Norihiko Shirouzu contributed to this article.

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THE WALL STREET JOURNAL.
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Corporate News: Corporate Watch

507 words
7 September 2010
The Wall Street Journal
J
B2
English

SJM HOLDINGS

Casino Operator Seeks

Sands's Land in Macau

SJM Holdings Ltd., the casino operator controlled by gambling magnate Stanley Ho, has asked the Macau government for permission to take over a piece of land into which a unit of Las Vegas Sands Corp. has already poured more than $100 million -- potentially compounding the operational difficulties faced by the U.S. company in China's fast-growing gambling hub.

SJM Chief Executive Ambrose So said in an interview Monday that the company had sent a letter to the government expressing interest in land on Cotai that Sands China Ltd. has been calling sites 7 and 8.

The government's recent threat to take back undeveloped land has raised concerns. In a statement accompanying its first-half results last month, Sands China said denial would mean the amount it has spent preparing the land would be forfeited.

Sands China acting chief executive Mike Leven said that though he hadn't seen SJM's letter, the company "will defend (its) positions" on the sites and that historically when the government has allowed operators to invest in land, they've eventually gotten the rights to it.

-- Kate O'Keeffe and Alexandra Berzon

BYD

Fewer Incentives Knock

Sales at Auto Maker

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-- Joanne Chiu and Yajun Zhang

INDIAN AIRLINES

Trade Union Strikes Halt

Several Domestic Flights

Indian carriers plan to cancel about 90 flights to and from the eastern city of Kolkata and some neighboring destinations Tuesday due to a day-long strike called by trade unions.

The strike has been called jointly by several trade unions to protest rising prices and the government's decision to sell stakes in profit-making state-owned companies. The country's biggest carrier by market share, Jet Airways (India) Ltd., said it along with its low-fare unit JetLite will cancel 30 flights Tuesday, including one to Bangkok. Kingfisher Airlines Ltd. said it will cancel about 15 domestic flights. Executives at low-fare carriers SpiceJet Ltd. and IndiGo said the airlines will cancel 23 flights each. National carrier Air India hasn't decided to cancel any flights yet.

-- Anirban Chowdhury

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THE WALL STREET JOURNAL.
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The Game: It's Warren vs. Betty, in a Historic Faceoff

By Dennis K. Berman
828 words
7 September 2010
The Wall Street Journal
J
C1
English

This begins as a Warren Buffett love story. The intriguing question is whether it ends that way.

Try to imagine back to those Nixonian mists of 1973. A small Pasadena, Calif., savings and loan named Wesco Financial Corp. is about to merge with a local suitor. The deal alarms a duo of up-and-comers, 43-year-old Mr. Buffett and colleague Charles Munger, who think the $45 million offer is a rip-off.

They are invited by Elizabeth "Betty" Caspers Peters, the founder's daughter, to break up the deal. They eventually take over Wesco themselves, accumulating an 80.1% stake.

"I liked Mr. Buffett enormously," Ms. Peters said in an interview Monday. But Ms. Peters, who was 47 at the time of the deal, had one demand: that some Wesco shares continue to trade publicly.

Good move. Those few shares are up roughly 50-fold since early 1978, outpacing gains at both Berkshire Hathaway and the Dow Jones Industrial Average by more than three times. The old S&L is gone. Sleepy little Wesco, transformed into a collection of insurance, steel-processing and furniture rental businesses, is now worth $2.6 billion.

Today, Ms. Peters is 84 and still on the board. She is fiercely proud of Wesco, having taken it public in 1959, when, she reminds, few women ever stepped in a board room.

"Happily, I've been part of the ride," she says of Berkshire.

Late last month, Mr. Buffett and Mr. Munger, Wesco's chief executive, offered to buy out Wesco's remaining 19.9% for roughly $500 million. Neither man responded to requests for comment. Mr. Munger's latest shareholder letter may have been the only time in history a CEO disparaged his company and its employees. "Business and human quality in place at Wesco continues to be not nearly as good as Berkshire," he wrote.

They have priced their offer to Wesco's 5,400 minority shareholders accordingly. They are willing only to pay Wesco's book value, the basic calculation of a company's assets minus liabilities.

Wesco has convened a committee of independent directors to evaluate the deal. They would be foolish to press for more, Mr. Buffett says, because they won't get it. "No hard feelings" if directors won't accept, he wrote.

Will Wesco ask for an improved offer, knowing that Berkshire could walk away? The answer will come in part from the woman who faced the same judgments back in 1973: Ms. Peters, now the pivotal player among the three-member independent committee. She holds about 5% of non-Berkshire shares, the third-largest bloc.

Thus sets up one of the most unlikely merger face-offs of 2010: Betty vs. Buffett.

Wesco is the oddest of ducks. It has no employees and virtually no public presence. Wesco's primary appeal, it seems, is its annual meeting, where the cantankerous Mr. Munger holds forth on philosophy, and, occasionally, business. "We would pay to keep it public so we could continue to have an annual meeting," says Glenn Tongue, managing partner at T2 Partners and a Wesco holder.

There is little room for sentiment in the work of special committees. They must determine whether shareholders are getting a fair, if not optimal, offer. Lawsuits await those who don't.

Berkshire's offer is based on Wesco's book value when the deal closes. That value was $352 at the end of June. The stock traded at around $360 Friday, having hit $416 over the past year.

There is plenty to suggest that Wesco is indeed worth Berkshire's offered book value. About $2 billion of Wesco's $2.5 billion of assets is simply a pool of stocks and bonds; its main appeal is the management skill of 80-year-old Mr. Buffett and 86-year-old Mr. Munger. Wesco's operating businesses perform meekly.

Unsatisfied shareholders will point out that Wesco has traded well above its book value at various times in the past two years. They might also argue that the company's insurance operations, tightly aligned to Berkshire, might be better valued in line with its parent, which trades at 1.4 times book.

The market consensus is that Ms. Peters will take Berkshire's offer. The price is "fair and appropriate," says Mr. Tongue. "It's not like you're buying brand equity in this company. It has none."

Ms. Peters won't comment about the offer, only saying that "I believe I'm the best person on that board to represent the minority shareholders."

So is she willing to get tough with the man whom she so admires? Politely, but firmly, she ends the phone call. She is busy, she says, with grandchildren at her home in Napa Valley. "Right now we're picking peaches."

Twitter.com/dkberman

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THE WALL STREET JOURNAL.
ASIA EDITION

Corporate News: Fewer incentives hit BYD sales

By Joanne Chiu and Yajun Zhang
269 words
7 September 2010
The Wall Street Journal Asia
AWSJ
22
English

Chinese car and battery maker BYD Co. said Monday its domestic car sales fell 5.9% in August, the fifth consecutive month-on-month decline, due to reduced government incentives for buyers.

BYD, 10%-owned by MidAmerican Energy Holdings Co., a unit of Warren Buffett's Berkshire Hathaway Inc., sold 31,069 cars in August, down from 33,046 in July, and 19% less than it sold in August last year, a BYD official said.

The Shenzhen-based company sold 353,129 cars in the January-August period, representing 58.9% of its adjusted full-year target.

Last month, BYD lowered its 2010 auto-sales target by 25%, to 600,000 from 800,000, due to slowing demand for cars, as well as production constraints.

Meanwhile, General Motors Co. China Vice President David Chen said Monday he hopes the Chinese government will extend electric-car subsidies to imported vehicles.

Mr. Chen said on the sidelines of a conference that Beijing's policy to subsidize only domestically produced electric cars would hurt foreign companies' competitiveness in China. In June, the government said it would provide subsides for purchases of battery-powered cars and plug-in hybrids under a pilot program aimed at keeping the country competitive in the race to develop an electric-vehicle industry. China's Ministry of Finance said it would launch the two-year program in five cities -- Shanghai, Hangzhou, Changchun, Shenzhen and Hefei.

Norihiko Shirouzu contributed to this article.

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THE WALL STREET JOURNAL.

Deals & Deal Makers
Berkshire Won't Budge on Wesco Bid

By Serena Ng
449 words
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The Wall Street Journal Online
WSJO
English

Warren Buffett's Berkshire Hathaway Inc. said the price it is offering to pay for the shares it doesn't own in its subsidiary Wesco Financial Corp. is "fair" and it doesn't intend to pay more to boost its ownership in Wesco to 100%.

On Wednesday, Berkshire submitted a letter to the board of directors at Wesco to formally propose its offer to buy the 19.9% stake Berkshire doesn't already own for a price per share that will be determined by Wesco's book value around the time the deal closes, likely sometime in the fourth quarter of this year.

Wesco's book value, which represents its assets minus its liabilities, was around $353 per share at the end of June 2010, and has likely changed since then. On Wednesday, Wesco's shares closed at $363, up 46 cents or 0.1%.

Berkshire, run by billionaire Warren Buffett, this past Friday announced its intention to acquire the rest of Wesco, a Pasadena, Calif. holding company for insurers and other businesses that is run by Charlie Munger, Berkshire's vice-chairman and Buffett's long-term business partner.

Berkshire bought its majority stake in Wesco more than 30 years ago for a little over $30 million, and will now have to pay roughly $500 million to buy the rest of the company from the public and other shareholders. Munger, 86, previously said Wesco ought to be completely merged into Berkshire but it was seen as difficult in the past because shareholders of Wesco had pushed its share price well above its book value.

In Wednesday's letter to Wesco's board, Buffett said given the close ties between Berkshire and Wesco, the board of Wesco is expected to form a special committee to consider the proposal, or let its independent directors decide on it. The deal also needs approval from a majority of Wesco's minority shareholders who would vote at a special meeting.

Wesco on Wednesday said its board of directors has formed a special committee comprised of three independent directors to evaluate Berkshire's offer. It said there is no assurance the deal will be completed.

Buffett also wrote that if Wesco's directors or minority shareholders don't think the offer is fair, "there will be no hard feelings on our part" and Berkshire will continue operating Wesco the same way it does presently.

Wesco shareholders can elect to receive cash, or Berkshire Class B shares if they want the transaction to be tax-free, or a combination of both

Write to Serena Ng at serena.ng@wsj.com

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Markets
International Business Machines, Berkshire Hathaway Cl B: Money Flow Leaders (IBM, BRKB)

By MARKET DATA STAFF
89 words
31 August 2010
03:47 PM
The Wall Street Journal Online
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English

International Business Machines Corp. topped the list in late trading for Buying on Weakness, which tracks stocks that fell in price but had the largest inflow of money. See the full list.

Berkshire Hathaway Inc. Cl B topped the list for Selling on Strength, which tracks stocks that rose in price but had the largest outflow of money. See the full list.

Go to Markets Data Center (WSJMarkets.com) for complete coverage.

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THE WALL STREET JOURNAL.
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Deals &Deal Makers
Deal Journal / Breaking Insight From WSJ.com

By Serena Ng
732 words
30 August 2010
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C3
English

Buffett's Vow:

'Work Past 100'

Berkshire Boss Foresees

More Years in Charge;

Another Opening Emerges

Warren Buffett turns 80 years old today, and he isn't slowing down a bit. Instead, he is likely to take on more work in the coming year while the ball starts rolling on his closely guarded succession plan.

Back in February 2007, the chief executive officer of Berkshire Hathaway said in his annual shareholder letter that his expected life span was about 12 more years, suggesting he should be around at least until age 88. Followers of Mr. Buffett say he is only getting better with age, and a life expectancy calculator on the web currently estimates he will around for at least another dozen years, notes money manager Whitney Tilson.

"I plan to work past 100, but to do so I may have to learn to think outside the box," Mr. Buffett tells Deal Journal.

Mr. Buffett has no intention of stepping down simply because he loves his work. But when the inevitable happens, Berkshire's board is expected to name a new CEO to run the business and one or more executives to oversee its investments. There are three candidates to become CEO (the front-runner is widely seen as 53-year-old MidAmerican Energy Holdings chairman and NetJets CEO David Sokol) but less clear is who will handle Berkshire's large investment portfolio or how it may be divvied up.

Management succession was recently cited by Goldman Sachs Group research analysts as a risk to Berkshire's future value and its ability to continue identifying good investments and generating above-average returns. (Goldman has a "buy" rating on Berkshire.) From 1965 to 2009, Berkshire's book value per share has increased at a compound annual rate of 20.3%, versus 9.3% for the S&P 500 stock index.

Charlie Munger, Mr. Buffett's longtime business partner and Berkshire's vice chairman, once was seen as a potential successor, but he is now 86. Mr. Buffett already has outlasted another potential successor: Louis Simpson, a veteran money manager who oversees auto insurer Geico's multibillion-dollar investment portfolio, recently indicated he plans to retire at year-end. Mr. Simpson, who has autonomy over Geico's investments, is 73 and would have been able to step into Mr. Buffett's shoes if needed. Mr. Buffett will include Geico's $4 billion portfolio in the more than $50 billion of stock investments he oversees after Mr. Simpson retires. He also may have to move his succession plan further along.

"This retirement is a good opportunity to see how Berkshire adapts to change," said Paul Howard, an independent analyst in Glastonbury, Conn. He adds that coming decisions by Mr. Buffett could telegraph how the company will deal will future management changes.

A candidate for one of the top investment jobs is Li Lu, a 44-year-old hedge-fund manager who led Berkshire to invest in Chinese battery and auto maker BYD. It remains unclear how Mr. Li may become involved with Berkshire's portfolios.

Despite his well-known love of hamburgers and his habit of downing several Cherry Cokes a day, Mr. Buffett has shown no signs of ill health. But he has acknowledged there may come a time when his mental faculties begin to fade. He said he expects Bill Gates -- a longtime friend, bridge partner and member of the Berkshire board -- to tell him if it is time to step down.

Mr. Buffett noted in his annual letter to shareholders a few years ago that he was aware of the problems that could arise if he were to lose a step, saying it would be an issue "if this decay is accompanied by my delusionally thinking that I am reaching new peaks of managerial brilliance." When a person's abilities ebb, "so usually do their powers of self-assessment," he wrote. "Someone else often needs to blow the whistle."

Glenn Tongue, who together with Mr. Tilson runs investment firm T2 Partners LLC, says Mr. Buffett "really has never seemed sharper, and he's on his game right now. We would be surprised if he's not in his current role in five years."

Erik Holm contributed to this article.

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THE WALL STREET JOURNAL.

Business
Berkshire Is Buying Rest of Wesco

By Serena Ng And Erik Holm
604 words
27 August 2010
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English

Berkshire Hathaway Inc. plans to buy the remaining shares of a subsidiary long run by Berkshire Vice Chairman Charlie Munger for roughly $500 million in stock and cash.

Berkshire, which has owned 80.1% of Wesco Financial Corp. for years, said it plans to buy the 19.9% stake it doesn't already own by paying an amount equal to Wesco's book value per share around the time the deal closes. That number, which represents the company's assets minus its liabilities, was about $353 a Wesco share at the end of the second quarter.

Shares of Wesco rose $38.25, or nearly 12%, to $363 in 4 p.m. trading on Thursday. The shares hit a high of $416 in March this year.

Like Berkshire, Wesco is a collection of companies that includes property-and-casualty insurers and nonfinancial businesses, such as a furniture-rental company and a metal-cutting business. Wesco, based in Pasadena, Calif., has some common minority shareholders with Berkshire.

Its chief executive is Mr. Munger, 86 years old, a longtime business partner of Berkshire Chairman and Chief Executive Warren Buffett, who turns 80 on Monday. Neither executive has announced any plans to step down.

A Berkshire unit acquired its majority stake in Wesco more than 30 years ago, paying a little more than $30 million in cash. The value of its stake is now roughly $2 billion.

Under the recent offer, shareholders in Wesco can choose to receive cash or Berkshire Class B shares, or a combination of the two. The deal needs approval from Wesco's independent directors and a majority of its minority shareholders.

Mr. Munger previously signaled that Wesco might be subsumed into Berkshire, but several years ago noted that shareholders had bid up Wesco's share price above the business's liquidating value, making a merger difficult.

In May this year, at Wesco's annual shareholder meeting, Mr. Munger called Wesco a "historical accident that, in due course, ought to be merged into Berkshire," according to an August feature containing his comments in Outstanding Investor Digest, an investment newsletter.

"You shouldn't think of it as a wonderful, independent company with fabulous prospects of some kind," he was also quoted as saying.

Merging Wesco into Berkshire would bring some synergies and cost savings to the firm, analysts said. If the deal falls through, Berkshire said Wesco will continue to operate as it now does.

"Post Buffett and Munger, Wesco makes no sense to exist on its own; it really belongs within Berkshire as a whole," said Jeff Matthews, founder of Ram Partners LP, who owns Berkshire shares for his personal account.

The proposed acquisition price, at book value, "tells you what Buffett thinks it's worth. He does not overpay—and he's in an advantageous position because no one else is trying to buy this company," Mr. Matthews added.

Wesco had net income of $43.6 million in the first six months of 2010, 33% higher than the same period a year earlier. Microsoft Corp. co-founder Bill Gates , a Berkshire director, owns 1.3% of Wesco's stock.

A deal would bring an end to the Wesco annual meeting in southern California, where some of Berkshire's most loyal investors have gathered in recent years after Berskhire's own annual meeting in Omaha, Neb.

Mr. Munger, known for being succinct while sharing the stage with Buffett at the Berkshire meeting, has answered questions for hours when he had the floor to himself at the smaller Wesco gathering in California.

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THE WALL STREET JOURNAL.

Credit Markets
Norfolk Southern's Century Bonds Roll

By Katy Burne
867 words
24 August 2010
The Wall Street Journal Online
WSJO
English

In what bankers hope will be the first in a new round of 100-year bond sales, Norfolk Southern Corp. raised $250 million Monday by selling debt that it won't have to repay until the next century.

The Norfolk, Va.-based railroad is taking advantage of soaring investor appetite for corporate debt and low interest rates. The bonds were added to an existing $300 million 6% debt issue due 2105 that the company first sold in 2005.

Investor interest was strong enough that the company increased the size of the new sale from $100 million. Market participants said investors had expressed an interest in buying at least $75 million of the debt before the company decided to announce the $100 million deal. Before 2005, Norfolk Southern had one other 100-year issue, in 1997.

Bankers have been pitching investors on the idea of 100-year bonds in recent weeks. Treasury rates are so low that companies can lock in 100-year financing at reasonably attractive rates.

At the same time, investors are sitting on piles of cash and looking to put it to work in corporate bonds, where they are seeking longer-dated assets that give them higher yields.

The interest rate on Norfolk Southern's new debt is 6% for a yield of 5.95%, about 0.90 percentage points more than where the company's outstanding 30 year debt was trading Monday. It was the lowest yield for 100-year debt bankers could recall, breaking through the 6% yield on the company's 100-year issue in 2005.

In another sign of investors' appetite for risk, San Diego Gas & Electric Co. sold $500 million of 30-year debt Monday with an interest rate of 4.5% to yield 4.568%—a record low yield for that maturity—and a spread of 0.88 percentage points over Treasurys.

Norfolk Southern's original deal in 2005 sold at par, with a yield 1.37 percentage points over Treasurys. The 100-year bond sold in 1997 for $350 million, which was part of a $4.3 billion deal, had a spread of 0.97 percentage point over Treasurys.

"There is no question, obviously, that you are giving up a bit of liquidity, but you're getting a pickup of 90 basis points to move out of the 30-year," said Jeff Coil, senior portfolio manager at Legal & General Investment Management America. "But you're getting good income on a stable cash credit in a sector where there are only a handful of rails left."

Mr. Coil said the firm had a "sizeable" order in the deal. There were approximately 20 investors overall.

Moody's Investors Service rated the new senior fixed-rate bonds Baa1, and both Standard & Poor's and Fitch Ratings rated them BBB+.

Goldman Sachs Group managed the sale, but declined to comment. Proceeds will be used for general corporate purposes. A Norfolk Southern spokesman said the "decision to reopen the 100-year bonds was based on the current low rates, coupled with the strong appetite among buyers for them."

Century bonds were very popular earlier this decade and in the mid 1990s, but they aren't very liquid in secondary trading, meaning that they only make sense for certain types of investors.

"For most investors, it doesn't make a lot of sense to own 100-year paper," said Ashish Shah, co-head of credit at AllianceBernstein.

Life insurers and pension funds were the main buyers because they need to match their long-term liabilities with assets of a similar duration. Investors prefer issues to be at least $250 million in size—as the Norfolk Southern 2105 bonds are—so they are eligible for inclusion in the Barclays Capital Aggregate Bond Index, a performance benchmark.

Driving more pension fund interest will be the Pension Protection Act of 2006. Michael Collins, senior investment officer for Prudential Fixed Income, said that over time the act will encourage pension-fund managers to minimize risk between their assets and liabilities even more than they do now.

Issuers have been shifting toward the long end of the maturity spectrum, with around 30% more 30-year debt being issued in 2009 and 50% less three-year debt issued than last year, according to data provider Dealogic.

Only the strongest companies are able to issue century bonds—brands such as Coca Cola Enterprises Inc. that are expected to be around in 100 years time. While they may have to pay more than they do when selling 30-year debt, some are able to stomach that extra cost—especially if they are able to use the proceeds to buy back more expensive debt that they sold when rates were higher.

Other companies that have brought century bonds to market in the past include International Business Machines Corp., Berkshire Hathaway's Burlington Northern Santa Fe Corp., FedEx Corp., Ford Motor Co., Motorola Inc. and the Wisconsin Electric Power Co. unit of Wisconsin Energy Corp.

IBM recently exchanged a portion of its 7.125% debentures due 2096 for a new series of 5.6% senior unsecured bonds due 2039.

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THE WALL STREET JOURNAL.

Earnings
BYD Says Growth Will Slow Further; Car maker expects 'modest growth' in China

By Joanne Chiu
598 words
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English

HONG KONG—BYD Co.'s first-half net profit more than doubled from a year earlier, as the Chinese battery and car maker benefited from Beijing's measures to boost car sales.

Chairman Wang Chuanfu said in a written statement Sunday that sales growth in China's automobile market slowed down during the second quarter. He added that "modest growth" is likely for the domestic auto industry in coming months.

The Shenzhen-based company also said it intends to establish regional sales offices in North America and Western Europe to seize greater market share and generate more revenue. BYD plans to sell its all-electric car, the e6, in the U.S. later this year.

BYD, which is 10%-owned by MidAmerican Energy Holdings Co., a unit of Berkshire Hathaway Inc. of the U.S., said Sunday that its net profit totaled 2.42 billion yuan (US$356.4 million) for the six months ended June 30, up from 1.18 billion yuan a year earlier. The results are based on international accounting standards.

Established in 1995, BYD began as a manufacturer of rechargeable lithium-ion and nickel batteries and branched out into producing cellphone parts and alternative-fuel cars.

Its background in battery production caught the attention of Berkshire Hathaway Chairman Warren Buffett as interest in electric vehicles grew amid surging oil prices and the likelihood of international efforts to reduce emissions from fossil fuels.

Mr. Buffett's investment helped underpin the company's ambition to sell cars in developed markets such as the U.S.

BYD, which benefited from Beijing's stimulus measures last year to encourage auto purchases during the global economic downturn, sold 450,000 cars in 2009, more than double the 170,000 cars it sold the previous year.

The stimulus measures boosted overall sales in China, helping it overtake the U.S. as the world's biggest auto market in 2009. Although auto-sales growth in China remained fast at the start of 2010, the growth has moderated in recent months partly because of a reduction in government incentives for auto purchases. Analysts say they expect the auto-sales growth to moderate further in the second half.

The softening demand prompted the company, which has a market capitalization of HK$36.76 billion (US$5.41 billion), to earlier this month slash its 2010 auto-sales target by 25% to 600,000 vehicles from 800,000. It said production constraints because of an increased focus on larger cars are also contributing to the reduced target.

BYD sold 286,000 cars in the first half, up 58% from a year earlier but just 36% of the company's original full-year target.

The company's first-half revenue rose 50% to 24.25 billion yuan from 16.13 billion yuan. BYD didn't recommend a first-half dividend.

Revenue at BYD's car-making operations, which contributed 54% of the company's first-half revenue, rose 46% to HK$13 billion. Revenue from the battery and other electronic businesses, mainly held by Hong Kong-listed unit BYD Electronic (International) Co., rose 55% to HK$11.26 billion.

BYD shares fell 2.6% to close at HK$46.40 on Friday amid concerns over softening car sales in China. Still, the closing price was more than five times the HK$1.8 billion, or HK$8 per share, that MidAmerican paid for its minority stake in 2008.

Write to Joanne Chiu at joanne.chiu@dowjones.com

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