WB: Good morning. I'm Warren and this hyperkinetic fellow is Charlie. We'll conduct this pretty much as we have in past. We'll take questions until 3:30, and then begin the regular meeting of shareholders at that time. Feel free to shop. See 's Candy has placed a lollipop at every seat, and if you could open the lollipop now we'll post a picture on Facebook, and for the media. And now you can take off the cover and good part comes. CM and I have fudge and peanut brittle. If we've consumed 10k calories each we'll have to stop early.

We released Q1 earnings yesterday. In general, all our companies with the exception of those in residential construction have pretty much shown good earnings. Our five largest non-reinsurance companies all had record earnings last year, $9bil pre-tax. I said that I thought they would earn $10bil pretax this year, and nothing we have seen so far would cause me to backtrack on this. One cost at Geico is an accounting change or deferred policy acquisition cost, dpac. No change on cash, but took earnings down 250m pretax. It is a deferred advertising issue. We had a terrific Q1 at Geico, float grew and we had a 9% margin. The Dpac charges may affect 2Q and a little in 3Q, but underlying figures are somewhat better than what we've presented.

We feel good about Q1 and about the year. We should introduce the directors. Introducing the directors: Charlie Munger. Please hold applause until end, but I know he's sort of irresistible. Howard Buffett, Steve Burke, Susan Decker, Bill Gates, Charlotte Gottesman, Koegh, Don Murphy, Walter Scott, and Ron Olson.

We'll go to questions. Sometimes there are about 60 questions, and if we get to 54 questions, we'll do nothing but answer shareholder questions.

Q1 -- Loomis: Heavy responsibilities on successor. Chris Ng: As CEO of large financial company, must be chief risk officer. Does leading and backup possess knowledge temperament to be Chief Risk Officer? Second question: GE, BAC, GS deals - could they have been done at similar terms without your involvement?

WB: CEO should be Chief Risk Officer. We have seen it delegated, where risk committee would report to directors, with sigmas and everything. The place was ripe for real trouble. I am Chief Risk Officer. It is up to me to understand what could hit us catastrophically. We would not select anyone who couldn't' do it. Allocation of capital and selection of managers is right up there in importance. Of course need to be concerned about excessive leverage and insurance risk. The person at the top needs to understand if the managers are properly assessing their business units. So the top person has to aggregate across the units.

CM: Many have delegated risk, and value at risk and other theories of financial markets following Gaussian curves is one of dumbest ideas ever put forward.

WB: He's not kidding. Everyone knows the properties of the curve, and can make a calculation. The problem is that the curve doesn't apply, and they find that out occasionally. We are not going to have an arts major run Berkshire.

WB: Berkshire can act with speed and finality, and it is rare in corporate America. It takes a willing party on the other side. I dreamt up a deal, but I'd never talked to Brian Moynihan before in my life. I said we'd do it and he knew we had the money. The ability to commit in large sums for complicated instruments is a plus. Berkshire will possess that subsequent to my departure. Not every deal could have been made. But the new CEO can do many things better than I can do. Those deals have not been key to Berkshire. BAC/GE/GS deals – they were ok, but they were not as remotely important as buying Coke when we did, and we bought IBM in the market over 8-9 months. The value of these negotiated security transactions is not as important as Coke. But we still have the ingredients for doing these deals which is important. It isn't a crank call from Berkshire.

CM: Many of the Berkshire directors are great at risk analysis. Kiewit, which bids for oil platforms and other major construction jobs, has a long history of superior risk control. Sandy Gottesman tells one of my favorite stories on risk control. He fired one of his staff, who said, "How can you fire me -- I'm an important producer!" "But I am a rich old man and you make me nervous."

Q2 – Cliff Gallant, KBW: Another question on mortality: in 2011, reinsurance – you had assumptions about mortality rates. You exceeded assumptions at Swiss Re, but at Gen Re, they were lower. What was surprise in Swiss Re, are there different assumptions in different units? What is your reserving philosophy across companies?

WB: We wrote a large Swiss Re contract about 18 months ago, for business they had been written prior to 2004. Mortality figures were above expectations. So at the end of last year – we had a stop loss arrangement. We set up a reserve and we present-valued it, until we figure out what can be done, we will keep that reserved at worst case. We are reinsuring Swiss Re and they are reinsuring a bunch of American insurers. There is ability to reprice that business later. We put it up on a worst case assumption. How does Geico reserve vs Gen Re? It is described a little in the annual report. One overriding principle, we hope to reserve conservatively. It is different reserving in the auto business. You find out quickly how well you are doing. Gen Re – was under-reserved at time we bought it. In 1998/1999 reserves had developed badly, but now developing well. Tad Montrose – I feel good about how he reserves. But there is no coordination btwn Ajit, Tad, and Tony.

CM: There will always be some contract where results are worse than expected. Why would anyone buy our insurance if that weren't the case?

WB: It was very hard to reserve post 9/11 for instance. Can you collect on insurance when you close stock market, and restaurants 2000 miles away in an airport claim business interruption? We were somewhat over-reserved for 9/11. Thailand and Japan is having same issue now – business interruption as result of floods and the Tsunami. Does your business interruption insurance pay? Our reserves generally develop favorably.

Q3 – Station 1: Andy, Westin CT – You've had a few investments in China, PTR and BYD. What advice would you give the new Chinese leadership and to corporate CEOs?

WB: CM made our last China investment, I'll let him handle it.

CM: We're not spending much time giving advice to China. China has been doing well from a tough start, in some ways we ought to seek advice.

WB: We have found it useless to give advice in 60 years of business.

CM: It is like pushing on a noodle. Even with 20% of stock. At Berkshire, we created a system that doesn't require much control at headquarters.

WB: Four largest investments are 50bil and have had some for 25 years, one for 20 years. The number of times we have talked to CEOs of those companies, it doesn't average more than twice a year. We are not in business of giving them advice. If success of our investment depended on them following our advice, we'd go somewhere else.

Q4 -- Becky Quick: Ben Knowl – I am pleased about 1.1x price-to-book buybacks, it is bad to be overvalued. Why didn't you warn us previously when overvalued? Or have you felt Berkshire not overvalued over last decade?

WB: If we could have our way, we would trade stock once per year, and we'd come up with a valuation and it would trade there. That is what some companies do. It would be odd if 30min before market open to announce stock was overvalued. We have never consciously done anything to suggest people to buy stock when stock was above intrinsic. We put on cover in 1990s 'that neither myself nor CM would buy stock at this price."

WB: if we repurchase, we think people should know we think they are selling too cheap. We are not saying 110%. We know significantly above 110%. I don't think we will ever announce that we think stock considerably above intrinsic biz value.

CM: Nothing to add.

Q5 - Jay Gelb, Barclays. Share buybacks. Not a dime of cash has left for dividends and share repurchases in 40 yrs. What is Berkshire's capacity for buybacks, and how attractive vs. M&A and dividends?

WB: At 1.1x we feel very comfortable. We feel comfortable above that, but we want large margin. We want shareholders to know. We have terrific group of businesses. Some of businesses are worth far more money than we carry them at. We have no businesses at large discount to carrying value. From money making, we'd love to buy tens of billions at 110% of book. You never know what kind of market you run into. We'll keep cash at $20bil. Valae per share goes up if we buy at 110% of book. We would do it on a big scale, if didn't take our cash balance below $20bil.

CM: Some people buy back their stock regardless of price. That is not our system.

WB: Some are idiotic.

CM: I'm trying to say that more gently.

WB: Been in boardrooms, they like buying stock at higher prices, and they like issuing options at lower prices. We will only do for one reason, to increase per share value the next day. If we get chance to do in large way, we will. As financial investor, I hope we can do it. As fiduciary, I hope opportunity never comes.

CM: But if it comes we'll grab it.

Q6 – Station 2: Bernard from Austria, US Banks and European Banks. View?

WB: We have a decidedly different view of American banks. US banks are in far better position than they were a few years ago. They've taken many of the abnormal losses, and buttressed capital in big way. They have liquidity coming out of their ears. The American banking system is in fine shape.

EU on the other hand is gasping for air. Mr. Draghi opened wallet and came up with 1tril euros, or 1.3tril USD, or 1/6th of all bank deposits in US. it was a huge act by EURO central bank, designed to replace funding that was running off. More wholesale funding in Europe versus more natural funding in US. Wholesale money can leave more quickly. One Italian bank had a rights offering a few months ago. They didn't want to raise capital, didn't like prices at which they had to do so. They are funding at 1%. I'd like a lot of money for 3yrs at 1%, but I'm not in trouble so I can't get it. It is remarkable what has been accomplished in our banking system. I thought at time Fed/Treasury were overdoing it when they did TARP. I think overall that policy was very sound for the economy. Our society benefitted enormously. Fed and treasury handled quite sensibly.

CM: Europe has a lot of problems. W ehave full federal union, central bank can print money. EU doesn't have full federal union. We are more comfortable w risk profile in US.

WB: It is night and day. When Paulson and Bernanke said we'll do whatever it takes, we knew they have the power to do so. When 17 countries. If I wan tto call Europe what number do I dial?-kissinger. If I had 17 states governors and all agree on a course of action when panic in money market funds. We would have had different outcome. I would put EU and US banks in very differnet categories.

Q7 - Andrew Serwer: I work at a train company, and about coal and natural gas? You seem to have elegant hedge, Mid-American versus BNSF and coal versus gas?

WB: MidAmerican will never be affected too much by coal price – they pass on costs. Regulated, Mid-American holding, and iowa – they are pass through organizations, and operated efficiently, but coal labor may go up and down but this affects customers more. Coal traffic affects all railroads. KWH used in US went down 4.7% in Q1. That is a remarkable decrease in usage. Nat gas is down under $2. Oil was $100. If a few years ago you told CM or me that oil vs. natural gas would be 50:1 ratio we would have asked you what you were drinking.

CM: What is happening now is idiotic. We are using up precious resource which we need for fertilizer. I would use every piece of coal before gas. Gas is the most precious resource we could leave our children.

WB: The installed base is so huge, so you can't change percentages too much. Gas generation is feasible, and in future will see diminution of coal usage but can't be dramatic – the megawatts involved are too huge. It will be interesting to see gas oil ratio play out, as it has changed in very short time. Three years ago.

CM: Many assume if it happens in a free market it will work out in end – this is not right and I think crazy to use up [natural gas].

Q8 – Gary Ransom, Dowling: Telematics and effect on insurance pricing?

WB: Progressive is leader in what you described. If we think there is superior way to evaluate likelihood of having an accident we will use it. You have to answer 51 questions on our website – all evaluate propensity to have an accident. If you could ride in the car for 6 months, you could learn. If you have tool that gives better predictive value, we will take it on. We are always looking. What tells us their likelihood? Youth – no question, a 16 year old male is much more likely to have an accident. I'm not trying to impress a girl when I drive my 3,500 miles per year. Some things are good predictors. Credit scores are good predictors, they tell you a lot about driving habits. I don't see anything that threatens Geico. We added a significant number of policies in first quarter. We were close to 300k policies. Marketing is working well, risk selection and retention is working well. We carry it at $1bil over tangible book value. It is worth a whole lot more than that. It would come up to 15bil now at least. And we wouldn't sell it there.

Q9 – Station 3: Chris Reese – representing students from UVA/Charlottesville, are business school to blame, do you have changes to suggest?

WB: Many taught them bad investment ideas.

CM: No but it is a considerable sin. I think business school education is improving. From a low base.

WB: I'd agree. In investing, probably the silliest stuff we saw was taught at business schools has been in the investment area. Mathematically based, and when popular it is difficult to resist for faculty advancement. To go against revealed wisdom of your elders can be dangerous to your career path. I would have just a couple courses. First how to value a business, and second how to think about markets. Who needs option pricing to be in investment business? When Ray Kroc started McDonalds, he wasn't thinking about option pricing. It was how to make people buy hamburgers and make the fries different.

If you buy businesses for less than they are worth, you'll make money. If you know difference between ones you can value and you can't, you'll make money.

CM: The folly creeps into the accounting. For a very long term option on a business you understand or index, the optimal way to price it is not Black & Scholes. They want a standardized solution that requires them not to think too hard.

WB: Is there anyone we forgot to offend?

Q10 - Carol Loomis: Buffett Rule – all over TV. Could you clear up the confusion? Leo Saselin, Kansas City.

WB: It has gotten used in different ways. It was more fun to attack something I hadn't said than I had said. If you have high income, you pay a rate which is commensurate with rate you are supposed to pay. 131 of those 400 paid 15% or below. Under Buffett rule a minimum tax for very high earners restores rate to what it used to be. There were only 3 in 1982 who paid less than 15%. When shared sacrifice, I would make sure huge incomes get taxed at rate that is commensurate to rate they used to be taxed, and 2/3rds of the people do pay that much, and it would raise a lot of money.

CM: Do you want to talk about the giving half to government question?

WB: If you give to private foundation - only 20%. Charitable contributions help you? Sheldon Whitehouse's bill in the Senate – it got 51 votes but needed 60. There can be other ways to get at the solution. If you have huge income, I have no tax planning, no gimmicks. I made 2004, 2006, and 2010 public – all three of those years, I came in with lowest tax rate in our office. There are 15-22 people in our office. Office was in the 30%s and I was in 17%. Tax law favors the rich. [31] of 300 were below 10% on tax rate. My wife wants it clear, however, that we have no cleaning lady and no cook. My cleaning lady is at the office – she has been paying 15.3% to social security and those with incomes of 100s of millions paying less than 10%. I think time to look at that.

Q11 – Cliff Gallant, KBW: Many catastrophic losses recently, affect on reinsurance pricing? Increased frequency of catastrophes – affecting your view on reinsurance?

WB: It is hard to measure things that move slowly. Separating out random from new trends is not easy to do. We assume worst. We see more earthquakes in NZ recently, but we don't extrapolate last few years, but also don't take the 100 year figure. We have written far more business in Asia, NZ, AU, Thai and Japan this past year because they have had huge losses and the rates they were using were inadequate. They have large capacity and we can do that. We can tell you how many 6.0 quakes in CA and category 3 hurricanes in Florida this past century. But how much does it tell you about next 50 yrs? When we think we are getting rates which a fairly negative hypothesis would support, then we move ahead.

Last year the 2-3 quakes in Christchurch, the second one caused $12bil of damage. If you think of a country of 4-5mil, that is 10 Katrina's. Losses were huge in respect to entire premium value in country. We will take on very big limits if getting right price. We have propositions for $10bil of coverage. We want right price. We may write some. The market for CAT business is significantly better from our standpoint than it was 1-2 yrs ago.

Q12 – Station 4: Verne – asking on behalf of Oberlin Park Kansas. Wind and solar power subsidies, sustainable energy policy? What is most appropriate use of natural gas?

WB: We have two solar projects, and we are big in wind. We get 2.2c for 10yrs per kilowatt hour, a federal subsidy, and that makes wind projects work. They wouldn't work without that subsidy. Government by putting in 2.2 cents has encouraged a lot of wind development. If there had been none, there would have been no wind development. In case of our solar projects, we have got a commitment from Pacific Gas & Electric for very long term purchase commitments. There may be some subsidy involved at that price so they are willing to pay. Neither solar nor wind – Greg Abel is here, if he wants to correct. No solar or wind would be working without subsidy. Also, you can't count on wind for base load. It works and is clean, but if wind not blowing doesn't mean everyone wants lights off. Not base, only supplementary.

CM: We'll have to take a lot of power from renewable. I think wise to offer subsidies.

WB: The future is subsidizing oil & natural gas in a sense.

Greg Abel: Subsidy with wind allowed us to build 3000mw in three utilities. We wouldn't have moved forward without it. In solar, we got a large incentive to construct the asset. We get 30% of construction cost recovery. It is an advantage since we are a full tax payer. Many competitors don't have tax appetite. We benefit from our tax structure in wind and solar.

WB: Greg hit on point – we have distinct competitive advantage in that we pay lots of federal income tax. There are programs that involve tax credits. We get 1:1 benefit. I don't have figures, but I would guess 80% of utilities can't reap tax benefits because they don't have federal income tax. They wipe out taxable income on bonus depreciation. So they can't have appetite for projects with tax credits. By being part of BK, a huge taxpayer, Mid-American has extra abilities to do projects without worrying about exhausting tax capacity.

Q13 - Becky Quick: In Georgia, Buffett Tax is quite loud. It is limiting interest in Berkshire stock. My 84 year old father is not investing because of it. Should political dialogue be muted for betterment of share price?

WB: I don't think any employee of Berkshire, and I don't think any CEOs should have their citizenship restricted. When Charlie and I took this job we did not put our citizenship in blind trust. It's fine if they disagree. I don't know politics of Mukthar Kent, Ken Chennault, Ginni Rometty – I don't know her politics or religion. It doesn't make any difference and I just want to know how he or she will run the business. I don't think it makes sense to make investment decision based on politics. It sounds like that 84 year old should invest in Fox.

CM: I am less popular around my country club. It is a cost I am willing to bear to participate in this enterprise.

WB: Roughly half the country will feel one way, other half will feel the other way. If you start investing or selecting friends and neighbors by who agrees with you you'll have a pretty funny life.

Q14 – Jay Gelb: M&A over 20bil? How would you finance it?

WB: We thought of one over 22bil. We won't use our stock at all. But we used it in BNSF on 30% of deal since we were doing well enough on cash.

CM: It could happen, but I don't think so.

WB: We would have done it, if we could have made deal. It would not have taken cash below 20bil, we would have sold securities. I would have had to sell some securities I wouldn't have wanted to sell, but I liked the deal. I wouldn't have sold $25bil however, for $40bil deal. I don't like the limbo. If you have a $20bil deal, I have a 1-800 number. But you sort of hit the point where I start squirming a bit. But money is building up every month. And next year the right $30bil deal we'll probably do it.

Q15 – Station 5: Westlake Ohio. Hope to see you at dinner at Gorat's Sunday?

WB: The last lunch was $2.6m on Glide…. [*laughter*]

Q14, continued: Jobs coming back to US – how many jobs do you have coming back?

WB: I have to finish my fudge. 270,858 jobs at year end at Berkshire. I don't think we have more than 15k overseas. As I put in Annual Report – we invested in US in PP&E, $8bil invested last year, and 75% was in USA. Our ISCAR operation in Israel operates all over the world. The product they sell will be sold throughout the world. US is not a majority of their business. It has 11,000 employees. They have relatively few in US, but we want more business in India, Japan, Korea - you name it. We have utility operations in UK. We just bought a business in Australia at Marmon. Buying for CTV, bought an operation based in Netherlands, but it has employment here. Extremely likely 10 years from now, we will have many, many more employees and many outside, but most will be here in US. Spent $8.2bil in US – we loved putting that money out. We'll put out more this year. US has lots of opportunity, we find lots to do.

CM: You can't bring a lot back if it never left.

WB: That is long version of my answer. *[laughter]*

Q16 - Andrew Serwer: How are you feeling?

WB: I feel terrific. I always feel terrific. I love what I do. I work with people I love. It is more fun every day. I have a good immune system. My diet is such, as any fool can see, I am eating properly. *[laughter]* I have four doctors. A few own Berkshire Hathaway. My wife and my daughter and I listened to four of them two weeks ago. They described various alternatives – the ones they recommend – not a day of hospitalization, not a day off from work, survival numbers are 99.5% in 10 yrs. Maybe I'll get shot by a jealous husband. This is a really minor event.

CM: I resent all this attention and sympathy Warren is getting. I probably have more prostate cancer than he does. I don't know because I don't let them test for it. At any rate, I want the sympathy.

WB: My secretary was getting too much attention.

WB: In all seriousness, it is a non-event. Treatment is a few minutes in afternoon, maybe I'll be a little tired, so I'll do fewer stupid things!

Q17 – Gary Ransom: Runoff property casualty. AIG/Hartford have runoffs. Would you consider these liabilities?

WB: We do not like taking on long term liabilities and receiving 150bps. We want money on liabilities at an attractive rate. We will pay for annuity type liabilities, and don't think impossible – we've done some in UK. Not huge. We're game to take on more.

Q18 - Station 6: Glad you are feeling well. Ryan Doyle, 26 working in Chicago. If starting over, what would you do. Do we have as many opportunities? Emerging markets?

WB: I would do same, but I'd be better at aggregating the money faster. I would try to develop audited record as fast as I could, then build investor base. Private equity is buying to sell. More interesting is buying businesses for keeps. That has been enormously satisfying, but it takes capital to get into that business. I built the capital by managing money for partners.

CM: Nothing to add.

WB: And I'd do it with Charlie.

Q19 - Carol Loomis: Buffett Rule, he suspects 95% of people in arena believe stock undervalued. If not undervalued by Buffett rule, then why?

WB: Over 45 years, there have been several times when stock significantly undervalued, and at times it cut in half over fairly short time frames. Tom Murphy ran one of most successful companies ever, in early 1970s selling for 1/3rd the price of selling the properties. Berkshire in 2001 was selling at a very low price. The beauty of stocks is that they sell at silly prices from time to time. That is how we got rich. Chapter 8 and Chapter 20 in Security Analysis is all you need. In the stock market you have partner named Mr. Market, and he is a psychotic drunk, and he is there to serve you not to advise you. There are thousands of prices – and he is making lots of mistakes every day. Occasionally you have to oblige him. So it is built into the system that stocks get mispriced. Generally speaking Berkshire has come close to selling at intrinsic more than most companies over 40 years. Our stock fluctuates somewhat less than most. Berkshire will be significantly overvalued and sometimes undervalued. I don't know in which order and times. But make decisions based on what business worth. Stick with businesses that you can value, you will do well in stocks. Stock market is most obliging place to make money because you don't have to do anything. It is a marvelous game and rules stacked in your favor as long as you don't start behaving like drunken psychotic.

CM: We bought businesses to hold instead of resell. It is an enormously constructive life. The faster you can work yourself into our position the better you'll be. [*laughter*]

Q20 – Cliff Gallant: In this drunken market, have systemic fears ever made you pause?

WB: You'll probably find this interesting. CM and I have never had a discussion on buying or selling a business where we have talked about macro affairs. If we find a business we understand and we like it we buy it. There will always be good and bad news, it depends on moods, etc. There is a ton of that. I bought my first stock in June of 1942. We were losing the war, Battle of Midway. My older friends had disappeared, we were building battleships and we were losing. In Oct 2008 I wrote that article, should have been a few months later, but stocks were cheap.

CM: We kept liquid reserves at bottom of panic that could have been spent.

WB: A fair amount of liquid reserves. First rule is to be able to play tomorrow. Charlie runs a little company called the Daily Journal, and when 2008 came along, he bought a few stocks, that was the time to use the money not sit on it.

CM: [*Cough*]

WB: Was that the name of a stock Charlie? You don't get anything out of him. [*laughter*]

Q21 - Station 7: Which businesses have improved position a lot in last 5 years? Which not?

WB: We don't like to dump on the not so good ones. We have owned significant piece of railroad business – and has improved its position dramatically over last 20 years, and is an efficient and environmentally friendly way to move things that need to be moved. Couldn't be duplicated for 5-6x what it is selling for. A whole lot better than it was 5-10yrs ago. Geico is a better business, could have predicted. Approaching 10%, we had 2%. And fortunately we had Tony Nicely there to maximize. Burlington is worth billions more. Mid-American has done a great job. We bought at $34 per share, and now appraised $250. We bought Iscar six years ago, and they just don't stop – I would not want to compete with them.

CM: 80% of our businesses, by value, have increased their market position. We are not suffering.

WB: Mistakes were made in purchasing, where I misgauged the competitive position. Too much Cherry Coke? I assessed future competitive position inappropriately. It didn't change much. GenRe looked like real problem, but Tad now doing great work. Ajit – created it out of nothing. Tens of billions. He has created a business like I've never seen.

CM: We've been very fortunate. What is interesting is that the good fortune isn't going to go away because Warren happens to die. But it won't help him.

Q22 - Becky Quick: Joel Bannister – Dallas TX. Who will run the derivative book after your tenure, we don't want to end up like AIG.

WB: I don't think there will be much of a derivatives book after I'm gone, and there isn't much of one now. There will be some derivatives in utility businesses. They engage in swaps of generation. Not huge scope. The railroad hedged diesel fuel. They may do in future, they may not. A few operating businesses will have minor positions. Whoever follows me, 2 are on board now, Ted Weschler and Todd Coombs, it is unlikely they will do derivatives, but I wouldn't restrict them – sometimes derivatives get mispriced. We will likely do quite well with derivative positions we have so far. Rules have changed in relation to collateralizing, and I don't like exposing to financial conditions if Federal Reserve hit by nuclear bomb. We think about worst cases all the time. We think about worst cases more than any two managers, our requirement to collateralize – you may need to have cash on considerable scale tomorrow morning.

CM: We wouldn't have entered our derivatives without the favorable credit terms we had. When they runoff we would have made $10bil and maybe considerable multiples above that.

Q23 Jay Gelb: What is a reasonable multiple for non-insurance businesses?

WB: I would value Geico differently than General Re and other insurance businesses. Geico value is significantly greater than net worth and float, and that is for two reasons – it is right to assume significant underwriting profit over next two decades, and significant growth – but I can't say that about the other businesses. Operating businesses – they have different characteristics. I would buy similar operating businesses at 9x pretax and maybe 10x pretax. Not EBITDA - which is nonsense, but only if similar characteristics.

CM: EBITDA – I don't even like hearing the world. There is so much nutcase thinking, it is like quoting 'earnings before costs that really matter'.

WB: We prefer earnings before everything.

CM: [didn't catch this line – something about 'I don't sell …']

Q24 – Station 8: Neil from Phoenix. Since 1999, gold up a lot?

WB: In [1970], Gold at $20, Berkshire $120. Now 1600 and Berkshire 120k. You can pick different starting point. If you pick something up a lot, of course it has short term advantage. One thing I would bet my life on, Berkshire will do better than gold and probably common stocks and even farmland. You'll still have a single ounce of gold 100yrs from now. But I'll have had 100 harvests. Hard for an unproductive investment to be productive over long period of time. I recognize. Bonds no good and Bernanke still smiles. If you say anything negative about gold, it arouses passions. If you thought through intellectually. Facts and reasoning. If you run into people really excited about gold, they can't discuss it.

CM: I have never had slightest interest in owning gold. I can't imagine a worse crowd to deal with than gold bugs.

Q25 – Andrew Serwer: Bought shares in JPM in personal account. How do you differentiate which stocks are for personal account?

WB: I like WFC more than JPM. We are buying WFC so I buy something else. I can't be buying what Berkshire is buying. So my best ideas in Berkshire. Charlie's bought some real estate.

CM: The Munger family is in 2 or 3 things. I have no interest in diversification. It happens automatically at Berkshire. I rejoiced the day I got rid of stock quote machine. You deal with a better class of people.

WB: 98.5% of my money is in Berkshrie. If you spend your time on the 1.5% you are crazy.

CM: He does like WFC more than JPM. I JPM, but I know WFC better and it is easier to understand. We bought WFC in Q1, also last year. If I wasn't managing Berkshire, I'd have a lot of money in WFC and some in Berkshire.

Q26 – Gary Ransom: When Berkshire bought BNSF, it raised surplus of PNC by 4%. Org chart is challenging, lots of pieces, and question of capital efficiency? Does organization have hindrances to using capital efficiently?

WB: Money in life companies has less utility to us, it has more restrictions. I'd rather have 100mil in P&C vs. life. Can't be used as effectivelya, and this is a disadvantage of life vs. P&C. The number one choice for our cash is at the holding company, where we have $10bil. Most of our operating businesses keep more cash than they need. We'll never have anything remotely to cause me to lose sleep as long as we have the $20bil. It leaves us comfortable. Having railroad inside National Indemnity, it is nice to have huge asset to make rating agencies feel comfortable. One rating agency didn't want to give it any credit. They would give us value at 20%, but not 100%. There is a fair amount of logic to where things are placed. If we make big acquisition, we might need to shift cash around.

CM: Two things peculiar to P&C. Capital vs. premium value is much higher, and it has BNSF – immensely stronger from policy holder perspective, so a huge advantage. Unrelated to insurance, it will make $5bil pretax. We write less than that. If we write $125b and we get to operating neutrality. They wouldn't let us do it if we weren't so strong.

Q27 - Station 9: Waterville Capital. if you dividend, won't it raise stock price and so in M&A might cash outlay be lowered when using stock?

WB: We would obviously prefer to have our stock sell at intrinsic business value, we'd be happy and we would like that. That is very likely to occur in future. It has occurred in past. Without paying a dividend, it has sold at or above intrinsic as much in last 30 years as below. A dividend might not help. Buyers are willing to pay $1.10 for dollar of cash in the stock, and it trades for 1.1x so doesn't make sense to send it out. But most of time it will bob up and down from that level. We've tried to point it out. There may be times when we use stock, though cash is our favorite medium of purchase. We hate giving out shares. We don't like giving away our interest in See's or BNSF. Leaving less for you is anathema to us.

CM: What he suggested is very conventional approach, and we think our shareholders are better off for not doing it.

WB: There is no one here than me that has more interest is stock trading at fair value. I am disposing of stock now for next 10 years, and I don't want to buy 80% of vaccines, and so we want it up, and so we spend time explaining it. But if people get excited about internet stocks they'll be disillusioned about Berkshire.

Q28 - Carol: Kevin Gatanowski, you have described newspaper business, chopping down trees to get yesterday's news. Demise of newspaper? Why buy Omaha herald? Was there self-indulgence?

WB: It is really fascinating about newspapers, and it is even worse than that. Newspapers have 3 problems, 2 are very difficult, and 1 if they don't overcome they'll have worse problems. News is what you don't know that you want to know. If you go back 50 years, the newspaper contained dozens of areas of interest to people where it was primary source. Rent apartment, want job, which banana's are cheapest, Stan Musial, stock prices, etc. All of those things have now found other means of distribution, in more timely and cost free basis. To survive, newspapers have to be primary about something of interest to people who live in distribution area. There were so many areas of interest 30 years ago, but we now don't use newspaper for stock prices, for apartments to rent or for sports. They have lost primacy. But they are still primary in a great many areas. They still tell me something primary that I can't find elsewhere. Overwhelmingly those items will be local. City, local sports, neighbors. As long as they stay primary in that arena, they are item of interest. Problem is that they are expensive to distribute. There are something like 1,400 daily newspapers. They were going up on the web and giving free the same thing they were charging for. I don't know any business plan that has charged a lot for one version and free to people in another format. Lately, many newspapers have experimented and succeeded in getting paid for what they were giving away. I think there is a future for newspapers in a community. They are not as bulletproof when there were 50 different reasons to buy a newspaper. In a community, where it tells them things that concern them, this is important – for instance obituaries are still in newspapers. When I lived in White Plains I wasn't as interested. In Buffalo there is community, and we make reasonable money. Economics based on prices we paid. We may buy more newspapers. It is nothing like the old days, but they still fulfill an important function. Stocks won't matter, ESPN news has the national sports – but local institutional reporting will work.

CM: We had a similar situation years ago, when World Book was 80% destroyed by Bill Gates. But we are still selling encyclopedias. But we don't make as much as we used to. They won't be great lallapoloozas. We may do more in newspapers. In North Platte, children are there. In church, you will be interested in North Platte and state of Nebraska. Won't find on internet. Won't be like old days.

Q29 – Cliff Galant, KBW: in past some of investments have been affected by technology, like newspapers. What about Amazon? Does it affect Mcclane?

WB: AMZN is a tough one to figure. It could affect a lot of businesses who don't think they will be affected. It won't affect NFM, but maybe others. In first four days this week, (tues/wed/thu/fri) our business is up over 11% over last year. On Tuesday we did over $6mil of business. Those are huge volumes. We'll go to Dallas, and we have a 433 acre plot of ground. We'll have a store that will make current records seem like nothing. AMZN: Geico was affected a lot by internet. It was mail originally back in the 1940s, and very successful. Then it moved to TV big time. Then the internet came – but I thought originally young people only would look for quotes on the internet. But a lot has changed. AMZN has milliions of happy customers. They can introduce to new items. It could affect a lot of businesses.

CM: It is almost sure to hurt a lot of businesses a lot. Anything that can be easily bought with a home computer or ipad. I won't be buying the stuff. And I almost never buy anything. I think it will hugely affect a lot of people. It is not slightly terrible, but really terrible.

Q30 - Station 10: From China: Would net asset growth slow without using float?

CM: We have a very peculiar model, it works well for us. It is very hard for others to get same result.

WB: It has taken a long time to get here, and significant consistency, because of controlling shareholder. We have had a culture where we could write out 14 principles 30 years ago. That is hard to do for most American corporations. Many have small shareholdings – very unusual structure. It took a long time – people with small private businesses, it took a long time before people think of Berkshire first. And they often don't need a second. We don't do auctions. But big private acquisitions come to Berkshire because they want to come to Berkshire.

CM: If Warren went back to 30yrs of age and modest capital and he'd have a hell of a time trying to do it too.

WB: I'd like to try. [*laughter*]

Q31 - Becky Quick: Annual proxy voting for publicly held companies. How do you vote?

WB: We have virtually never voted against management, in fifty years. There have been a couple times, stock option expensing, or an egregious option grant. Our general feeling, when we are large shareholder, we like business, we realize they won't subscribe 100%. Doesn't mean bad people. We don't try to change people. It doesn't work well.

CM: it doesn't work well with children either.

WB: We accept people the way they are. We don't expect other people to be clones of us. We might vote against an egregious merger or stock option plan. We wouldn't stop them. We've usually been right.

CM: You've said it all.

Q32 - Jay Gelb: Commercial has smaller lines, when would you increase?

WB: If we thought we could expand internally (would be tough), or buy great company in commercial – this is more likely. We had chance when GE sold their medical insurance and then expanded by buying Princeton insurance. We jumped at it. GE was getting out of insurance. It is hard to think of many commercial insurance companies we'd get excited about. There are few personal lines, but we love Geico. If we can find quality company in commercial lines, we would buy in instant.

Q33 – Station 11: Whitney Tilson: I have a question for Debbie [laughter]. I applaud fact that you set price that you won't buy above. But is there a ceiling on it too? Intrinsic is far higher 1.1x? Would you be flexible? I'd rather see you spend $3.4bil paying 1.1x pb rather than the stocks of the other companies you bought last quarter.

WB: So would I. Floors can disappear, and there could be circumstances where we would buy a lot of stock. At 1.15x – we wouldn't buy a lot more stock. I do think it signals to many that they don't have much to lose to buy slightly above. When people feel differently, it could sell at much different price. We might buy a lot of stock in chaotic markets.

CM: I have nothing to add to that either.

Q34 - Andrew Serwer - David Kass asks about the Wal-Mart Mexico scandal.

WB: No, they may have made mistake in how it was handled, and may face a significant fine. I don't think it changes the fundamental dynamic. It operates on low gross margins, and this results in low prices. That works in retailing. The diversion of management time is costly, but I don't think earning power of Wal-Mart five years from now will be materially affected.

CM: These are interesting issues. I am not aware of any place where Berkshire is slipping on this. We could have some slippage somewhere. When you are as big as Wal-Mart you will have the occasional glitch. I don't think there is anything fundamentally dishonorable about Wal-Mart.

WB: There are probably twenty people doing something wrong here at Berkshire. We can talk until we are blue in the face. We are layers removed, and people do crazy things. It is a real worry, if running large business. You worry if it is material and nothing gets done. You need to act fast if you hear about it. If we get twice as large we'll have more people. We tell managers, we can handle bad news as long as we get it promptly. I am sympathetic to people running hundreds of thousands of people.

On the bet with Protégé partners, there are six years to go, and we are neck and neck, both down around 6%. We each bought $1mil zero coupon bond to deliver at maturity. The zero coupon bond has performed magnificently. [*laughter*]. We have petitioned stakeholder to let us sell the zero coupon, and put money in Berkshire stock. Best thing you could have done is ignored both of us.

Come back in hour, then go till 330.

Q35: Gary Ransom: General Re P&C premium down by half over 10 yrs?

WB: GenRe was probably off the track when I bought it. Joe Brandon focused 100% on underwriting profit rather than premium volume. Tad Montrose has followed through on it. But it did mean getting rid of a lot of business. Their life business is very good. They have some long term care in there we wish we didn't have. It is right sized, smart people, should grow at reasonable pace. We had to get rid of some of the business. It is a terrific asset to us now. I would bet P&C business grows too. We feel enormously better about it now than some years back.

CM: It was a major fix-up but we finally got it done.

WB: We don't go looking for those.

Q36 – Station 1: Do you worry managers may leave now that working for peers? Will a hedge fund or activist get control?

WB: Manager we have in mind has culture embedded, it is not a question of more lucrative job. They love the environment – many of our managers could retire. They only go to work if it is more fun to work. They have the money to leave it. I'm 81. I'm doing the most enjoyable work in the world. I have a lot of fun working with the people I work. My successor knows that it is important to paint your own painting. Many managers would leave under wrong leadership. Regarding a takeover, our size makes it unlikely. We also have A&B shares. Even ten years from now it would likely that my estate owns 20% of votes. Buffett Family will have 10x the voting power of anyone else for a long time, so it is issue of both size and concentration. My successor? He'll be better than I am. The Board of Directors reflect that culture. Berkshire stands for something different than most companies.

CM: The first $200bil was hard. The second $200bil will be relatively easy.

WB: The businesses are in place to take it to $400bil.

CM: More businesses will come to us as only acceptable buyer.

Q37 - Carol Loomis. What is it about capital consuming businesses vs. other uses of cash, like new investments or stock repurchases?

WB: Cash intensive businesses are unattractive unless the cash consumed earns an attractive return. Utilities are 12%. Not as good as 20% growth with no capital. Same with railroad, we will spend way more than depreciation. We'll earn reasonable returns. We would be in terrible situation if we were spending a lot just to stay alive. If you go back to world of 20% ROE, hard…., and we can't earn 20%, and so we have to like the returns we have.

CM: I think it is going to work pretty well. There are some Mungers here, I hope you don't listen to the siren songs and you stay with the family heirloom.

WB: My family is just hoping for an heirloom. [*laughter*]

Q38 – Cliff Galant: Will float shrink?

WB: Yes, retroactive contracts are where float runs off. Geico will grow. Smaller companies likely will net grow. With Ajit is where we have the retroactive stuff, and they are always a melting ice cube. When we had $40bil we didn't think it would grow. Now it is $70bil. We have been looking for intelligent ways to grow float since 1967, and still have float cost us nothing, but numbers are huge now. You shouldn't expect growth. If we get lucky, we could add more. It is possible that it dwindles down a little bit. It is possible that it won't grow as much. Ajit told me that it became a challenge to him when I wrote it in the annual report, he wants me to look like an idiot. I may have to stick a few more things into the Annual Report. Five year from now I'd probably bet a slight bit higher. Every day we are working on ways to increase it.

CM: The casualty insurance by its nature is not a good business, you have to be in top 10 to do well. We probably have the best in world. It won't grow wildly. If you have something very good but doesn't grow wildly that is not end of world.

CM: Tony and Ajit have grown billions of dollars for shareholders.

Q39 – Station 2: Norman from Bonn Germany. Warren you are in my thoughts and prayers. Since I can no longer ask questions in Pasadena, how do you value your declining businesses? Encyclopedia, retailing – how do you value them?

CM: They aren't worth nearly as much as growing businesses. But can still be quite valuable if cash coming out.

WB: Most of time we avoid declining businesses. Newspapers are declining. We understand it, we'll pay a price to be there. Real money is in growing businesses. I would never spend a lot of time on valuing declining business and think I'm getting something free. Same energy and intelligence brought to growing business will work out better. We are playing out some declining businesses by their nature. We started with declining businesses, trading stamps, Baltimore department stores, and textile business.

WB: We have a business which had revenues of 120m in 1968, and $20k last year. Charlie is still in charge of that business.

CM: All businesses can fail. We aren't looking for an opportunity to do it again.

WB: We put $6m in 1967 into Diversified Retailing. We bought a department store at Howard and Lexington in Baltimore. That $6mil has turned into $30bil. Blue chip stamps is another example. And Berkshire, the textile company. We were sort of masochistic in our early days.

CM: Ignorant too. [*laughter*]

WB: That was word that came to mind, but I didn't want to use it!

Q40 - Becky Quick: Iowa. Invert – what current trend do you see which is folly, a fad, unsustainable, crazy or dumb?

CM: A lot.

WB: We try to stay away from the things that we don't understand. It means I have to have a reasonable fix on competitive position and earnings power. Some notion of how it will stand in a few years. It is a small universe if working with lots of money. I can't recall a time in 30 years where we bought a new issue. The idea that a seller who has choice of when to come to market, and carries 7% commission -- it can't be the most attractive thing. But I will guarantee you, there are thousands of opportunities, and some other security coming to market – and it doesn't make any sense. We don't think about them. There are industries we know which have a wonderful future but we have no idea who will win. We have a number of filters, and often we are thought of as rude. It doesn't make it over the hurdle. We say quickly that 'we have no interest.' We do that. We don't have to do very many things that work. You don't have to spell 500 words. You just have to do one or two things. But you can't have a big disaster. We don't want to lose a significant amount.

CM: There are rules of thumb. If there is a large commission in it – don't read it. Paying a commission to give you an advantage? Low chances. In reverse, as a place to look – looking at what other smart people are buying, not a crazy sorting method.

WB: I'd always grab the Graham Newman report.

Q41: Jay Gelb: Many ask me what are the implications if Berkshire is subject to Investment Company Act of 1940?

CM: Too remote, it is not going to happen.

WB: I read it in 1940 probably 20 times. We used to worry about personal home & company and Investment Company status. We are a million miles away from it.

CM: We need our heft to make our businesses work.

WB: We own eight companies that qualify for Fortune 500. People thought of us as investment company for a long time, longer than appropriate.

Q42 – Station 3: Young, from Canada. How long will it take China to appear with a great company, like Coca-cola?

CM: China has some great companies already. I can't pronounce them. Not sure about branded company.

WB: Not yet exporting Chinese fast food companies to the US. We have 500 Dairy Queens in China. We export certain products well. China has some huge companies. They may eclipse in market value some like Coca-cola some day.

Q43 – Andrew Serwer: Larry Pikowski asks: Now you own IBM, are there other entrenched leaders in technology that are 'inevitables.' Is Google reminiscent of advertising companies in 1970s? Google risks? Apple?

WB: They are extraordinary companies obviously. They are huge, make lots of money, have fantastic returns on capital -- they look tough to dislodge. I would not be surprised to see them worth more in 10 years, but I can't buy can't get to level of conviction to buy, but I sure as hell wouldn't short them.

CM: We have the reverse of an edge. We can be sure others know more.

WB: Isn't it same in IBM?

CM: IBM is easier to understand.

WB: Less chance to be way wrong in IBM, less so in Google and Apple. We can't predict next ten years. I don't know how to evaluate which big companies or garages and who will change the world the way they have.

CM: What do we know about computer science. [silence]

WB: There is no reply. [*laughter*]

Q44 – Gary Ransom: Coal plant closings and BNSF revenues? Impact of politics or other things?

WB: BNSF runs their own business, I talk to Matt about once every three months. Railroads, utilities, insurance companies are all affected by political process. Economics usually win out. We can move one ton of product 500 miles on gallon of diesel, 3x as efficient as trucking. As a percentage it won't change, heavy traffic long distance over steel rail is too compelling. We have a wonderful product. There will always be competition. Overall I like our position. The railroads – all will be involved in political process. Things will get decided in politics, so they will use lobbyists. It will be dumb of country to discourage industry from spending the type of money we want to spend in the future. Money is spent on highways, the country has a strong interest in the railroad industry having strong incentive to invest. We'll spend $3.9bil this year and a lot will go to improve present system, and some towards expansion. Federal government will not write a check.

CM: There are waves of good breaks and bad breaks. You can make the tunnels higher, you find oil in North Dakota. Bad breaks too – they take away the freight. I don't think our main problems are political. We're headed by prominent Democratic. [*laughter*]

WB: Railroads had 1.7m employees in US in 1940. Now there are 200k, they are so much more efficient today. Fundamentally rail is a very good way to move heavy stuff a long way. Only a few rivers can do real volume in barging. Trains are pretty darn good.

Q: Station 4? No questions at this time.

WB: First in history!

Q45 - Carol Loomis: Relative performance vs. SPX book value. Unfair apples to oranges. Investor can return SPX, but not book value.   We earn returns on price. Fairer comparison is SPX book value. Better information.

WB: Market value of SPX vs. market value with dividend. It would show up better. We started at discount and ended at premium. Our gain would be 35% higher in aggregate. That is a lot of dollars. Can also show book of spx vs Berkshire – that would be a wash. Spx ratio about same. I don't think the calculation is misleading.

CM: Over the long term the stock has tracked book value.

Q46 – Cliff Galant: Collapse of AIG. Parts of company were lowering risk, while others were raising it?

WB: We are uncoordinated. There are some at Berkshire that have contact with others. There isn't an organized way of doing it. We don't make any attempt to make quotes the same. We want autonomy, and want managers to have autonomy – very important. We don't make people do certain things. Gains of incremental units offset by manager not having control. We want manager to feel same way as day before when we had the money and they had the stock certificates.

CM: We're trying to fail at what you want us to succeed at.

WB: I'll have to think about that a little. [*laughter*]

Q47 – Station 5: Richard Cooper –Michigan. Professional forester. Berkshire has different parts to support a well-run forest products business – transportation system, construction firms, homebuilders, insurance companies. Are you thinking about forest products?

WB: We would not consider the other activities in considering our joint businesses. We don't think about synergies. We have looked at several. They didn't meet our tests against returns against purchase price. Math has always escaped us.

CM: A lot of forest product companies convert to flow through entities. We'd be at disadvantage in bidding for forests. REITS – they have eliminated a tax in their structure which we would bear. We don't have structures like that.

Q48 – Becky Quick: Scott Bonderrant – Chicago. Can you please explain why $20bil?

WB: Not a magic number, there is no magic number. I'd worry about someone telling me every morning we were secure to 3rd sigma on our cash balances. We argued about risk. They were smarter than we were. We both have the same bent of mind. We think about worst cases all the time and add on margin of safety. We don't want to go back to go. I enjoy tossing papers but don't want to do it again. We build in safety. We have 600k shareholders, we have members of my family with 80% of net worth. Not 1/100th of a chance. We are never going to risk what we have and need in order to stretch for what we don't need. Charlie thinks the same way. It is our job to figure out what can really go wrong with this place. We've seen 9/11. We will want to know what we can do with the excess money we have around. We don't calibrate mathematically. There are some really great organizations with advanced math who don't really get at the problem. It is at top of our mind. In 99yrs out of 100 your return will be lower, but 1 in a 100 we'll survive when others don't.

CM: To a man with a hammer every problem looks like a nail. They will twist the problem until it looks like a nail.

WB: In 1962 I put seven items on the office wall. I made photocopies of pages from financial history. In the Northern Pacific Corner, they both bought more than 50% of the stock, each, and both really wanted it. Interesting things happened.

CM: To the shorts.

WB: 170 to 1000 per share trading for cash because the shorts needed it. A brewer in Troy NY committed suicide by diving in hot beer because of margin call. How impossible for $170 stock to go to $1000? Those seven days I put up on wall, life in financial markets has no relation to Sigma's. If everyone who operated in financial markets operated without standard [error], they'd be better off

CM: Well sure, it has created a lot of false confidence. Fat tails. In Solomon meetings we'd roll our eyes when risk control people were talking.

Q49 – Jay Gelb: Swiss Re – ends in 2012. Will you replace?

WB: What we do has no relationship to expiry of that contract, which is billions of dollars. It does not cause us to do one thing differently. We don't try to increase float. It is a non-event in regard to future strategy. Every decision is independent. If money comes in we don't operate differently.

CM: I don't think there is another insurance company in the world more cheerful about losing volume. Only look at growth in value over time.

Q50 – Station 6: Best wishes on recovery. Fannie Mae. Housing hasn't improved, Fannie Mae/Freddie. $1.6tril, each a Lehman Brothers. And $4tril of balance sheets, conservatorships. Financed by blank check. Most bankrupt companies shed assets, these have not. Securities law didn't need rewrite. Fannie Mae does not work. What is solution? How many years can they stay in conservatorship? What roll will WFC? MBS?

WB: I got through college answering fewer questions than that. Overall tone indicates that you think Fannie and Freddie a mess, and this is probably justified. What is best structure to have in this country to generally finance mortgages? No question that a government program brings down cost over time. We've had several – but it went wild when we introduced profit motive into two institutions that were really a housing mission and profit mission hybrid, and the profit mission one. Congress hasn't sorted it out yet. There are roughly 50mil residential mortgages, they total $10tril or so. It is important to have market to minimize costs for borrowers with adequate down-payments, etc. How long in conservatorship? They will be there long time. Until resolution which both parties can go along with.

CM: Canada has almost no trouble, and they have a more realistic lending system. We departed from sound lending, and government participated in the folly. It was wrong not to step on the boom so full of fraud and folly. Alan Greenspan overdosed on Ayn Rand when young, and believed if an axe murder occurs in free market it is probably for the best. People allowed craziness to go unchecked. Greenspan was wrong. It is the duty of government to step on booms. You put your finger on a disgraceful episode. But once into it, had to nationalize Fannie and Freddie and that is what happened. By the way we didn't participate.

WB: Charlie was asked about lending standards by regulators during savings & loan crisis and he said that 'we don't lend money to people like you.' And for some reason we had regulatory problems for a few years after that.

CM: I told them that we are underwriting them so they are using government credit. He was an alcoholic.

WB: We have more problems when charlie wins an argument.

Q51 – Andrew Serwer: Todd Combs well compensated – too short a term horizon for compensation?

WB: We've always been concerned with how record was achieved than record. Both have quality of character, and real commitment to Berkshire. We've seen hundreds of good records, but these two are perfect. We pay them each a salary of $1m per year, and 10% of amount by which they beat the SPX, on three year rolling basis. It is 80% on own efforts, 20% on other person's efforts – they collaborate. I Same formula as Lou Simpson. If they employ others, that comes out of performance record. It has worked far better than we hoped.

Each had 1.75bil at year end. And we added another $1bil to each at end of March, so $2.75bil each. They use their own brokers. I want to know the name in case I have inside information and can't trade it. There is something 13-d. They operate in different stocks, in a much bigger universe. They are working with $2.75b vs. 175bil. They have pitched in for other duties. They will do a great job for Berkshire. Ted only joined us this year. Todd racked up a big year in first year. He could lose that back.

CM: At least 90% of investment management business in US would starve to death on our formula. And these people will do pretty well. They are the kind of manager we like.

CM: Each of them could earn more money in different format, but with a less desirable lifestyle.

WB: We have a free coke machine. [*laughter*]

Q52 - Gary Ransom: Geico combined ratio over 100 in 4Q, tell us more?

WB: This was related to Florida and pip coverage. They were new reserves, looked appropriate. In Q12012, we wrote at 91. Cost us significant money. Geico – every metric that I have seen this year in terms of retention, combined ratio on seasoned, all consistent to our record. It is worth a lot of money now and will be worth a whole lot more in future.

Q53 – Station 7: Connecticut. What financial statement do you use to gauge whether company environmentally responsible and a good investment?

WB: In terms of good investment, we look at everything we can to figure industry and world and company. Coca-cola – we are confident about next 5-10 yrs. For retail, we don't have same conviction for instance. Environmentally, for containers moving by rail – this is more friendly. There is no magazine we go to for environmental concerns.

CM: Warren, even though an unseasoned young man, can see that if you use less fuel per ton of freight, you put fewer particles into the air.

Q54 - Station 8: John Norwood, Iowa. A lot of time talking about allocating capital, and risk. One on compensation and motivation. Financial vs. nonfinancial incentives?

WB: Why do we do what we do? We don't need the money. Why is that the case? We get to paint own painting every day, it will never be finished. If someone is telling us to use more red than blue, we might tell them what to do with the paint brush. We like applause. We let them keep the paintbrush, we applause, and we pay fairly. Over 40 years, the times when compensation were important part of conversation were practically nil.

Ted and Todd will make below hedge fund manager money and pay more tax. It is a different way to live your life. We want to have our managers enjoy their lives. We get rid of what they don't like.

I can't put passion into someone. But I can create a structure that takes the passion away. We focus on not messing up something that is already good. We have a bunch of managers that no one else can hire. How many others can say that? I think we will retain that advantage. It is self-reinforcing.

CM: We don't have standard formulas. X on x, and Y on something else. Big human resources, every inventive arrangement is specific. It would be crazy.

WB: Some busisnesses don't use capital. Base on operating margin? We could hire consultants…

CM: We never have.

WB: We never will.

WB: I like to describe these as Ratchet Ratchet bingo systems for compensation consultants. We have numbers in 8 figures here at Berkshire. A page or so of 1mil and over. It relates to logical measures of performance. I am compensation committee for 60 or 70 people, and I'm not overworked.

CM: In past years, I have said that for compensation consultants, prostitution would be a step up.

WB: Charlie also is in charge of diplomacy.

Q55 – Station 9: How to grow America at 4% again?

WB: Too complicated, Charlie?

CM: A lot [complicated].

WB: Population grows 1%, and GDP 2.5% per year - that would be remarkable over a very large time. It is [quadrupling] of real GDP every century. Remember rate of growth that has a very high standard of living. And is adding 1% per capita. 6:1 real GDP increase since I was born, this is no where near 4%. We are unbelievably rich. Many not feeling that way. We have tremendous country to work with. Huge abundance, if my parents, if you told them when I was 81 that I would be living in country with 6x the output of their day, they would have thought utopia. Our country is not a mess. Politics a mess, but output is terrific. Charlie, if you had to guess at growth rate per capita over next 20 yrs?

CM: If God would make a guarantee, I would settle for very low figure. This is for a mature economy with a lot of safety net and with competition from nations rising. 1% per capita, 25% better in 20yrs, in one generation. That is setting expectations so high. From this base it is a sensational result.

WB: This system still works. It was an incredible crash in 2008. There is a lot of resilience.

CM: Resilience is better for business, and business profits right at the height.

WB: Strains on political system.

Q56 – Station 10: Arthur Lewis, CO. Donation to super-pac's?

WB: I won't. It is tempting. We don't believe, but are you going to tie your hands behind your back over principle? I think whole idea of Super-pacs is wrong. I think huge money influencing government is bad. Sheldon Adelson – put in $12m. He thinks system wrong but wants to play. You need to take a stand somewhere. By design, a Super-pac will spend money misleading about the opponent's record. I don't want to see democracy going in that direction.

CM: I am negative about politics, gerrymandering, and requiring unified thought so that crazies get the power. That said, I think we are lucky to have such good candidates. There are certain subjects for Super-pac's that I would support. If I could reduce legalized gambling, I would spend it. It does us no good. And that we allow our securities markets to be like gambling.

Q57 – Station 11: Glenn Tongue – T2 Partners. Investment portfolio, and book. Controlled businesses are worth more than book. So intrinsic should be increasing vs. book. $20bil. Is Mr. Market in manic mood?

WB: Charlie?

CM: No, but it is nature of things Mr. Market will do what it wants when it wants, not when you want it. You aren't welcome in this room if the short term orientation turns you on.

WB: Berkshire is somewhat cheaper than it was a year ago.

CM: Yes, if that is your test, your margin of safety is better.

Q58 – Station 1: Dividends?

WB: We can create more than a dollar of present value by investing. Sometimes we can repurchase shares. Every dollar we retain turns into more than $1 of value. If want to create own income stream, more money working per share, better than paying out 2% dividend. I paid out 10c per share in 1960s, that was a bad idea. If we paid out dividends our shareholders would be worth less net than leaving it in.

CM: The dividends will come in due course, as we will find it difficult to multiply the rabbits.

WB: Events of last few years have been encouraging, regarding creating a dollar of present value. Mid-American may have some unusual opportunities in next 10 yrs, perhaps $100bil. That doesn't make us too excited about dividends.

CM: We'll think it about it when we're older.

Q58 – Station 2: $1mil to invest, achieve 50%. What would you do differently, knowing what you know now?

CM: There are a lot of things I can't do now that I used to do better.

WB: Have we learned things? We could do better now with $1m.

CM: Endless time and small money, you could find ways to do well.

WB: We have learned more or been exposed to more.

CM: What is interesting about Berkshire. Berkshire's record would have been terrible if Warren didn't keep learning. Had to learn to do things at beginning of every decade. He's getting old, I worry about him a lot.

Q59 – Station 3: Mistake minimization. Most effective way to minimize mistakes?

WB: We make mistakes, we think about avoiding mistakes which will hurt our ability to play tomorrow. We like to do things big, so we have to think about consequences. I don't worry about my mistakes. I've learned something about people over the years. I make mistakes with people. But I think I'll make more good judgments about people, I'll recognize the extraordinary ones better than 40-50 years ago.

CM: I would argue, that what you've done, you've learned a lot from other people's mistakes. That is a much more pleasant way to learn. There is great variety in other people's mistakes.

WB: Reading financial history. I've always been absorbed at reading about disasters. This gave us advantage over others with a lot of math. They didn't understand other humans. We have been a student of other's folly, and it has served us well.

Q60 – Station 4: Massachusetts – how to build barriers of entry?

WB: Pretty tough.

CM: We sort of buy barriers, we don't build them.

WB: Think about that, because it is true. Some industries don't have barriers. You had better be running very fast. If you gave me $30bil, and told me to try to knock off Coca-cola, I wouldn't have the faintest idea how to do it. The great brands we bought we didn't create them. Richard Branson – Virgin Cola. Brand is a promise, not sure what promise Virgin is. [*laughter*] Haven't heard anything about it since. Hundreds have tried, those are real barriers. It is hard to do. As Pfizer finds out with Lipitor, was a gold mine, but still is a good mine. Nobody is going to build another railroad. We'll have competitors, but when very low cost vs. replacement cost, it is a good business.

CM: One competitor is frequently enough to ruin a business.

WB: We had a Philips station across the street, and whatever he charged for gas was my price.

Q61 – Station 5: BYD – when will they have new cars in US?

WB: Charlie is our expert.

CM: Huge market, they are in China. Fleets in CA may be first market for electric cars. Subsidies. My relatives in Seattle – can only use express lane if they have hybrid. BYD: One of 8 children of a peasant, famous professor, before age 50 China's noble prize, land holding the size of Macau, 100mil sqf of buildings, 180k employees.

WB: What percentage of cars electric in 10 years?

CM: Not many. We should subsidize electric cars in various ways in order to ween ourselves from oil. But I'm not expecting a sudden revolution. I was driven around the block in a BYD car this week. I was flabbergasted how improved that car was. It is amazing how fast they have improved, the world is getting very much more competitive.

Q62 – Station 6: Jay: Philosophy of life? Insurance business? Float and underwriting. PV of investments. Economic goodwill in Geico. Different ways to value insurance?

WB: Economic value comes from ability to utilize float if obtained at bargain rate. At Geico can expect underwriting profit and growth for as far as eye can see. Well that is attractive combination because Geico is a low cost producer. Scale and method of operation, it is hard for others to duplicate their cost structure. Ajit's business is not the same at all. Geico has 10mil policies. That is a statistical business. 100,000 drivers in NY, trends. Statistical business plus low cost. Ajit has to be smart on each deal. Event coverage on 10bil of loss in Japan? He can't look to history. Economic goodwill is Ajit's skill to price each transaction and find demand. Geico is more of a machine. More important on how machine is run. In years since he took over, Tony has quintupled our share coupled with underwriting profits - growing a large low cost float. People are paying us to hold $70bil of their money, and that is a lot of fun. That chance of that continuing is high, but growing $70bil is more difficult. But less than zero cost is good chance, and if relative funding rates go back to 4-5% - it will be a huge asset.

CM: We are currently in lower turn environment. Ajit would generate a lot of float and Warren would do 20-30% on it before we gave it back. Our earning power today is being affected by current fed policies. That won't be the normal rate, so our normal earning power is being depressed by Mr. Bernanke but likely for good reason.

Q63 – Station 7: US Independent in energy market? Trade deficit?

WB: A huge boon if energy production increases and what we import costs us less. We are doing a lot in oil, but I don't see us self-sufficient. Gas – the picture is different. It would have been better if we hadn't been an oil exporter for years, and used Saudi's oil instead. Treat reserves in Texas as strategic reserves? Current account changed for the better. We still have a ways to go. But it looks better.

CM: Well I think that is a very complex interaction. Our single most precious resource are our hydrogen reserves. I am a Puritan, I want to suffer now to make future better. I think energy independence is a stupid idea. We wouldn't have anything left. We want to conserve this stuff, and thank God everyone else has some to sell. I have exact absolute reverse idea than others, and I think I'm right.

WB: Charlie's version of saving sex for old age.

CM: At least we're going to use the oil! [*laughter*]

Q64 – Station 8: Liberty Mutual - $50m per year in compensation and perks. Concentration of profits goes to management and not to policy holders.

WB: We agree. But if we start out with $48k per person, 20% increase per generation. You would hope doesn't all bubble to the top. Tax code has encouraged it. We have a tax code that is pro rich. Was 27% now 17%. We've gone wrong direction and a long way. Trickle down not being achieved.

CM: Most of great mutual insurance companies don't have that compensation example. That is egregious but Boston has led in egregious examples.

WB: Corporate world more egregious than mutual world. Rich like it that way. Tax code is where we decide who bears the costs of government. Rich bear less as they move farther from middle class. There may be underlying trends that push democracy towards plutocracy.

CM: When I first went to Boston, the Mayor was running the city from the federal penitentiary, and no one saw anything wrong.

Q65 - Station 9: Brian Chilton. Boston. Risk? One of biggest risks is sovereign debt levels. ECB injections, and how do debts get balanced, and do they concern you?

WB: The nice thing about sovereign debt is they can not pay you and you can't do anything about it. They have defaulted many times over history. Then you get a big reallocation of wealth. You don't lose the wealth, but I don't know how it plays out in Europe. We have seen ECB here recently give the trillion to banks loaded with sovereign debt, like giving money to a guy with a margin account to load up more. Had a bad ending at MF Global, might have bad ending over there. I would prefer a world getting fiscal house in order. But counter-argument is that recessions can be destructive when they feed on themselves. Stimulus bill a few years ago, was it adequate? When government is operating at 9% of GDP deficit, that is consistent with a huge fiscal stimulus. We will have to ween ourselves off it. 19% rev to GDP and expenses at 21%, but both sides feel they will show weakness by going first. Leaders of one party can't speak for their party so can't have negotiations in private. At this price I would avoid medium term government bonds, our own or those of other countries.

CM: He's asking the really intelligent question of the day, and we are having trouble answering it. It is hard to know if Keynesian stuff will work if you have lost your fiscal virtue. Don't know precise point, Krugman is a genius but I think he's more optimistic about operations when low on fiscal virtue. It is important we not go too far. In Great Recession, we avoided calamity because tricks could work. Is it inconceivable that we get a mediocre result because of our fiscal problems?

WB: If I came with budget with 19% revenue and 21% expenditures, would you want to adopt that now?

CM: I think the reason intelligent disagree is because it is so difficult. Everyone wants fiscal virtue but not quite yet. St. Augustine, willing to give up sex but not quite yet.

WB: He's a hero to many of us. [*laughter*]

CM: There is one thing I am sure of. It is safer to use money to build things you are sure you need, than throw it off end of train or to crooked lawyers. We all have interest to use the money and protect fiscal virtue. I would spend it on infrastructure we would use, and whole country should spend more like Punic Wars, when Romans paid off 2/3rds of debt before war was over. We need more patriotism, more civilized politics, and more sensible spending of money. But still a hard a question, and I think we go on to an easier one. Warren's not strained, but I'm at my limit.

Q66 – Station 10: Candy from Denver. Taxes – what do you feel is ideal corporate tax rate to jumpstart economy?

WB: Actual taxes paid last year were 13% of profits. Corporate rate is 35%. Corporates got to write off 100% of most fixed asset purchases. Corporates are not the problem in the economy. Huge money is available. There is money to spend on opportunity. We spent in railroad and energy businesses. It is not lack of capital. Nor is it tax rates that are holding back investments, when corporate rate was at 52% they paid it. It is not holding us back. Corporate taxes were 1.2% of GDP, and 17% were medical. We have 7% spread over rest of world on medical. The tapeworm is medical costs versus rest of world. That is where the money is, and you can fiddle with it, but it wouldn't move much. More fairness perhaps? Lower overall tax rate but apply it more equally. Getting from here to there is very difficult. But once you put out specific proposals – everyone will fight an intensity that outstrips the intensity that the other side fights with.

CM: I used to say I expected to see a value added tax. It equalizes the import export effect of tax, to tax consumption. We give money, then try to take it back. Human nature resists that. Better to take it off the top. Don't vary it. In CA go up and down and it is crazy way to have tax system. 52% tax rate we got by when we led world. If rest of world 15% it might have perverse effects. It is really hard to save on medical.

WB: We'll end with a hard one and we'll reconvene in 15min to conduct the business of the meeting.

Notes courtesy of Peter Boodell, Portfolio Manager and Managing Partner, Boodell & Company Capital Management LLC, located in New York City. Please address any comments or concerns about this document to info@boodellco.com. Of note, no recording devices were used to create these notes. As such, they should not be relied upon. Peter's typing teacher, Mr. Eagle (may he rest in peace), deserves whatever credit, if any, is due.