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Warren Buffett Faces Insider Trading: A Case Study

By
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Billionaire Warren Buffett has amassed a large following among those in the investment world and the numerous shareholders of Berkshire Hathaway. Headquartered in Omaha, Nebraska, Berkshire Hathaway operates as a conglomerate that owns and operates businesses with familiar brand names like Fruit of the Loom, GEICO, Dairy Queen and Duracell. It also operates a large marketable securities portfolio run by Buffett. Some top equity holdings are Coca-Cola, Bank of America, American Express, Wells Fargo and Kraft Heinz.

In March 2011, Warren Buffett stepped into chaos. The Chairman of one of Berkshire Hathaway subsidiaries, David Sokol, had resigned his position, but there was more to the story. .

Buffett learns days after the public announcement of the all-cash deal to acquire Lubrizol, that his top executive, David Sokol, has potentially committed insider trading. Sokol resigns from his position unexpectedly. In rank, Sokol is behind Charlie Munger, Buffett's long-time business partner. Sokol is Chairman of several Berkshire subsidiaries and has had a long, successful relationship working with Buffett. In fact, Sokol is considered Buffett's protégé and the lead candidate to replace Buffett upon retirement.

In a March 30, 2011 press release, Buffett states, "in our first talk about Lubrizol, Dave Sokol mentioned that he owned stock in the company. It was a passing remark and I did not ask him about the date of his purchase or the extent of his holdings" (Busines Wire, March 30, 2011).

How does Buffett respond?

Keywords: Berkshire Hathaway, Warren Buffett, David Sokol, Insider Trading, Ethics, Stockdale Paradox, Leadership, Case Study

In the words of Warren Buffett:

> To my knowledge, **Dave Sokol** did not disguise the trading. That's somewhat inexplicable if he really felt he was engaging in insider trading and knew the penalties that could be attached to it, that he essentially did it right out in the open. The second fact, which is less puzzling, but Dave obviously has a net worth in very high numbers. He made, I think, close to $24 million. He earned it from Berkshire last year, and we got our money's worth, but he did get $24 million. (Busines Wire, March 30, 2011).

As soon as Buffett is informed of the insider trading claim, the situation turns into a decision-making problem with four core elements: 1) Managerially difficult; 2) Emotionally charged; 3) Intense media coverage; 4) Ethical and moral paradox. This case study explores the issues and Buffett's response to the insider trading example.

David Sokol was a well-known business executive. He had developed a reputation as a highly skilled professional operating manger. Berkshire Hathaway purchased MidAmerican at the end of 1999 and Dave was one of the senior operating people. By background and temperament, Sokol was a good fit at Berkshire and Buffett trusted him. In a press release dated March 30, 2011, Buffet explains Sokol's contribution to Berkshire, "Dave's contributions have been extraordinary. At MidAmerican, he and Greg Able have delivered the best performance of any mangers in the public utility field" (Business Wire).

Sokol was the Chairman of MidAmerican energy and several other subsidiaries for Berkshire Hathaway. Part of Sokol's job was to look for companies that would be attractive acquisitions for Berkshire and to report his findings to Buffett. In the first quarter of 2011, Sokol had identified a target: **Lubrizol**, which was a company known for its large industrial lubricants business. In addition, Lubrizol was a brand name that would fit well under the Berkshire tent of operating companies. The size of the acquisition of Lubrizol was valued at $9.7 billion making it one of the largest acquisitions in Berkshire Hathaway history.

Company Background and Sokol Stock Purchases

In 2010, Lubrizol had $5.4 billion in revenue and was a global manufacturing operator with facilities in 17 countries. The company was well known for new technology and producing specialty chemicals, specifically lubricant additives for engine oils. These additives were widely used for engine oils and as industrial lubricants. The company's global headquarters is located in Wickliffe, Ohio.

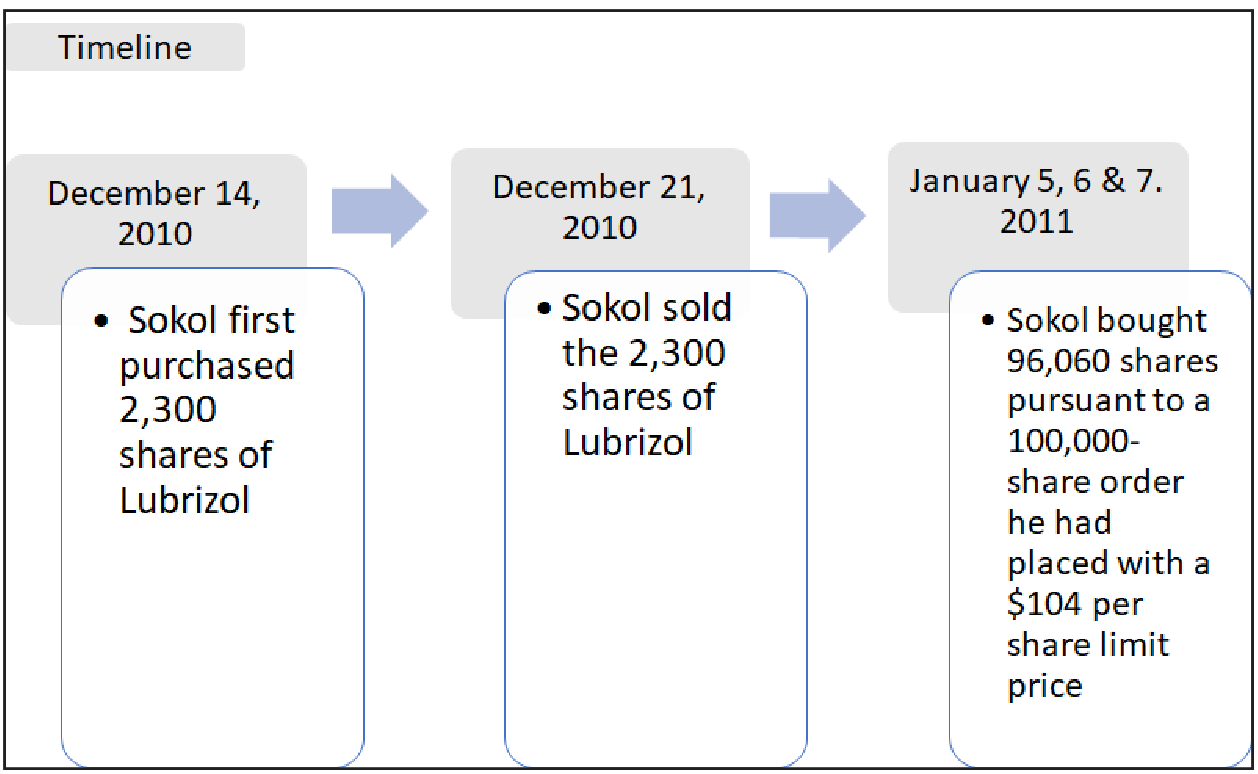

Figure 1. Sokol's stock purchases

In December 2010, Sokol purchased 2,300 shares of Lubrizol, as shown in Figure 1. He purchased shares in Lubrizol because he thought the underlying economics of the business were attractive. He subsequently purchased 96,060 shares on January 5, 6, and 7, 2011. Sokol's underlying motive was to buy a position to see how the company trades in the market. To see how easy or difficult it was to obtain the stock and to develop the interest to study the company further. Often that process is only done once an analyst is a shareholder. There is a much greater feeling of commitment and thus ownership to examine something you own than just another paper investment.

Buffett and Insider Trading

Warren Buffett is the Chairman of Berkshire Hathaway, a large conglomerate of different businesses. Berkshire has several private operating businesses, including See's Candy, NetJets, Clayton Homes, GEICO and Benjamin Moore, to name a few. These large businesses are run from a decentralized management structure.

Buffett takes a long-term approach to finding new operating companies, highly emphasize acquisitions that are a cultural fit for Berkshire Hathaway. After completing an acquisition, Buffett's goal is to keep the present management team in place to run the business as if it were still independent. This approach is different from the typical strategy of firing top management and focusing on cost savings and economic synergies to drive short-term earnings growth. In a March 14, 2011 press release, Buffett states, "our only instruction to James-Just keep doing for us what you have done so successfully for your shareholders" (Business Wire).

In a March 30, 2011, press release, Buffett stated, "In our first talk about Lubrizol, David mentioned that he owned stock in the company. It was a passing remark and I did not ask him about the data of his purchase or the extent of his holdings" (Business Wire). Buffett further explained, "I learned that David first purchased 2,300 shares of Lubrizol on December 14, 2010 which he then sold on December 21, 2010. Subsequently, on January 5, 6, and 7, 2011 he bought 96,060 shares pursuant to a 100,000-share order he had placed with a $104 per share limit price" (Business Wire, March 30, 2011).

A Brief History of Events

Buffett's troubles began shortly after the announcement of the Lubrizol purchase. Much of the turmoil centered on disclosure, and conflicts of interest between Buffett, Berkshire and Sokol. Buffett (2011) states, "As late as January 24, 2011, I sent Dave a short note indicating my skepticism about making an offer for Lubrizol and my preference for another substantial acquisition for which MidAmerica had made a bid. Only after Dave reported on the January 2011 dinner conversation with James Hambrick, CEO of Lubrizol, did I get interested in the acquisition."

See Figure 2 for an abbreviated visual timeline of the insider trading scandal involving the Lubrizol purchase.

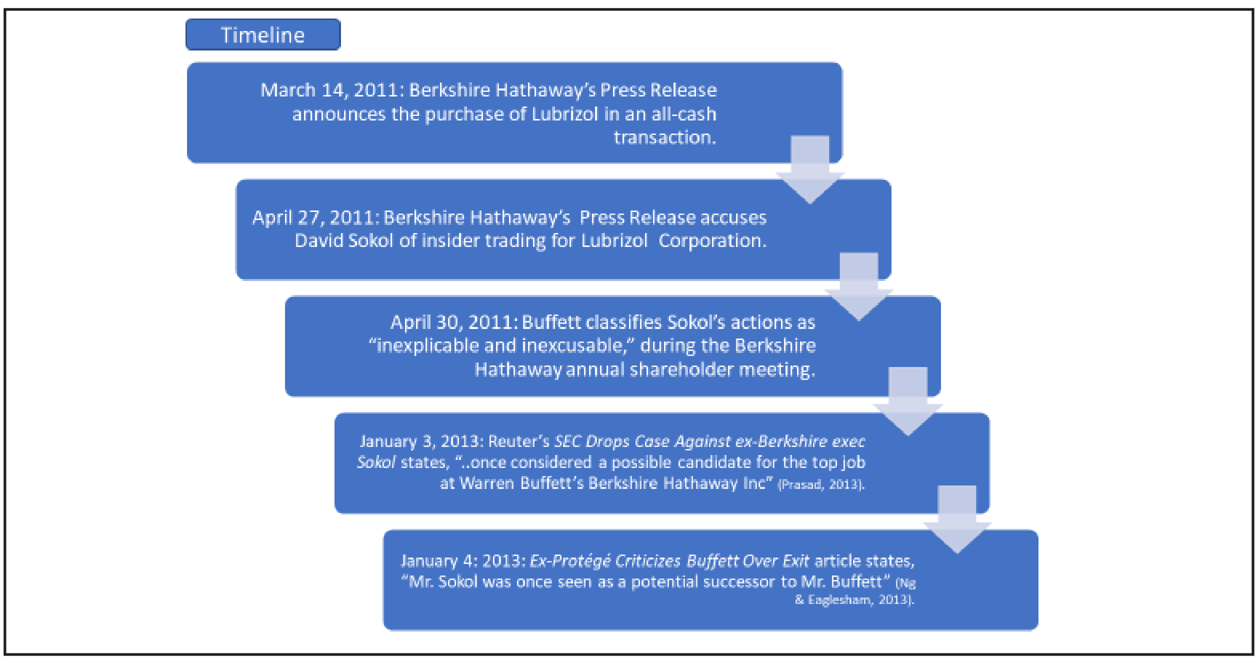

Figure 2. Abbreviated Timeline of Lubrizol insider trading scandal

Below is a detailed description of events involving the Lubrizol acquisition.

On March 14, 2011, Berkshire Hathaway issued a **Press Release** (Exhibit 1) announcing the purchase and definitive agreement for Berkshire Hathaway to acquire 100% of Lubrizol in an all-cash transaction.

On April 27, 2011, Berkshire Hathaway issued a **Press Release** (Exhibit 2) regarding the trading in Lubrizol Corporation shares by David Sokol. Mr. Sokol was accused of insider trading.

On April 30, 2011, during the Berkshire Hathaway annual shareholder meeting, Buffett (2011) classified Sokol's actions as "**inexplicable and inexcusable**."

On January 3, 2013, a Reuters' article titled **SEC drops case against ex-Berkshire exec Sokol** stated, "The U.S. securities regulator has decided not to take action against David Sokol, once considered a possible candidate for the top job at Warren Buffett's Berkshire Hathaway Inc, Sokol's lawyer told Reuters" (Prasad, 2013).

On January 4, 2013, a Wall Street Journal article titled **Ex-Protégé Criticizes Buffett Over Exit** stated, "Mr. Sokol was once seen as a potential successor to Mr. Buffett, but his shot at running the Omaha, Neb., conglomerate ended with his resignation in March 2011 amid disclosures he had personally purchased stock in a chemicals company not long before recommending that Mr. Buffett buy it." In the same Wall Street Journal article, Sokol stated, ""I will never understand why Mr. Buffett chose to hurt my family in such a way but given that he is rapidly approaching his judgement day I will leave his verdict to a higher power" (Ng & Eaglesham, 2013).

I will not understand what causes a man to voluntarily turn away 12 1/2 million dollars to an associate without getting any credit for it in the world, and then 10 or so years later, buy a significant amount of stock the week before he talked to me.

In this case, Buffett's decisions, actions and responses to the insider trading claim by his top executive are examined.

Buffett's Response

Buffett's first public statement about Sokol was rather unorthodox, and he acknowledged this fact by stating, "This press release will be unusual" (Business Wire, March 30, 2011).

He stated, "Dave brought the idea for purchasing Lubrizol to me on either January 14, or 15, 2011. Initially, I was unimpressed, but after his report of a January 25, 2011 talk with its CEO, James Hambrick, I quickly warmed to the idea. Though the offer to purchase was entirely my decision, supported by Berkshire's Board on March 13, 2011, it would not have occurred without Dave's early efforts" (Business Wire, March 30, 2011).

Buffett (Business Wire) explained, "Late in the day on March 28, 2011, I received a letter of resignation for Dave, delivered by his assistant" (March 30, 2011). He further commented, "I had not asked for his resignation, and it came as a surprise to me. Twice before, most recently two or so years ago, Dave talked to me of resigning. In each case he had given me the same reasons that he laid out in his Monday letter. Both times, I and other Board members persuaded him to stay. Berkshire is far more valuable today because we were successful in those efforts" (Business Wire, March 30, 2011).

A few days later, Berkshire held its annual shareholder meeting where Buffett was given the opportunity to speak on this issue directly to shareholders. Buffett (2011) stated, "I'd like to just comment for a few minutes, and I'd like to ask Charlie Munger then to give his thoughts, on the matter of David Sokol and the purchase of Lubrizol stock." Reviewing the transcript (Exhibit 3) and Buffett's comments, the reader develops further insight into this story.

The situation was managerially difficult for Buffett. He (2011) stated, "I don't think there's any question about the **inexcusable** part that Dave violated, and that the code of ethics, he violated our insider trading rules, and he violated the principles I laid out — I lay out — every two years in a direct personal letter to all of our managers and which I've been doing for a long time." Yet, Buffett commented on Sokol's prior honesty, track record and extremely high net worth. He (2011) stated, "I will not understand what causes a man to voluntarily turn away 12 1/2 million dollars to an associate without getting any credit for it in the world, and then 10 or so years later, buy a significant amount of stock the week before he talked to me."

As Warren Buffett (2011) reflected on the challenges facing Berkshire Hathaway he stated, "I obviously made a big mistake by not saying, "Well, when did you buy it?" But I think if somebody says I've owned the stock, you know it sounds to me like they didn't buy it the previous week."

Discussion

In consideration of a leader's responsibility to identify and address a problem, Buffett's description of the issue required interpretation. The March 30, 2011 press release reads like two different accounts. In determining what Buffett wanted to accomplish with this statement, an understanding of a leader's response to a crisis must be considered. In this particular crisis, did Buffett seek to paint a picture of reality, be brutally honest about the situation and provide direction in crisis?

The situation was emotionally charged as Buffett appeared to have a range of emotions. Clearly, Buffett liked Sokol. Also, Buffett's comments illustrated that Sokol added a lot of value to Berkshire: "Dave's contributions have been extraordinary. At MidAmerica, he and Greg Able have delivered the best performance of any managers in the public utility field, At NetJets, Dave resurrected an operation that was destined for bankruptcy, absent Berkshire's deep pockets. He has been of enormous help in the operation of Johns Manville, where he installed new management some years ago and oversaw major change" (Business Wire, March 30, 2011). These comments revealed two elements at work. The first element was the intense media coverage as the press release made headline news that day. The second element was the ethical and moral paradox that Buffett faced. Clearly, Buffett liked Sokol; therefore, the situation was emotionally charged for both men.

After reading the entire account, it appeared that Buffett struggled with how to frame the situation. This quandary reveals a core issue of the case: confusion on insider trading and its negative perception. According to Koch (2018), "With such high-profile legal cases like Martha Stewart's, negative attitudes toward insider trading abound in the public eye" (p. 55). Buffett believed that he needed to clear Berkshire Hathaway's name from the negative perception of insider trading. Buffett was noted for the clarity of his vision and the ability to communicate throughout the organization. In fact, Buffett is known for communicating his simple and straightforward investment strategy to shareholders. This situation was a striking contrast with a lot of ambiguity and room for interpretation.

Keenan (2000) defined insider trading as "trading on price-relevant information that is not in the public domain" (p. 71). The insider trading challenge and business problem that Buffett faced is not clear cut or well-defined. Furthermore, the nature of the solution is complex for a business leader. Thus, this case study highlights the reality that insider trading claims are not always straightforward.

Buffett (Business Wire) stated, "Neither Dave nor I feel his Lubrizol purchases were in any way unlawful (March 30, 2011). Koch (2018) asserted, "The topic of insider trading brings forth confusion with regards to ethical issues. For example, answers to simple questions such as: Is insider trading illegal? Or is insider trading unethical? Can be extremely baffling. The widespread perception is that anything to do with insider trading is, in fact, not legal and has led to an epidemic of fraud in capital markets for decades" (p. 59).

> The insider trading challenge and business problem that Buffett faced is not clear cut or well-defined.

Buffett is known as a decisive and energetic leader and investor. In the leadership literature, a concept called the **Stockdale Paradox** has some connection to the ethical and moral paradox that Buffett faces. Von Bergen and Bressler (2017) stated, "Recent discussions of leadership paradoxes have suggested that managers who can hold seemingly opposed, yet interrelated perspectives, are more adaptive and effective. One such paradox that has received relatively little attention is the 'Stockdale Paradox,' named after Admiral James Stockdale, an American naval officer who was held captive for seven and one-half years during the Vietnam War and survived imprisonment in large part because he held beliefs of optimism about the future, while simultaneously acknowledging the current reality of the desperate situation in which he found himself. This contradictory tension enabled him and his followers to emerge from their situation not just unbroken, but stronger. Such paradoxical thinking has been empirically supported by mental contrasting research demonstrating the effectiveness of visualizing a positive future yet recognizing the reality of the current situation. This apparent dichotomy provides an important lesson for leaders who must remain optimistic, yet face the reality of their present condition, and is symbolic of an overarching, general tension leaders face in addressing 'the now and the next'" (p. 70).

The core of the Stockdale Paradox is a way of thinking that illustrates when a leader is dealing with great difficulty and uncertainty having unwavering faith in the mission on the one hand coupled with discipline to confront the most brutal facts that we face in the moment. This is exactly what Buffett experiences given the ambiguous nature of insider trading and the statements he made in the press release. Buffett seemed concerned with reputation damage and unethical behavior at Berkshire Hathaway but yet faces the brutal facts that Sokol has resigned and Buffett has lost a friend and valuable asset.

In his book, *Leadership Without Easy Answers*, Heifetz maintained two views of leadership. He (1994) stated, "Contrast the idea that leadership means influencing the community to follow the leader's visions versus leadership means influencing the community to face its problems. In the first instance, influence is the mark of leadership a leader gets people to accept his vision, and communities address problems by looking to him. In the second, progress on problems is the measure of leadership; leaders mobilize people to face problems, and communities make progress on problems because leaders challenge and help them to do so" (p. 14-15). Buffett diagnosed the situation in light of the community values at stake and unpacked the ethical and personal issues that accompanied it.

The SEC decided it couldn't prove that Mr. Sokol's inside information about Lubrizol was material, in broad terms, something an average investor in the company would consider important

Consider that Buffett's mind-set and the decision he faced had immediate consequences. In that moment in time, it looked as if everything was at stake. In the book *Extreme Ownership*, Willink (2015) stated, "It's natural for anyone in a leadership position to blame subordinate leaders and direct reports when something goes wrong. Our egos don't like to take blame. But it's on us as leaders to see where we failed to communicate effectively and help our troops clearly understand what their roles and responsibilities are and how their actions impact the bigger strategic picture" (p. 104).

Buffett (Business Wire) stated, "Dave's purchases were made *before* he had discussed Lubrizol with me and with no knowledge of how I might react to this idea. In addition, of course, he did not know what Lubrizol's reaction would be if I developed an interest. Furthermore, he knew he would have no voice in Berkshire's decision once he suggested the idea; it would be up to me and Charlie Munger, subject to ratification by the Berkshire Board of which Dave is not a member" (March 30, 2011).

Though Sokol had influence, he had no real decision power. It was not clear how Buffett balanced the issues of insider trading with an internal ethics violation. Koch (2018) stated, "A basic objective of any investment manager is to identify and select investments that will outperform the market. However, there are a variety of different ways to approach this task. As a fundamental bottom-up investment manager, I review corporate financial information to determine if a company is a good investment. A micro-investor is concerned with identifying company specific trends. Combining reliable financial information, like sales and earnings numbers, with public insider trading data can create a powerful tool for evaluating a company's stock for investment purposes." (p. 56). Part of Sokol's job was to find large acquisition targets for Berkshire. Sokol completed this task for Buffett; he identified an investment that would outperform. He purchased shares in Lubrizol because he thought it would be an attractive long-term investment. In fact, he felt so confident that he pitched the idea to Buffett.

In the final analysis, the SEC could **<u>not</u>** prove Sokol did anything legally wrong two years later. A 2013 Wall Street Journal article states, "A successful case under insider-trading laws would need to show that at the time Mr. Sokol bought stock in Lubrizol, he held information about the prospect of a Berkshire deal that was nonpublic, material and misappropriated. The SEC decided it couldn't prove that Mr. Sokol's inside information about Lubrizol was material, in broad terms, something an average investor in the company would consider important" (Ng & Eaglesham, 2013).

Conclusions

David Sokol was never convicted of any wrongdoing and is currently the CEO of Teton Capital Group, a private equity company.

As David Sokol (Business Wire) reflected on his letter of resignation, he stated:

It is my goal to utilize the time remaining in my career to invest my family's resources in such a way as to create enduring equity value and hopefully an enterprise which will provide opportunity for my descendants and funding for my philanthropic interests. I have no more detailed plan than this because my obligations from Berkshire Hathaway have been my first and only business priority."

Buffett acted with a bold statement that classified Sokol's actions as "inexplicable and inexcusable." Buffett took action to maintain a clear ethical culture by pursuing the highest possible ethical standard from the negative perception of insider trading. Buffett successfully communicated to the shareholders the events that transpired as well as the fact that he was surprised. By taking these actions, Buffett reestablished who Berkshire was in the minds of stakeholders. The company's identity was not damaged. Buffett projected his ethical values, showed situational awareness and took action as any leader must do in a crisis.

As a leader of a public company Buffett's approach serves as a good model for other leaders who may face a similar situation. While quick action was needed, a strategic approach for creating reasonable expectations and being brutally honest were important parts to a successful solution. Nonetheless, the situation seemed more difficult for Buffett because of his deep admiration and trust of Sokol.

This case study highlighted Buffett's firsthand experience with insider trading and the strong culture at Berkshire Hathaway based on integrity. It also illustrated how important it is for a leader to correctly evaluate a crisis situation. It demonstrated how difficult a clear solution can be when interpersonal tensions exist. Leadership is about the mission and taking action to support it. Expectations about the organization and individual performance need to be communicated effectively. Some critics might consider Buffett's decision as an overreaction. However, time has shown that his actions preserved the long-term reputation of Berkshire, which was his overriding long-term objective.

This case study on Warren Buffett was created based on transcript data found in the Warren Buffet Archive via direct observation during the qualitative coding process for a dissertation project on Buffett. It was developed as a compliment to a 2018 Muma Business Review article on insider trading titled, "Can Insider Trading Information be a Useful Tool for Investment Managers?" (March 30, 2011).

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Review

This article was accepted under the ***constructive peer review*** option. For futher details, see the descriptions at:

http://mumabusinessreview.org/peer-review-options/

Exhibit 1: March 30, 2011 Press Release

BERKSHIRE HATHAWAY INC.
NEWS RELEASE

FOR IMMEDIATE RELEASE
March 30, 2011

Warren E. Buffett, CEO of Berkshire Hathaway, Announces the Resignation of David L. Sokol

OMAHA, NE—This press release will be unusual. First, I will write it almost as if it were a letter. Second, it will contain two sets of facts, both about Dave Sokol, Chairman of several Berkshire subsidiaries.

Late in the day on March 28, I received a letter of resignation from Dave, delivered by his assistant. His reasons were as follows:

> "As I have mentioned to you in the past, it is my goal to utilize the time remaining in my career to invest my family's resources in such a way as to create enduring equity value and hopefully an enterprise which will provide opportunity for my descendents and funding for my philanthropic interests. I have no more detailed plan than this because my obligations from Berkshire Hathaway have been my first and only business priority."

I had not asked for his resignation, and it came as a surprise to me. Twice before, most recently two or so years ago, Dave had talked to me of resigning. In each case he had given me the same reasons that he laid out in his Monday letter. Both times, I and other Board members persuaded him to stay. Berkshire is far more valuable today because we were successful in those efforts.

Dave's contributions have been extraordinary. At MidAmerican, he and Greg Abel have delivered the best performance of any managers in the public utility field. At NetJets, Dave resurrected an operation that was destined for bankruptcy, absent Berkshire's deep pockets. He has been of enormous help in the operation of Johns Manville, where he installed new management some years ago and oversaw major change.

Finally, Dave brought the idea for purchasing Lubrizol to me on either January 14 or 15. Initially, I was unimpressed, but after his report of a January 25 talk with its CEO, James Hambrick, I quickly warmed to the idea. Though the offer to purchase was entirely my decision, supported by Berkshire's Board on March 13, it would not have occurred without Dave's early efforts.

That brings us to our second set of facts. In our first talk about Lubrizol, Dave mentioned that he owned stock in the company. It was a passing remark and I did not ask him about the date of his purchase or the extent of his holdings.

Shortly before I left for Asia on March 19, I learned that Dave first purchased 2,300 shares of Lubrizol on December 14, which he then sold on December 21. Subsequently, on January 5, 6 and 7, he bought 96,060 shares pursuant to a 100,000-share order he had placed with a $104 per share limit price.

Dave's purchases were made *before* he had discussed Lubrizol with me and with no knowledge of how I might react to his idea. In addition, of course, he did not know what Lubrizol's reaction would be if I developed an interest. Furthermore, he knew he would have no voice in Berkshire's decision once he suggested the idea; it would be up to me and Charlie Munger, subject to ratification by the Berkshire Board of which Dave is not a member.

As late as January 24, I sent Dave a short note indicating my skepticism about making an offer for Lubrizol and my preference for another substantial acquisition for which MidAmerican had made a bid. Only after Dave reported on the January 25 dinner conversation with James Hambrick did I get interested in the acquisition of Lubrizol.

Neither Dave nor I feel his Lubrizol purchases were in any way unlawful. He has told me that they were not a factor in his decision to resign.

Dave's letter was a total surprise to me, despite the two earlier resignation talks. I had spoken with him the previous day about various operating matters and received no hint of his intention to resign. This time, however, I did not attempt to talk him out of his decision and accepted his resignation.

* * *

Effective with Dave's resignation, Greg Abel, presently President and CEO of MidAmerican Holding Company, will become its Chairman; Todd Raba, President and CEO of Johns Manville, will become its Chairman; and Jordan Hansell, President of NetJets, will become its Chairman and CEO.

I have held back nothing in this statement. Therefore, if questioned about this matter in the future, I will simply refer the questioner back to this release.

Berkshire Hathaway and its subsidiaries engage in diverse business activities including property and casualty insurance and reinsurance, utilities and energy, finance, manufacturing, retailing and services. Common stock of the company is listed on the New York Stock Exchange, trading symbols BRK.A and BRK.B.

— END —

Contact
Marc D. Hamburg
402-346-1400

Exhibit 2: March 14, 2011 Press Release

News Release

For release: Immediately

Berkshire Hathaway to Acquire Lubrizol for $135 per Share in an All-Cash Transaction

- **28 percent premium represents compelling value for all Lubrizol stakeholders**
- **Advances Lubrizol's focus on long-term customer needs**
- **Lubrizol headquarters to remain in Wickliffe, Ohio**

OMAHA, NE / CLEVELAND, OH, March 14, 2011 – Berkshire Hathaway Inc. (NYSE: BRK.A, BRK.B) and The Lubrizol Corporation (NYSE: LZ) today announced a definitive agreement for Berkshire Hathaway to acquire 100% of outstanding Lubrizol shares for $135 per share in an all-cash transaction. The transaction, which was unanimously approved by the board of directors of each company, is valued at approximately $9.7 billion, including approximately $0.7 billion in net debt, making it one of the largest acquisitions in Berkshire Hathaway history. This price represents a 28 percent premium over Lubrizol's closing price on Friday, March 11, 2011, and is also 18 percent higher than Lubrizol's all-time high share closing price.

"Lubrizol is exactly the sort of company with which we love to partner – the global leader in several market applications run by a talented CEO, James Hambrick," said Warren Buffett, Berkshire Hathaway chief executive officer. "Our only instruction to James – just keep doing for us what you have done so successfully for your shareholders."

James Hambrick, Lubrizol chairman, president and chief executive officer, said, "This transaction provides compelling value to our shareholders and is a clear endorsement of the growth and diversification success Lubrizol has achieved. We are very excited to have the opportunity to become part of the Berkshire Hathaway family. We believe its philosophy of supporting long-term global investments in technology, assets and employees will enhance execution of our growth strategies. Such a long-term commitment is more important than ever in today's global economy to deliver true market-leading products and services for our customers."

The transaction is subject to the approval of Lubrizol's shareholders and the satisfaction of customary closing conditions, including the expiration of waiting periods and the receipt of approvals under the Hart-Scott-Rodino Antitrust Improvements Act and applicable non-U.S. merger control regulations. Berkshire Hathaway and Lubrizol expect the transaction to be completed during the third quarter of 2011.

After the close of the transaction, Lubrizol will operate as a subsidiary of Berkshire Hathaway and will continue to provide innovative technology, outstanding service and superior global supply chain support to its customers. Lubrizol will remain located at its Wickliffe, Ohio, headquarters and will continue to be led by its current management team.

Citi and Evercore Partners are acting as financial advisors to Lubrizol, and Lubrizol's legal counsel is Jones Day. Berkshire Hathaway's transaction counsel is Munger, Tolles & Olson LLP.

About Berkshire Hathaway

Berkshire Hathaway and its subsidiaries engage in diverse business activities including property and casualty insurance and reinsurance, utilities and energy, freight rail transportation, finance, manufacturing, retailing and services. Berkshire's common stock is listed on the New York Stock Exchange, trading symbols BRK.A and BRK.B.

About The Lubrizol Corporation

The Lubrizol Corporation (NYSE: LZ) is an innovative specialty chemical company that produces and supplies technologies to customers in the global transportation, industrial and consumer markets. These technologies include lubricant additives for engine oils, other transportation-related fluids and industrial lubricants, as well as fuel additives for gasoline and diesel fuel. In addition, Lubrizol makes ingredients and additives for personal care products and pharmaceuticals; specialty materials, including plastics technology; and performance coatings in the form of specialty resins and additives. Lubrizol's industry-leading technologies in additives, ingredients and compounds enhance the quality, performance and value of customers' products, while reducing their environmental impact.

With headquarters in Wickliffe, Ohio, The Lubrizol Corporation owns and operates manufacturing facilities in 17 countries, as well as sales and technical offices around the world. Founded in 1928, Lubrizol has approximately 6,900 employees worldwide. Revenues for 2010 were $5.4 billion. For more information, visit www.lubrizol.com.

Forward-Looking Statements

This release contains forward-looking statements within the meaning of the federal securities laws. As a general matter, forward-looking statements relate to anticipated trends and expectations rather than historical matters. Forward-looking statements are subject to uncertainties and factors relating to Lubrizol's operations and business environment that are difficult to predict and may be beyond the control of Lubrizol. Such uncertainties and factors may cause actual results to differ materially from those expressed or implied by forward-looking statements. Uncertainties and risk factors that could affect the future performance of Lubrizol and cause results to differ from the forward-looking statements in this release include, but are not limited to, Lubrizol's ability to manage margins in an environment of volatile raw material costs; conditions affecting Lubrizol's customers, suppliers and the industries that it serves; competitors' responses to Lubrizol's products; changes in accounting, tax or regulatory practices or requirements; other factors that are set forth in management's discussion and analysis of Lubrizol's most recently filed reports with the Securities and Exchange Commission; and uncertainties associated with the proposed acquisition of Lubrizol by Berkshire Hathaway, including uncertainties relating to the anticipated timing of filings and approvals relating to the transaction, the expected timing of completion of the transaction and the ability to complete the transaction. The forward-looking statements contained herein represent the companies' judgment as of the date of this release and they caution readers not to place undue reliance on such statements. Berkshire and Lubrizol assume no obligations to update the forward-looking statements contained in this release.

Participants in Solicitation

Lubrizol and its directors and officers may be deemed to be participants in the solicitation of proxies from Lubrizol's shareholders with respect to the special meeting of shareholders that will be held to consider the proposed transaction. Information about Lubrizol's directors and executive officers and their ownership of Lubrizol's common stock is set forth in the proxy statement for Lubrizol's Annual Meeting of shareholders, which was filed with the SEC on March 17, 2010. Shareholders may obtain additional information regarding the interests of Lubrizol and its directors and executive officers in the proposed transaction, which may be different than those of Lubrizol's shareholders generally, by reading the proxy statement and other relevant documents regarding the proposed transaction, when filed with the SEC.

Additional Information

In connection with the proposed transaction, Lubrizol will file a proxy statement with the SEC.
INVESTORS ARE URGED TO READ THE PROXY STATEMENT WHEN IT BECOMES
AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND LUBRIZOL. You will be able to obtain the proxy statement, as well as other filings containing information about Lubrizol, free of charge, at the website maintained by the SEC at www.sec.gov. Copies of the proxy statement and other filings made by Lubrizol with the SEC can also be obtained, free of charge, by directing a request to The Lubrizol Corporation, 29400 Lakeland Boulevard, Wickliffe, Ohio 44092-2298, attention: Mark Sutherland, or by calling Mark Sutherland at (440) 347-1206.

Berkshire Hathaway Contact:

Financial/Investor Contact

Marc D. Hamburg 402/346-1400

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Exhibit 3: 2011 Berkshire Hathaway Annual Shareholder Meeting Transcript

April 30, 2011 -Transcript of Buffett's Comments during Berkshire Hathaway Annual Shareholder Meeting discussing David Sokol and Lubrizol

WARREN BUFFETT: I'd like to just comment for a few minutes — and this will be transcribed and up on the internet at our web page — I'd like to comment for just a few minutes, and I'd like to ask Charlie then to give his thoughts, on the matter of David Sokol and the purchase of Lubrizol stock.

You saw in the movie a clip from the Salomon situation, and that occurred almost 20 years ago. It will be 20 years ago this August.

And at the time, it was a Sunday, Charlie was there, and I was elected the chairman at — what, about 3:00 in the afternoon or so I think on a Sunday at Salomon, and I went down to address a press group.

And almost the first — somewhere in the early questions, somebody sort of asked me, you know, what happened?

Well, A) I'd just gotten to Salomon fairly recently, so I didn't know too much about it, but the phrase that came out of my mind then — out of my mouth then — sometimes my mind and my mouth are coordinated — (laughter) — the phrase that came out of my mouth then was that what happened was inexplicable and inexcusable.

Now, it's 20 years later, and looking back on Salomon, I still find what happened inexplicable and inexcusable. You know, I will never understand exactly why some of the events that transpired did transpire.

And to some extent, in looking at what happened a few months ago with Dave Sokol's failure to notify me at all that he'd had any kind of contact with Citigroup. In fact, he directed my attention to the fact that they represented Lubrizol and never said a word about any contact with them.

And then the purchases of stock immediately prior to recommending Lubrizol to Berkshire, I think I — for reasons that are laid out in the audit committee report, which I urge you to read and which is on our website — I don't think there's any question about the inexcusable part that Dave violated, and that the code of ethics, he violated our insider trading rules, and he violated the principles I laid out — I lay out — every two years in a direct personal letter to all of our managers and which I've been doing for a long time. So I — you can read the audit committee report about that.

The inexplicable part is somewhat — well, it's inexplicable, but I'd like to talk about it a little bit because I will tell you what goes through my mind in respect to it.

Certainly — well, one interesting point is that Dave, to my knowledge, at least, made no attempt to disguise the fact that he was buying the stock. I mean, you know, you read about insider trading cases and people set up trusts in Luxembourg, or they use neighbors who know neighbors, or they use third cousins — I mean, they have various ways of trying to buy the stock so that when it's later — FINRA is a supervising organization — looks at the trading activity in the months prior to a deal, they do not see names that jump out at them as being associated with the deal.

To my knowledge, Dave did nothing like that, so he was leaving a total record as to his purchases.

Now, I think at least usually — and maybe always — we are queried after any deal. We are asked who knew about it when, and we supply a list of whether it's people at the law firm or people that are in a secretarial position at our place or the law firm.

We give them a list of everybody that might have known or did know about the deal prior to the public announcement. And I don't know whether they do that 100 percent of the time, but certainly it's my experience that you get that.

And then a while later, you get a list of names of people that FINRA, again, has picked up as trading it, and they ask you whether any of those names ring a bell with you. So they're trying to put together whether anybody did any inside trading ahead of time.

So the odds that if you're trading in your own name, and you're on that list of people who know of a deal ahead of time, the odds that it's not going to get picked up seem to me are very much against you.

But, to my knowledge, Dave did not disguise the trading. Which, you know, that's somewhat inexplicable that if he really felt he was engaging in insider trading and knew the penalties that could be attached to it, that he essentially did it right out in the open.

The second fact, which is less — perhaps less — puzzling, but Dave obviously has a net worth in very high numbers. He made, I think, close to $24 million. He earned it from Berkshire last year, and we got our money's worth, but he did get $24 million, too.

So I would say that there are plenty of activities in this world that are unsavory that are committed by people with lots of money. So I don't regard that as, you know, totally puzzling. But I will give you one instance that does make it puzzling. It makes it very puzzling to me.

We bought MidAmerican at the end — Berkshire Hathaway bought MidAmerican — at the end of 1999. Berkshire Hathaway bought about 80 percent.

Walter Scott, who I just introduced, and his family was the second largest holder, I think something over 10 percent, and then two operating people, Dave Sokol the senior one, owned or had options on a big piece, and Greg Abel, a terrific partner of Dave's, also had a piece.

And Walter Scott — and I've told this story privately a few times but not — I don't think I've done it publicly. Walter Scott came to me a year or two after we'd bought it, and Walter said, I think we ought to have some special compensation arrangement for Dave and Greg if they perform in a really outstanding manner. And he said — I think maybe he suggested something involving equity and he saw me turn white.

So he said, "Why don't you design one and let me know." So I just scribbled something out on a yellow pad. It didn't take me five minutes.

And we call it, sort of in honor of Charlie, although he didn't know about it, we called it the Lollapalooza.

And it provided for a very large cash payout, which I'll get to in a second, based on the five-year compounded gain in earnings. And we were starting from a high base, in other words this was not from any depressed level, and we set a figure that no other utility company in the United States was going to come close to.

But if that figure were achieved, we were going to give $50 million to Dave and $25 million to Greg Abel.

And I had Dave come to the office and I said, "Here's what Walter and I are thinking," and, "What do you think of this plan?"

And it had these figures on per share that — that like I say, move forward at 16 percent compounded per year, and then I say, "Here's the payout."

And he looked at it for just a very short period of time and he said — he said, "Warren, this is more than generous." But he said, "There's just one change you should make."

And I said, "What's that?" And he said, "You should split it equally between me and Greg, instead of being 50 million for me and 25 for Greg. It should be 37 1/2 apiece."

So I witnessed — and Walter witnessed, you can talk to him about it — we witnessed Dave voluntarily, without any — Greg had nothing to do with it, he wasn't there — we saw Dave transfer over 12 1/2 million dollars — getting no fanfare, no credit whatsoever — to his, in effect, junior partner.

And I thought that was rather extraordinary, and what really makes it extraordinary is that $3 million, you know, 10 or so years later, would have led to the kind of troubles that it's led to.

I find — that is really the fact that I find inexplicable, and I think I'll probably — you know, it's 20 years after Salomon — 20 years from now Charlie will be 107 — (laughter) — and we won't mention what I'll be — but I think 20 years from now, I will not understand what causes a man to voluntarily turn away 12 1/2 million dollars to an associate without getting any credit for it in the world, and then 10 or so years later, buy a significant amount of stock the week before he talked to me.

And when he talked to me about Lubrizol, it was either the 14th or 15th — he says it was 14th, I have no reason to disagree with that. The only reason I couldn't say specifically was I had eight university groups, 160 students, in on that Friday. That's the only thing that shows, and I spent most of the day with them.

And the 10K and the 10Q that got printed out on Saturday have that date on them, the 15th, when I looked at Lubrizol for the first time.

You might be interested in knowing, I've been looking up 10Ks and 10Qs for 20 or 30 years, but I don't know how to print them out. So, fortunately, Tracy Britt was in the office, and I said, "Tracy, would you print this damn thing out? I don't know how to do it yet." (Laughter)

But that is why I don't know whether it was the 14th or the 15th. The 10Q says the 15th.

But, at that time, when Dave called me on it, he said nothing about contact with Citigroup or anything of the sort and he — and I said, "I don't know anything, really, about the company." He said, "Well, take a look at it. It — you know, it might fit Berkshire."

And I said, "How come?" And he said, well — he said, "I've owned it and it's a good company. It's a Berkshire-type company." And, you know, I obviously made a big mistake by not saying, "Well, when did you buy it?" But I think if somebody says I've owned the stock, you know it sounds to me like they didn't buy it the previous week.

So there we are with a situation, which is sad for Berkshire, sad for Dave, still inexplicable in my mind, and we will undoubtedly get more questions on that. We'll be glad to answer them.

Author

Christian Koch, for more than two decades, has had a hand in investments, either as a staff equity research analyst, managing director, and now president and CEO of KAM South a firm that invests in individual securities. His firm manages $80 million in assets, with a track record of successful returns.

In May 2020, he successfully completed his dissertation defense on Warren Buffett. He received a bachelor's degree in business administration at Stetson University in Deland, Florida; a master's degree in business administration at Jacksonville University in Jacksonville, Florida; and he is a graduate of the advanced management program at the Harvard Business School in Cambridge, Massachusetts.