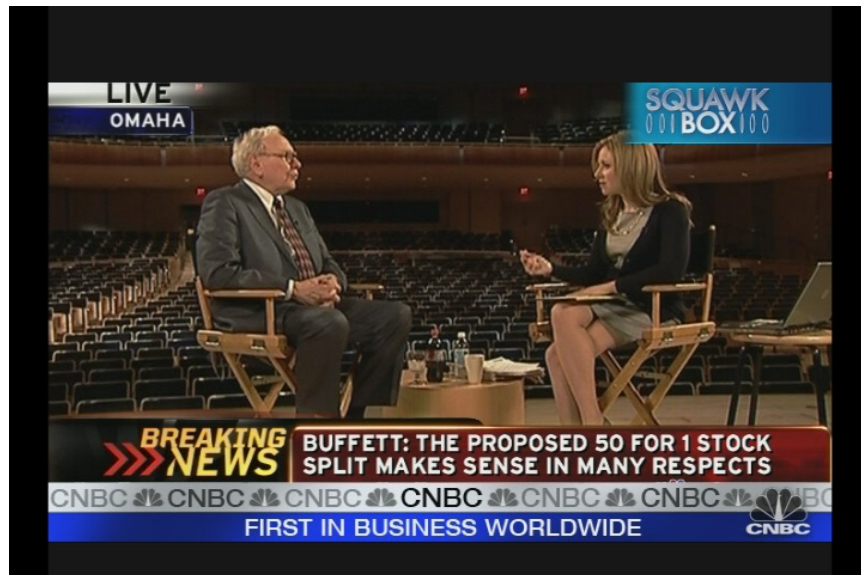


# Warren Buffett Watch

Keeping Track of America's Billionaire Next Door

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*In a live interview with Becky Quick on CNBC's Squawk Box the morning of a special Berkshire Hathaway shareholders meeting, Wednesday, January 20, 2010, Warren Buffett strongly criticized Kraft's planned acquisition of Cadbury.*

*He also told us Berkshire Hathaway's proposed split of its Class B shares does not mean he has dropped his overall dislike of stock splits and share issuances, comparing the process to "preparing for a colonoscopy."*

*This is a transcript of the entire one-hour interview conducted by Becky Quick.*

**BECKY QUICK:** I don't know how much you heard of the Wells Fargo (earnings) numbers that we were just --

**WARREN BUFFETT:** I heard a little bit.

**BECKY:** What was your immediate takeaway, and I know all you heard is --

**BUFFETT:** I didn't get the earnings at all. But I got the charge-offs at 5.4 billion. That's exactly what I would have expected. I think they expect them to peak toward the end of 2010, but that number is exactly what I would expect.

**BECKY:** What other headlines would you like us to pull up? What else would you be interested in hearing about?

**BUFFETT:** Well, my guess is that the revenue and all of that is more or less like I expected. I mean, Wells, right straight through this period has done pretty much exactly what they said they would do and they've made money consistently through it. They've run into much larger losses than anybody anticipated three or four years ago but they can handle them very easily. Last year we talked about 'em having 40 billion of pre-provision income in 2009, and you know, they had it, and that easily handles 20 billion, roughly, of losses.

**BECKY:** They also issued a lot more shares though, to pay back the government. What did you think of that?

**BUFFETT:** I didn't like it. (Laughs.) No, I mean, the government forced them to issue the shares. The government's done a lot of good things for the economy and net I'm a beneficiary and Berkshire Hathaway is a beneficiary of the things overall they've done. But they cost us real money at Wells Fargo.

**BECKY:** But was it the right move by the government or not?

**BUFFETT:** Well, it was the right move by the government to enter - to show that they were willing to act very promptly and decisively. The key actions by the government actually were in September and October of 2008. At that point, if the government had showed any hesitation about stepping in and doing whatever it took to get us past a financial panic, you know, things would be a lot different today. So the government did the right thing in acting - They didn't have to do

this A, action A or action B or action C perfectly. What they did have to show is that it was not going to be a Herbert Hoover type situation and that they were going to jump in and do whatever it took.

**BECKY:** Before we get to a lot of the other questions, because this brings us to a jumping off point about many things the government is doing right now. I want to talk a little bit about why we're here today. And that's for Berkshire Hathaway's special shareholders meeting. This is a very unusual event. The idea of splitting the Class B shares 50-for-1. Why are you doing this?

**BUFFETT:** It shows you what happens when you get to be 79. (Laughs.)

**BECKY:** Some people are asking if you are completely changing your stance on a lot of different issues.

**BUFFETT:** No.

**BECKY:** Some people are saying, 'Is this going to mean a dividend's coming soon, too?'

**BUFFETT:** No, I don't think it means that. It made sense in terms of the Burlington Northern acquisition, because otherwise - We wanted to give a stock and cash option to their shareholders and to really effectively give it to the smaller shareholder we had to have something with a lower denomination in our Class B shares which were in the three-thousand dollar-plus range. The big shareholder would have gotten a different deal than the small shareholder otherwise. So it was an easy decision, actually.

**BECKY:** Do you think this is going to be an easy vote as well?

**BUFFETT:** Yeah, I'm sure of that. (Laughs.) I'm like a politician in Chicago. I've got the votes. (Laughs.)

**BECKY:** So you're going into this today knowing you have the votes. There are some people who say, hey, this could mean that Berkshire Hathaway could now become a member of the S&P 500. What do you think of that?

**BUFFETT:** Well, I don't know. I've never talked to S&P about it. I do know that we're probably four times as large in market cap as any company that isn't in it. And we will have - when we get through with this we could have like 700,000 shareholders or something of that sort. We'll have a lot of trading volume. But that's up to S&P.

**BECKY:** Would you like to be in?

**BUFFETT:** Well, I think probably for our shareholders it's a net plus, yeah.

**BECKY:** I know Joe's got some of those numbers that you were asking about for Wells Fargo. Joe?

**JOE KERNEN:** Berkshire could be a Dow component. I don't - don't stop at the S&P. We'll get rid of Alcoa or something, ah, I know - that would be great. Hey Warren, the revenue number on Wells was 22.7 and the estimate was I think 21.9. So unlike any of the other banks, I think that's the first one, I mean I didn't look at US Bancorp, but the major ones that we reported on, this is the first one that's beat on the revenue and it was also a profit of eight cents with the TARP repayment, even though the Street was looking for a loss of a penny. So, seems to be a little bit better and the stock is now 29, it's almost up a dollar at this point.

**BUFFETT:** Wells runs a terrific bank. They're a very customer-oriented bank. They're almost like thousands of community banks when you get right down to it. They have a lot of services they sell for each customer. So their revenues are going to come through. And actually when the stress test was done in the spring of last year, that's where the people evaluating them were way off, was on the

revenue number. Wells did not disagree with them on the possible losses number, but they felt that the people just didn't understand the revenue potential, that were looking at them, and I agreed with them. But unfortunately they had to issue a lot of shares in conjunction with that stress test. I don't think Wells was ever going to disappoint on revenue. They have a lot of customers and those customers do a lot of business with them.

**JOE:** We've got so many things to go over, I've got - I don't even know where - I think of Wells and I think about the bank tax. Is that a good idea to pay for the GM bailout with a bank tax, Warren?

**BUFFETT:** No, I don't understand that. If it's some kind of a guilt tax or something of that sort because banks were among the whole United States that were saved back in 2008, everybody was taken care of then. And the banks, basically, somebody like Wells, it's cost them a lot of money to be in the TARP and it was basically forced upon them. (They) didn't want to take the money, but really had no choice. So that's cost Wells a lot of money. The government's made a lot of money off Wells. They've made a lot of money off Goldman. They've made a lot of money off J.P. Morgan. And where they're going to lose money, at least where its possible they'll lose money, is in the auto companies. So if you're going after the people you saved, you might say GM shareholders didn't get saved, the GM bondholders didn't get saved. What happened there is they kept employment. I'm the last guy to suggest that you should go and put a special tax on autoworkers. (Laughs.) If you're really looking for the people who benefited from government losses, you'd have to look there. Or if you look at Fannie or Freddie. Are you going to go and tax the members of Congress who ran Freddie and Fannie --

**JOE:** That's what I said! I can't believe you just said that. That's exactly what I - You could almost tax any company that was in business that wasn't going to be

able to float any commercial paper, you could tax them too. Because they were saved - -

**BUFFETT:** Absolutely. In September of 2008 --

**JOE:** Don't give them any ideas! Warren, don't give them any ideas! They will, that'll be next.

**BUFFETT:** (Laughs.) No, what was done in the fall of 2008 was designed to save the American economy. It wasn't designed to save the banks, it wasn't designed to save me. It was designed to 309 million Americans and a good job was done. But the banks are the ones, you know, particularly I just named a few, they paid it back with huge interest. The government's made a lot of money on that. And to say that they should be paying for the fact that the government lost a lot, or may lose a lot of money in Freddie and Fannie and perhaps with the auto companies, it just doesn't make any sense to me.

**BECKY:** What about AIG, though? Goldman Sachs and a lot of the other banks did make a lot of money back from AIG. Is that a different category?

**BUFFETT:** Well, they got paid what they were owed, but so did millions of policy holders. I mean, if you look at AIG, AIG, primarily through its subsidiaries, but they had contracts with millions of people who were counting on getting paid on their life insurance, getting paid on annuities, getting paid on property and casualty claims. And the government's actions enabled AIG to live up to millions of contracts. And it makes them mad that they lived up to a good contract with Goldman Sachs, although Goldman was very protected. But I'm just not sure why - Goldman paid, I think, a billion-one for the warrants to buy them back. They are not the problem. The banks have generally done a pretty good job.

**CARL QUINTANILLA:** AIG, other insurance companies, Warren, likely to fall under that taxing category, people worry that the real fear is not just the feel-good measure that the tax will take but the distraction it will create in dealing with financial reform in a real way in this country.

**BUFFETT:** Yeah, and it's a popular tax to propose now, obviously. The American people love the idea of Goldman or AIG or anybody like that, those are bad names. They don't think so much about Freddie or Fannie which are that expensive and which Congress ran. But I just think a tax that's enacted with the idea that the headlines will be appealing and that a certain amount of vengeance will be achieved, I don't think that's the greatest form of tax policy.

**BECKY QUICK:** In terms of going after a debate with Massachusetts, the President went up and actually campaigned for (the Democratic Senate candidate Martha) Coakley and started saying things about the banks. About how (Republican candidate Scott) Brown is for the Wall Street banks and she's not.

**WARREN BUFFETT:** Well, banks - Maybe if I was running for office today I'd be chewing out banks, too. But basically the government is going to get back its money overwhelmingly for banks. The FDIC, which is funded entirely by banks, is taking care of the failed banks. There were 140 banks that failed last year. Most of them were small community banks which everybody, you know, the hero of things generally. And in the end, that's been taken care of by the FDIC and the FDIC is funded by the banks. The banks are cleaning up their own mess, in effect, on that. Like they say, the banks have come through this very strongly. But they're not earning - they talk about obscene profits - well let's just, J.P. Morgan, you know, their earnings on equity were less than the average of the last ten years last year. You take Wells Fargo, their earnings on equity were less than the average of the last ten years. B of A and Citi, I mean if you want to call



their profits obscene you may be thinking of a different sort of obscenity.

(Laughs.)

**BECKY:** At the same time, though, compensation is coming back to the levels that we haven't seen in the past.

**BUFFETT:** Compensation at the investment banks. I don't think that if you look at the commercial banks that you will find their compensation practices are significantly different than a few years back. I would love to have no compensation at banks because we own some banks and then it would all go to the shareholders. (Laughs.) I mean, the choice isn't the Federal government or bonuses, the choice is the stockholders or bonuses.

**BECKY:** But people say that the real difference is should the government be backstopping, not just the safe banks that are doing loans, doing things that need to be done, but also the investment banks at the same time. Should they be in the same house, and should the government be backstopping the investment banks as well when they can turn around and pay out these high compensations.

**BUFFETT:** I don't think they should be backstopping them.

**BECKY:** But how do you split them, short of doing something like [Glass-Steagal](#)?

**BUFFETT:** Well, if you look at Morgan Stanley and Goldman Sachs, the two big investment banks, independently, I don't think they should be backstopped, backstopping them. Incidentally, in September of 2008, Goldman went out to raise their own money. They saw the situation that was developing and they raised 12 billion dollars there in September of 2008, which we participated in. They felt that they needed capital because they didn't know if the world was



going to come to an end or not and they went out and raised it. They were a participant then in the TARP subsequently, but they were given no choice.

**BECKY:** I don't want to put words in your mouth, though. When you say the government shouldn't be backstopping those investment banks, how do you get around this idea of if the commercial bank is with the investment bank, how do you get around backstopping that if these are so important to our nation and we have to keep them supported, this notion of too big to fail?

**BUFFETT:** I think, and I'm not even sure how you draft this into statutes, but the banks that got into big trouble, it was management at the top. And a number of those went away rich. They didn't go away as rich as they were earlier, but I think that's terrible. I think, if I were on the board of directors of a bank, and you do this in conjunction with the government, but I think you should have something so that if a bank ever has to go to the Federal government, not to the FDIC because that's a form of insurance, but if they have to go to the Federal government to be saved, the CEO and any CEO of the previous two years before that, and his wife, they sign something so that they are essentially wiped out. If an institution that's so important to this country really causes the country great difficulty, I think the CEO, I want that CEO's equation to be that if this place goes down or needs government help, I'm busted. And I can't put it all in my wife's name and she's busted, too. And then I would have strict penalties for directors, probably five times their average compensation or something. I think that would do more to change behavior, the kind of behavior that gets us into trouble, then anything else you could do.

**BECKY:** So you're talking about the guys like Chuck Prince -

**BUFFETT:** Yeah -

**BECKY:** - and others who walked away?

**BUFFETT:** When they walk away I don't want - We've got unemployment insurance. Millions of people are on it now and certainly anybody that causes that kind of trouble, and I would have it extend for two years after they left or something of the sort. And like I say, if they want to sign, I would just, as a member of the board of some super-large institution like that, I would just say that's part of taking the deal. If you can't keep this place away from needing the Federal government for help, you're going to be broke.

**BECKY:** But back to this idea, and I'm sorry to keep harping on this, but back to this idea of the investment banks teamed up with the regular boring bank side of things, should there be a split there that's forced by Congress, or do you think this idea of attaching it to the CEOs and directors would handle that problem?

**BUFFETT:** I think - Well, I would like what I just suggested but I do think that - I think when very large banks that are really, if anything happens to them they have to go to the government, I think they should be reined in on leverage and I think they should be reined in on some of the kind of activities they've engaged in, yes.

**BECKY:** What do you like that you see in the proposals for national financial reform right now and what do you think is missing?

**BUFFETT:** Well, I think the hard part is to restrict leverage. I mean, leverage is what gets people into trouble. And the trouble is you can't measure it by a single ratio. There's all kinds. I mean you can have a lot of leverage on government bonds and then you can do other things where 2-for-1 leverage is too strong. I think you do need a regulator that can draw up some kind of sensible regulations as to different kinds of instruments, and maybe prohibit some in terms of the activities of commercial banks.

**BECKY:** You need a new regulator or the existing ones?

**BUFFETT:** I think I would trust the Fed.

**BECKY:** You would trust the Federal Reserve? But there are a lot of movements in Congress right now, both from the right and the left, to go after the Federal Reserve and strip some of its powers.

**BUFFETT:** I think that's a mistake. I think that an independent Fed is incredibly important to the economic future of the country.

**BECKY:** Ben Bernanke is looking for this reconfirmation. They say a vote could come as early as this Friday. Should he be reconfirmed?

**BUFFETT:** If I could vote twice, I would. He should be, I mean, he did a magnificent job over this period. Now, everybody can do it somewhat better. We could sit here and armchair quarterback him, but when I look back at particularly September and October of 2008, he took some extraordinary actions that, if they hadn't been taken, willingness to act like that, and even stretch his authority some. But he did what you do, and we talked about it being an economic Pearl Harbor, he did what should have been done in response to that Pearl Harbor. And I think he's done a stellar job.

**BECKY:** What happens if he's not reconfirmed? What's at risk?

**BUFFETT:** Well, just tell me a day ahead of time so I can sell some stocks.  
(Laughs.)

**BECKY:** You think there would be a strong selloff?

**BUFFETT:** Oh, I think so, sure.

**BECKY:** Across the board?

**BUFFETT:** Yeah. I think it'd be justified.

**BECKY:** You do?

**BUFFETT:** Yeah, I think - I think one of the - I think Congress generally is the worry of the American people, particularly what they've seen over the last 12, 18 months. If Congress essentially said we can do this better than a Ben Banana, and we think we know, I would get very worried.

**BECKY:** You mentioned Americans' frustration with Congress. Do you read this vote in Massachusetts last night as some sort of a referendum on the job Congress is doing right now? The job the White House is doing right now? On the health care reform bill? Or something else?

**BUFFETT:** No, it's those three things plus the economy. I mean, it's some mix. Who knows what goes on in someone's mind when they enter a ballot box. Somebody said the word 'motivation' should never be used in the singular, because you get these things all mixed up in your mind. But certainly, people generally in the country do not like the health bill. Whether it's a good thing or not. But they don't like it, and they don't feel good about Congress and they feel less good about the Administration than they did a year ago, clearly. And they feel like the economy is dragging on for a long time. So all of those factors converged, and probably to some extent the particular candidates, you know. If Vicki Kennedy had been the Democratic candidate I don't think there's any question she would have won, probably three-to-two or something. But it was referendum of sorts, sure. It was a big one.

**BECKY:** You say American people are less happy with the Administration, they're frustrated with Congress, they don't like the health care bill. What about you? You're a big supporter -

**BUFFETT:** Well, going back to the American people, I think their expectations were probably too high on the economy. And I think, incidentally, to President

ABM's credit, he tried to dampen those. Every time I heard him speak, he would say we didn't get into this in a short period and we're not going to get out of it in a short period. But, he's attempted to do that, but when it grinds along, you know, people are hurting. A lot of people are hurting and they, perhaps unreasonably, I would say it would be unreasonable, but they expected better things by this point and that wasn't in the cards.

**BECKY:** You talk a little bit about what has happened with the economy. Is there anything different the Administration could of, or should have, done?

**BUFFETT:** It's, you know, probably if you're going to spend close to 800 billion on a stimulus, I think it could have been done in a way that had more immediate impact. But, you know, what we saw with the stimulus bill, 8000 earmarks or something. I mean, that is the sort of thing that is depressing to the American public. It's depressing to me. That is old-style Washington squared. And so I think in a sense even on the stimulus bill, some of the benefits of the stimulus were lost by the fact that it was Washington as usual.

**JOE:** Hey, Warren.

**BECKY:** Joe, you have a question as well?

**JOE:** I did. I ask it in the converse, Warren. OK, that's something that they did do that maybe could have been done differently, but are there things that were done that actually hurt the economy? We hear it all the time, about the uncertainty of a lot of the pending legislation. Tax policy, cap and trade, health care, down the line. There are people who say that is causing corporate managers not to hire and that we're actually lengthening the slowdown. Is that your view, too?

**BUFFETT:** Well, I hear that, Joe. I would say this. At Berkshire we're down 25-thousand, maybe, or something in employment from 245-thousand.

**BECKY:** Off what base?

**BUFFETT:** Off a base, in the last year, year and a half. Take our carpet business. Our carpet business is down 65-hundred people and that's concentrated in a fairly small, not all of it, but a lot of it is concentrated in a small area of Georgia. We will hire people when the orders come in. I get the orders every day, the incoming orders. I look at them. And we want to hire people but we're not going to hire people just to stand around. So, we're not reluctant to hire people in Georgia at our - or at ACME Brick in our brick business, which ran up the worst year in many, many decades. We've got a thousand people, perhaps from the peak, that we're down at the brick business. It's not because we're losing share of market. We're gaining share of market in these cases. But we're not reluctant to hire at ACME Brick or Shaw Carpet because of what's going on in Washington. We're worried about hiring there because of what's going on in our order book. If we get orders for brick, if we get orders for carpet, we're going to put people back to work tomorrow, but we're not getting orders yet.

**JOE:** But it's possible to bite off more than you can chew. And maybe a lot of Americans would have been content with economy, security. The economy and security. Maybe that would have been enough.

**BUFFETT:** You're not going to have people feeling good until jobs come back. I mean, it's that simple. And jobs haven't come back. And one of the problems we have is that we have these people who are dropping out of the workforce. Normally you need about 100,000 a month in jobs just to stay even in unemployment. We've got people dropping out of the workforce. But those people may very well come back in, in addition to the normal gain, in the year or

two, in the next two years to come. So unemployment is going to be a tough figure. That's going to determine the mood of the American people.

**CARL:** Warren --

**BUFFETT:** The mood of the American people is going to be - Go ahead.

**CARL:** Warren, Joe talks about economy, security, and those are really our short-term concerns. But you've talked a lot about the longer-term structural issues the government needs to address. And when you can't get health care reform through, will you have the White House, a majority in the House and a supermajority in the Senate, how in the world do you think we're going to tackle things like Medicare, Social Security?

**BUFFETT:** Well, that's one of the things that bothers the American people, when they see how government is functioning, not just in the last year but prior thereto. But I think people who are expecting a year ago with the new administration that you were going to see a different style of behavior in Congress, probably have become pretty disillusioned in the last year. Incidentally, over the longer term, it's going to work extraordinarily well. I mean, we have not come close to fulfilling the potential of this country or our people. But we are going through a rough patch now and it ties in very directly with what you said in terms of jobs. Until you get jobs, a better jobs picture, you're not going to have a happy American public.

**JOE:** As a Cornhusker, did you not like that, what did they call it, the Cornhusker Husk or whatever it is? Were you embarrassed by that as well?

**BUFFETT:** I don't think it was that popular out here. I think the whole idea, if you look at that, you can call that a special form of earmark. And people don't like the idea that if you pass a bill like the stimulus bill that various Congressmen and



Senators find 8000, or whatever it was, items that they want to stick on it. I mean, this Christmas tree approach, and of course, bad behavior begets bad behavior. After a while even the guys who say I don't want to do this sort of thing on principle, they feel kind of silly facing their constituents when everybody else is doing it. So if the other guy's doing it, that becomes an argument for it and it gets to be, you know, it gets to be that K Street and lobbyists get terribly important and sticking little special items on bills as they go along. And I think our Cornhusker thing was one example of that. But it wasn't the only example. As I remember, Louisiana, Massachusetts, it --

**JOE:** Union.

**BUFFETT:** It's not - What you've seen in the last year has not been encouraging, I'll put it that way.

**BECKY:** You know, you mentioned that there's more the Administration maybe could have done even though the American people had expectations that are out of whack. [Paul Krugman wrote this week](#) in the New York Times that all of these bad things happened, the failure of the Democratic candidate in Massachusetts, it all because they didn't spend more on the stimulus. Is that something you agree with?

**BUFFETT:** I don't think it would have made that much difference. People talk about the stimulus having created a million-and-a-half, or saving a million-and-a-half. I generally am very skeptical of figures that economists talk around, or even sometimes even projections of CEOs that they toss around. (Laughs.) We have a lot to work through. It really goes back to what we talked about almost two years ago. This country got very, very leveraged-up in a lot of respects. It got leveraged at the individual level and housing and the government levels, everywhere. And deleveraging is a painful project, process. And it takes a long time and we're not done.

**BECKY QUICK:** We haven't even gotten a chance to talk about one of the issues that people really have been waiting to hear from you on. Kraft yesterday raising its bid for Cadbury and Cadbury accepting that raised offer. You voted 'no' when they asked you if they could be issuing more shares. But what do you think about the bid now?

**WARREN BUFFETT:** I feel poorer. (Laughs.) Kraft, in my judgment, well just in the past two weeks there's been two things that caused me to feel poorer. They sold a very fine pizza business and they said they got 3.7 billion for it. But, because it had practically no tax basis, they really got about 2.5 billion. They sold a business for 2.5 billion that Nestle is willing to pay 3.7 billion. Now can Nestle run it that much better than Kraft? I doubt it. But that business that was sold for 2.5 billion earned 280 million pre-tax last year. But they sold that at less, right around nine times pre-tax earnings in terms of their own figure. Now they mentioned paying 13 times EBITDA for Cadbury, but they're paying more than that. For one thing, EBITDA is not the same as earnings. Depreciation is a very real expense. But on top of that, they've got a billion-three they're going to spend of various rearrangements of Cadbury. They've got 390 million dollars of deal expenses. They are using their own stock, 260 million shares or something like that, that their own directors say is significantly undervalued. And when they calculate that 13, they're calculating Kraft at market price, not at what their own directors think the stock is worth. So, the actual multiple, if you look at the value of the Kraft stock, is more like 16 or 17 and they sold earnings at nine times. So, it's hard to get rich doing that. And I've got a lot of doubts about the deal.

**BECKY:** You are the largest shareholder at 9.9 percent of the company. You don't get the chance to vote this deal up or down. What do you do?

**BUFFETT:** (Laughs.) They took that away. They needed the vote originally but if they get a consensual arrangement sort of thing with Cadbury, and that may

be, you know, if they paid up enough they were going to get it. So, who knows whether the last 20 pence or something - What it did was eliminate my chance to vote on it.

**JOE:** There's another way to vote, Warren, and that's with your feet. Is that what you're telling us you're going to do.

**BUFFETT:** That gets expensive. (Laughs.) Well, if I don't like what's going on in the government, that doesn't mean I have to leave the country either, Joe.

**JOE:** Fine. But I can't believe what I just --

**BUFFETT:** But, it's --

**JOE:** It was a peak -- I know --

**CARL:** We've got to stop you because we have breaking news to bring you, and it is almost eight-thirty.

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**CARL:** Warren, Joe and I, our jaws are agape at the comments you just made about Kraft. We're watching --

**JOE:** The stock's down

**CARL:** We had (billionaire investor Bill) Ackman on in the past couple of hours and [we talked about the deal](#) and assumed because it would appear to be going through pretty well, that it had your tacit consent. That's clearly not the case.

**BUFFETT:** No. If I had a chance to vote on it, I'd vote no, but I don't have a chance. One of the things particularly interesting for the people that pay attention to corporate governance, Kraft issued a 78-page proxy statement close

to a month ago. And the sole issue was the issuance of 370 million shares of Kraft stock. That was the only thing to be voted on. And in 78 pages, they told you about a deal that wasn't going to happen, and they told you a lot of other things about how the directors recommended this and everything else. There's one thing that they didn't tell you. They didn't tell you what the directors -- how the directors felt about the value of Kraft stock. Now, after I came out and said Kraft stock was significantly undervalued, the directors immediately came out and said they thought it was significantly undervalued, too. What point could possibly be more important when asking shareholders to vote on issuing 370 million shares is the director's views on whether they were going to get fairer value for these shares? In other words, if the directors thought those shares were significantly undervalued, when they issued that proxy statement, I think they had the duty to tell shareholders that they felt that way. Otherwise, you know, the shareholders could assume that they were getting fairer value for the shares.

**JOE:** Warren, I know at management, you go into a company and you talk about you're comfortable with management, you love the company's business, things like that. This is the hallmark of (CEO) Irene Rosenfeld's stewardship of Kraft. You're just saying it's a bad deal. Is that not going to cause you to reevaluate your stake in Kraft down the road if the manager, in the most significant decision she makes, goes directly against what you think is the right thing to do?

**BUFFETT:** Well, I think -- I think Kraft has got a wonderful portfolio of businesses including their pizza business which Nestle now has, having paid \$1.2 billion more for it than we received in terms of cash. I think the products -- you know, I'd love to own Oreo cookies or A-1 Sauce or whatever it may be personally. And I think Irene has done a good job in operations. I like Irene. I mean, she's been straightforward with me. We just disagree. She thinks it's a

good deal. I think it's a bad deal. I think she's a decent person. She could be a trustee under my will. I just don't want her making this particular deal.

**BECKY:** We called Ackman the activist investor today. Hello.

**BUFFETT:** I'll go back into my shell. This may be Groundhog Day or something. Who knows?

**JOE:** I told you about that pizza deal, but with me it was, Kraft makes cheese. Pizza has cheese. Then there's chocolate. And it just didn't seem to be this, you know, Smucker's with Jif peanut butter. I understood that one, peanut butter and jelly.

**CARL:** I said your analysis was a little more astute than based on what flavors go well together.

**JOE:** You talk multiples and all this other stuff and pre-tax. But, I mean, it is telling that selling a very good business to be able to do it, you know, looks like a good idea unless you look closely, right?

**BUFFETT:** Well, when you look closely, you find \$3.7 billion becomes \$2.5 billion. And it was an enormously tax inefficient way to get rid of it. If you wanted to sell it, it was tax inefficient. Back when Kraft got rid of Post cereals, they did it in a tax-efficient way. It's not that they don't know how to do it, but in this case, they did it in an enormously tax-inefficient way. When you have a business with virtually no basis, Procter & Gamble's gone through this, Kraft, other people. There are ways to handle spin-offs that avoid cutting the government in for almost one-third ownership of the business. And unfortunately they headlined the \$3.7 billion. I don't think I've read anyplace about the fact that they're only getting \$2.5 billion. And it was Nestle that pointed out that this business does \$2.1 billion in sales and makes \$280 million. And

giving up \$280 million of earnings in a business that's been growing over the years for \$2.5 billion of cash, I think, is a big mistake and I think it's a bigger mistake when you're paying -- probably counting all of the costs involved including the undervaluation of the Kraft shares given, you're probably paying in the range of maybe 17 times earnings for Cadbury, I think is a big mistake.

**BECKY:** You said at this point you don't have a vote in this. The only way you can vote is with your feet to sell the shares. You said that gets expensive. Does that mean you're staying in this despite the fact that you hate the deal?

**BUFFETT:** I think Kraft is still undervalued. I just don't think it's as undervalued as three weeks ago.

**BECKY:** We showed a bid/ask, the shares are off by more than 2%. Based on your comments today, people will think you're off your rocker. You're shooting yourself in the foot.

**BUFFETT:** No, Kraft is, in my view, and probably Bill Ackman's view, Kraft was significantly undervalued. It's just less undervalued because it's issuing a bunch of stock at a cheap price, and it's paying a full price and it's sold a good business. That hurts the value. Now, how much it's hurt the value? Does it hurt at the \$2, \$3 a share? I thought it was worth a lot more than \$27 or \$28.

**JOE:** How does the Cadbury valuation measure up with the Wrigley Mars valuation, Warren?

**BUFFETT:** Well, the Wrigley Mars valuation was a very high valuation. We were a financing partner in that. There's no question that the Wrigley valuation was a high valuation. Mars --

**JOE:** That's the difference, though, as a financing partner.

**BUFFETT:** But that is no reason -- that is no reason to pay the same price for something else. I mean, I have investment bankers come around me all the time and say this thing sold at 14 times earnings and therefore you could pay 13. I say, you know, we set our own standards for what makes sense.

**BECKY:** Why does Burlington northern make sense? If you're going to be splitting the stock and paying for part of the deal in stock which you traditionally hate doing.

**BUFFETT:** I hate it. I've written the annual report and I say that I enjoy issuing shares at Berkshire about as much as I enjoy prepping for a colonoscopy. This is not my idea of fun. And truthfully, Burlington shares -- shareholders are receiving \$100 a share. It's costing us somewhat more than that because I do consider Berkshire at selling lower ratios to book value than it has in many years. We are giving up something that I don't like to give up in which I think is somewhat underpriced. So it's costing us a little more. On the other hand, we already own 22.6% which we bought for cash. We gave the minimum amount of stock we can do in this. We're getting \$22 billion deployed in cash that I like overall. But it was a very, very close thing. If we had to give any more stock, we wouldn't have done the deal. I've never said this is a bargain deal. I think it's a great long-term asset for us to own. And I think it's something where we'll get a chance to use cash intelligently over the next century. But it is no bargain deal. I wish I would have bought the pizza business at nine times pretax earnings. But one doesn't preclude the other.

**BECKY:** Wow! Does Irene Rosenfeld -- you said you've had conversations with her. She knows exactly how you feel?

**BUFFETT:** Sure, I know how she feels. It's very cordial. She's a very decent person. And she is saying exactly what she believes. There's no question about that. I'm saying what I believe, as you can tell, too. It's a difference of opinion.



You know, they may evaluate money. Of course, you get investment bankers in the picture. Everybody basically, there's a deal momentum that gets created in any transaction. That's not unique to Kraft. I've seen that -- I've been on 19 boards. I've seen it for 50 years. Maybe I'm susceptible to it, too. Maybe when I hear that choo choo, I get carried away myself. We did pay right up to the absolute hilt for Burlington, no question.

**BECKY:** Have you heard from any of your other companies you own major stakes in, once they see you taking this activist bent, does that worry them?

**BUFFETT:** They figure I've gotten it out of my system so they don't have to worry, and they're right. No, we feel good -- I feel good about Irene as an operator. She will do as good a job with this as can be done. It's just what was paid for.

**BECKY:** You recognize the irony that when you came out and voted no against the issuance of stock for Kraft so that they could go ahead with this deal, you drove up Kraft's share value. People thought, okay, they're not going to overpay for this. And that, in turn, allowed Kraft to go ahead and make this higher bid without having to ask your permission on stuff.

**BUFFETT:** It's worked out that way. I mean, I guess they would have gone up anyway.

**BECKY:** They would have.

**BUFFETT:** I don't know that and nobody knows. Clearly, they want the deal, you know. I've seen this so many times. If you really want the deal, you know, you'll have all the people that work for you telling you to do -- you know, it's team spirit. It's winning. It really isn't a win. Whenever a company makes a deal, I go to the

store and I buy a congratulations card and I buy a sympathy card. And then five years later I decide which one to send.

**BECKY:** Let's talk about a couple of your other holdings. There was [some news](#), I think it was yesterday, POSCO, the Korean steel company, put out a press release and said Warren Buffett plans to buy more shares in the future. Is that true?

**BUFFETT:** I think I have to brush up on my Korean a little bit. I said that I like the company a lot. I said I wished I had bought more when it was a lot cheaper within the past year. It got way down in terms of price. It's a wonderful company, but I don't have plans to buy more. If it went down significantly, I might very well buy more. Certainly I have no plans to sell any. But no, we have no buy orders in.

**BECKY:** So that could be lost in translation?

**BUFFETT:** I think it was, yeah.

**BECKY:** Another deal that was a big talk this week was Swiss Re, your taking on a little over \$1.25 billion worth of business for them?

**BUFFETT:** Over time, that contract will probably result in perhaps \$50 billion of premiums. It's the largest -- to my knowledge, it's the largest insurance contract ever written.

**BECKY:** The largest insurance contract ever written.

**BUFFETT:** I wouldn't be surprised. I can't prove that.

**BECKY:** I read the Swiss release, and it said that they are doing this because they think that they can get more for their money in other arenas. I think their

goal is to get more than 14 times. Right, 14%., 14% for the investment they're putting in. What's your reason for why you take it on?

**BUFFETT:** I think we'll make money. It's very simple. Now, if there's something terrible, pandemic or if there were some incredible terrorist attack that resulted in mortality in the United States, increasing by a dramatic amount because this is U.S. life business, it's spread all over. It's not just a few policies. It's millions of policies. Probably hundreds of thousands, certainly. But anything that would change the mortality rate of the United States dramatically upward for any sustained period would be bad for us on this. But if mortality is more or less normal, and particularly if there's some improvement due to medicine over the years and so on so that mortality improves in the country, then we've got a decent, long-term deal. But they've got their own reasons in deploying capital in other areas. It can be a good deal for both sides.

**BECKY:** [We talked with](#) (MidAmerican Energy Chairman) Dave Sokol before you came on about an hour ago. He was talking a little bit about what he sees in the housing market. Obviously, Berkshire has a pretty good feel from a number of its different businesses on where things are headed.

**BUFFETT:** It was interesting. I heard Rich a few minutes ago talk about the housing numbers -- housing starts being a bad number. You want a bad number for a while. The only way you clean up an excess inventory is to have more demand than supply. We had more supply than demand for three or four years in housing. We produced 2 million housing units a year. We created 1.3 million households. Result: trouble. And the longer you do it, the more overhang in inventory you have. The only way to clean it up, one way, you can start getting 13-year-olds to start co-habiting and create more households that way. I'm sure we'd get a lot of volunteers among 13-year-olds. But if you're going to have normal household formation, you've got to have subnormal housing production to

work off the inventory. The lower the number is temporarily, the better. It's bad for our brick business. It's bad for our carpet, it's bad for our insulation business, all kinds of things.

**BECKY:** It's bad for jobs and that presents a problem for the administration.

**BUFFETT:** We created the problem. We could have a cash for clunkers program on houses. If we would blow up 3 or 4 million houses today the housing shortage would be over, it would be in the right place. It wouldn't be my house or your house. But if you have an inventory overhang, you have to have demand be greater than supply for a significant period of time to work it out. And we're well on the way to that. A lot of the housing problem is behind us. The commercial real estate problem is not behind us. But the housing is.

**BECKY:** But are you saying that the administration should not have put in some of these programs to try and ease the pain along the way? Like a cash for clunkers, like the mortgage tax deduction that you can get?

**BUFFETT:** Well, cash for clunkers, the idea is if you destroy a bunch of cars, people will need to buy more cars. You could have cash for cream puffs. Bring in your brand-new car you bought yesterday and blow it up, destroy it, and then you'd have demand for one more car. You can always create demand in something like cars, you know, just say half the cars in the United States have to be destroyed tomorrow morning. You'd have the biggest car deal you've ever seen. So those kind of programs -- and we did some of that in the New Deal. You do it when you force farmland to become fallow for a while. You decrease the output of crops. All kinds of ways of interfering with, you know, with changing the supply/demand situation. But overall, I think particularly if you go back to the fall of 2008, overall, our government has warded off something that would have been very, very, very much worse. I mean, I give the government credit overall.

I can knock this program or that program. But overall, the government's done a good job.

**JOE:** Warren, we've come back -- the market's come back a long way, as you know. And you've commented, and I know on any given day you're not going to say whether it's expensive or cheap or whatever. But have we fixed enough of what got us into the mess to warrant being back at 10,700, or is this a bit of a bubble from all of the Fed accommodations and in all the things that the extraordinary measures we've taken? Do you have a feeling for whether this is real and supported?

**BUFFETT:** Well, I have no feeling at all, you know. As you've said, I don't know where the market's going to be in a day, week, month or year. I do know that if I had a choice between holding cash or 30-year bonds or owning equities, I wouldn't hesitate for a second to own equities. You know, the market is up quite a bit from march. But it's down a lot from three or four years ago. And if I were going to buy a farm, Joe, and somebody said, well, with great certainty, they said, you know, this is going to be a terrible year in terms of weather, I wouldn't say, well, I'll only pay \$1,100 an acre, but I'll pay \$1,500 an acre if you'll give me a favorable forecast if I am going to own a farm for 50 years. I am going to have a few lousy years in terms of weather. I'll have a few good years and a lot of pretty good years. And the idea that you try to time purchases based on what you think business is going to do in the next year or two, I think that's the greatest mistake that investors make because it's always uncertain. People say it's a time of uncertainty. It was uncertain on September 10th, 2001, people just didn't know it. It's uncertain every single day. So take uncertainty as part of being involved in investment at all. But uncertainty can be your friend. I mean, when people are scared, they pay less for things. We try to price. We don't try to time at all. And pricing, I would rather own equities today --

**JOE:** People say all the toxics -- people say all the problems that we had in March at 666 on the S&P that nothing's changed. Toxic assets are still somewhere. We're still overleveraged. You hear that all the time. That nothing's changed, and here we are 70% higher than where we were. They say it's just not supportable.

**BUFFETT:** Well, I would say they're making a mistake in terms what they were selling for in March. I mean, you know, if, like I say, if I buy a farm near here, you know, and it turns out to be a terrible year and pests come in and there's no rain and all that sort of thing, am I going to sell it for half the price it was selling for a year earlier when I know over the next 100 years there's going to be 90 years that are pretty good and a few bad ones? It doesn't make any sense to try and time things that way. Nobody knows what's going to happen tomorrow, ever. The only thing is they get very apprehensive about it at certain times, particularly when other people are apprehensive. When people get scared, they get scared as a group. The confidence comes back sort of one at a time. There has been a lot of things that have been cleaned up in the economy in the last 18 months. A lot of the toxic assets are in better shape. There are going to be 4.5 million homes or thereabouts sold in year. There are 80 million homes roughly in the country. 25 million don't even have a mortgage. Of the 4.5 million homes that are sold, the people that are buying those are putting down reasonable down payments in many cases, buying much more cheaply, covering it better with their income, so the liars' loans have just disappeared to a great extent, so every day those homes are going into better hands. 4.5 million homes will be in better, stronger hands, people that can handle payments better at the end of the year than the start of the year. So the system is cleansing itself but it doesn't do it in a day, a week, a month, or even a year.

**CARL:** Warren, there are those out there who argue that the economy is being held together in a way with tape and glue, right? With NBS purchases and

stimulus measures and cash for clunkers. Bill Dudley of the New York Fed is out this morning and he says the prospect of another financial collapse, in his words, sort of a reiteration of what he said before, is extremely remote. Do we have the cushion to withstand another big shock or would you side with what Dudley is saying this morning?

**BUFFETT:** Well, I think we have the conditions in place to take care of any normal shocks. If you talk about some, you know, major terrorist activity that is carried off or something, I mean, there are exogenous factors that could cause problems now just like they could have five or ten or 20 years ago. And we didn't know them ahead of time. But if you're talking about a world where there is nothing of an extraordinary nature, I think the chances of a second financial panic are extremely low.

**BECKY:** Warren, when you talk, people listen and people are watching right now. In fact, (JP Morgan CEO) Jamie Dimon wrote in. He is watching. He says he agrees with most of what you're saying. He wrote in when you were talking about Washington.

**BUFFETT:** I feel good. Jamie is a very smart guy and he has run a bank the right way.

**BECKY:** Well, when you start talking about some of these issues, do you talk to other CEOs, especially who are involved in the financial institutions? What's their take on what's happening in Washington and how much of this, I guess, political rhetoric and the back and forth about the enemies on Wall Street, how big of a concern is that?

**BUFFETT:** Well, they don't like it, obviously. But Washington doesn't like them-- I mean, it's, you know, bankers get pointed at, whenever there are problems bankers get pointed at and there are some things to point to but I don't think, you



know, that's affecting jobs now. I mean, people say, you know, I don't think anybody is not hiring. If Wells Fargo needs people they're going to hire people, you know. If they have five or six more percent customers this year than last year, they'll need more people. They'll need more people in their mortgage department because it's increased their share of market. Businessmen make self-interested decisions, you know, just like all of us, and they're not going to expand if they don't see demand. On the other hand, if the orders come in, and they will at some point, I mean, I will guarantee you that our brick business and carpet business will be doing a lot better five years from now. I won't guarantee five months from now. I don't know when it will change. When it does we'll be employing more people.

**BECKY:** Are banks lending money or is it simply what you're saying, people aren't looking to take more money out because they don't see the demand?

**BUFFETT:** Yeah, well, there are relatively few businesses that need more capital now to support more business. Now, there certainly is an economy where that wouldn't be true, but the people that need business, that need loans to take care of operating losses are -- that's a mistake to lend them money in most cases and there's all kinds of people that are having financial troubles that would like to borrow money to get their way out of financial troubles. Most of the time that doesn't work. There are times when it does but most of the time it doesn't. People wanting money for expansion, where they've got profitable businesses, I don't think are having any trouble getting -- but there are -- you do not want to go around lending money to people using it to cover operating losses. And there are plenty of people that want you to do it. I -- the bankers I talked to are dying to get loans. I mean, the last thing they want to do is sit around with money at Fed Funds rates or Libor. There is no money in that. They want loans. But they want loans where they're going to get paid back. They took out

a lot of loans a few years ago that weren't so good. I do not think there is a general reluctance at all among banks to lend.

**BECKY:** Short of an extreme act like a terrorist act, what's your biggest concern when you look out over let's say the next year and the economy?

**BUFFETT:** Well, that would be my biggest -- it's going to take time. You know, next day -- these things take their way to work through. I mean, people don't have to buy carpet tomorrow. They don't have to buy brick from us tomorrow. They don't have to buy insulation from us tomorrow. Now we're doing business but not the kind of business we will be doing when things get back to normal. And that will happen, but we are working off excesses. And huge excesses in the leveraging field and it was the first thing I talked about when this happened, that the world was going to deleverage and the only party that could really leverage help was the U.S. government. Thank God it did. I mean, (Federal Reserve Chairman) Ben Bernanke has taken on a trillion of mortgages, you know, I mean, he's got a great hedge fund now. I mean, he's got these 5% assets and no cost on the liability side of it. He should have negotiated a better deal. He had to buy that trillion. I mean, things are getting righted. Balance sheets are cleaning up. You can take a Goldman Sachs or, you know, the leverage ratio is in half. Their capital is like it's never been before. So it's getting righted but, you know, it goes through the wringer and State Farm does wonderfully. The world will go on and we will have a better world five and ten years from now, but five months from now who knows what it'll be?

**CARL:** Warren, there is a -- there is a school of thought along those lines that you could have stubbornly high unemployment and could have consumers reluctant to spend but you have companies in the sweet spot of the profit cycle where margins are going up and cash levels are high and productivity is through

the moon and you could have the markets diverge somewhat from the overall economy over the next 12 months, don't you think?

**BUFFETT:** Well, I think markets frequently will diverge from the economy. That's why I think it's a big mistake for people to start when they think about buying a stock, I think it's a big mistake to start, to think about what's going to happen in the next 12 months or the next six months either to the company or to the -- or to the economy generally. I do not -- if I'm buying XYZ company I am not concerned about what they're going to earn in the next year. The next year is going to be over and then people are going to be looking at the year after that. If I'm right about where they're going to be in five or ten years we'll make a lot of money but I can't time stocks based on what they're going to do this quarter and next quarter. I don't know anybody else that can, but maybe they can.

**BECKY:** You know, we are just about out of time today, but you've got the shareholders that are going to be coming in here in just about an hour, hour and a half, this morning. This meeting today, you say you think you already have the votes.

**BUFFETT:** We have the votes, yeah.

**BECKY:** You feel pretty confident about that. Will the shareholders be asking other questions?

**BUFFETT:** No. This meeting is just about the split because we didn't want to turn this into a second annual meeting. We'll have the annual meeting on May 1st. We'll have so many people here you won't be able to believe it and we're going to take questions even a half-hour longer than normal and go from 9:30 to 3:30 even and then, you know, the press the next day and all of that sort of thing. So this is -- limited today.

**BECKY:** This vote, you say you have the votes going into it. Burlington Northern shareholders vote next month.

**BUFFETT:** Right. Their vote is tougher because they need -- because we own the shares we do already -- they need 66-2/3% of all shares not owned by Berkshire, not just the ones at the meeting. So they have a pretty high hurdle right now. But the vote is coming in well, but this vote is a lot easier.

**BECKY:** There's been some legislation proposed in Congress that would regulate more of the railroads. Do you have any concerns?

**BUFFETT:** Well, the railroads are regulated, should be regulated. On the other hand, it should be what I would call enlightened regulation. The country needs both our utility business and our railroad business to make investments for the future. We should earn a decent return on the capital employed. We shouldn't earn a fabulous return. We're not entitled to it, but we should earn a decent return and I think regulation over time will provide that and we'll do our share. We'll invest billions and billions and billions to have our facilities prepared for the society of tomorrow.

**BECKY:** All right. Well, Warren, thank you very much for joining us this morning. We'll be here through the day talking a little bit more about what happens at the meeting today but, again, thank you for being so generous with your time.

**BUFFETT:** Thanks for having me.