

The Moment Warren Buffett Realized There Was Something Fishy About Sokol's Lubrizol Story



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Wikipedia The Berkshire Hathaway report released last night shines more light on the David Sokol-Lubrizol scandal, and what has so far remained a mystery -- Warren Buffett's reaction to it.

In fact, the report even highlights the moment when Buffett first suspected that Sokol's story about his Lubrizol holdings was a little... suspect.

Remember, when the news first broke about Sokol's resignation, all we knew is that he had told Buffett about his Lubrizol shares in "a passing remark," prior to the acquisition.

We later found out, through official Citibank and Lubrizol accounts of the merger discussions that Sokol had only purchased shares in the chemical company after a series of discussions, in which it was quite clear that Lubrizol was a Berkshire target.

According to the Berkshire report, Sokol was deliberately vague on how he came to own Lubrizol stock, when he discussed the company with Buffett, and never articulated that he had only bought the shares after meeting with Citi bankers.

So when did Buffett realize that Sokol's story didn't match with Citi and Lubrizol's account of what happened?

According to the Berkshire report, on the the morning of March 14 this year, Berkshire and Lubrizol announced they were joining hands.

A Citi banker with whom Berkshire had worked, naturally congratulated Buffett on the deal.

In their discussion, the banker mentioned to Buffett that it was Citi that "had brought Lubrizol to Mr. Sokol's attention."

And that "was the first time" Buffett was made aware that "investment bankers played any role in introducing Lubrizol to Mr. Sokol."

And Buffett realized that that story "did not square with Mr. Sokol's remark in January that he had come to know Lubrizol by owning the stock." So he acted.

According to the report, Buffett asked Berkshire's CFO Marc Hamburg, to call Sokol the day after the deal was announced, to ask about the "details of his Lubrizol stockholdings" -- which he did -- and also to ask Sokol about Citi's role in bringing the idea of Lubrizol to him.

According to the report, Sokol told Hamburg: I thought *I* had called a banker I already knew at Citi to get Lubrizol's CEO's phone number.

And, "when Mr. Hamburg commented that it sounded as if the banker must have exaggerated his role when he spoke with his colleagues, Mr. Sokol did not contradict him," the report says.

Of course Buffett would later find out from official Lubrizol and Citi accounts that the Citi banker was not exaggerating at all: it was Citi who approached Sokol about Lubrizol, not the other way around.

No doubt we'll get some more answers this weekend when fuming shareholders grill Buffett on the scandal... Something he's actually kind of looking forward to.