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Buffett and Sokol Sued Over Trading in Lubrizol Shares

By Peter Lattman April 19, 2011 2:34 pm

A shareholder of Berkshire Hathaway has sued Warren E. Buffett and his former top lieutenant, David L. Sokol, accusing the two of misconduct related to Mr. Sokol's stock trading.

Mr. Sokol was widely considered Mr. Buffett's heir apparent until he resigned abruptly last month after it emerged that he had personally bought \$10 million worth of stock in Lubrizol shortly before bringing Lubrizol to Mr. Buffett's attention. In March, Berkshire announced that it had agreed to purchase Lubrizol for \$9 billion — causing its shares to surge and increasing the value of Mr. Sokol's holding by \$3 million.

The shareholder derivative complaint, filed in the Delaware Court of Chancery by the Berkshire shareholder, Mason Kirby, asks the court to disgorge Mr. Sokol's trading profits in Lubrizol and to award damages because of the damage done to Berkshire's goodwill.

The complaint is believed to be the first legal action related to Mr. Sokol's trading in Lubrizol. The Securities and Exchange Commission is investigating whether Mr. Sokol's conduct violated any securities laws.

Mr. Kirby's lawsuit also names as defendants other members of the Berkshire board, including Bill Gates, the chairman of Microsoft, and Stephen Burke, the chief executive of NBC Universal.

The lawsuit said that Mr. Sokol's actions violated his duties to Berkshire and impaired the company's reputation by spawning an S.E.C. inquiry. Moody's Investors Service and Standard & Poor's, the two largest credit ratings agencies, also flagged concerns over the incident's impact on the company, the complaint says.

Mr. Sokol has said he does not think he has done anything wrong; Mr. Buffett has said he does not think Mr. Sokol did anything illegal.

Calls to Mr. Sokol and Mr. Buffett's representatives were not immediately returned.

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4

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