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Leo W. Gerard
International President

October 28, 2008

Henry M. Paulson, Jr.
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson,

While I am sure that you face no shortage of advice regarding the crisis that continues to engulf the world's capital markets, I did want to share with you some questions and concerns regarding your decision to invest $125 billion of the taxpayers' money into nine financial institutions, including the securities firm which until recently you headed, Goldman Sachs.

While the media was filled with the usual breathless "behind-the-scenes" reports of your "High Noon" bargaining, what seems to have escaped their notice was your decision, on behalf of the taxpayers, to pay roughly twice as much as you needed to for the securities that you purchased.

To me, at least, this is far more important than whether you gave the assembled CEOs two hours, two weeks or two minutes to sign up; whether, as the New York Times helpfully tells us, you have seen "Butch Cassidy and the Sundance Kid"; whether you have worked long hours in the last few months; or what brand of cell phone you use.

While Wells Fargo Chairman Kovacevich, who was forced to get by on only $300 million over the past ten years, may or may not have actually pretended to resist the deal, if he had in fact turned you down, he should have been fired, given the extraordinary deal he was being offered.

I have enclosed with this letter a copy of the analysis that we prepared which values the investment of the taxpayers' money in Goldman Sachs at only 50% of what was actually paid. Perhaps one of your former colleagues at Goldman could take a minute away from their busy day shorting mortgages to see if we are correct.

Mr. Secretary, this analysis is not rocket science. Just twenty days before Goldman announced that it would "accept" Treasury's investment, Warren Buffett invested $5 billion into Goldman Sachs and acquired the very same type of security –

preferred stock – with the very same form of "upside" – warrants to purchase common stock. For some reason, however, per dollar invested, Mr. Buffett received **at least seven and perhaps up to fourteen times more warrants than Treasury did and his warrants have more favorable terms**. In addition, Mr. Buffett's preferred stock has a higher dividend rate and can only be bought away from him at a premium, **while Treasury's investment of taxpayers' money pays a lower dividend and can be repurchased at par.**

Now I know that you have a lot on your plate, but I am sure that someone at Treasury saw the terms of Buffett's investment. In fact, my suspicion is that you studied it pretty closely and knew exactly what you were doing. The 50-50 deal – 50% invested and 50% as a gift – is quite consistent with the Republican version of the "spread-the-wealth-around" philosophy that seems so much in vogue.

If the result of our analysis is applied to the deals that you made at the other eight institutions – which on average most would view as being less well positioned than Goldman and therefore requiring an even greater rate of return – you paid $125 billion for securities for which a disinterested party would have paid $62.5 billion. This means that you gifted the other $62.5 billion to the shareholders of these nine institutions.

This is no different than if you paid me $10,000 for a car for which no one else would pay more than $5,000. You bought it for $5,000 and gifted me the other $5,000. In my world such gifts are rarely offered to working people.

It's hard to list all of the ways in which this is disturbing, but let me note just a few:

- If this deal is the model for how you intend to spend the whole $700 billion that you got from the Congress, then it would appear that you intend to reward the institutions that have driven our nation, and it now appears the whole world, into its most serious economic crisis in 75 years with a gift of $350 billion from the American taxpayers, who have watched 760,000 of their jobs disappear over just the past nine months.

- The recipients of the first wave of gift-giving include Goldman Sachs. It has been widely reported that you have surrounded yourself with former Goldman employees as well as individuals from other Wall Street firms. Yet it has never been revealed whether in fact you and they have fully divested yourselves of your Wall Street holdings. Doesn't it seem just a wee-bit of a conflict of interest for those setting the price of the investment to be either so directly linked to the firms receiving the investments or, even worse, direct beneficiaries of the decision to overpay with taxpayer money?

- Your investments do nothing to deal with the causes of the current crisis. Now that even Chairman Greenspan has discovered a "flaw" in his theories, wouldn't it make sense to have some reason to believe that the recipients of this government largesse won't just take the money and do it all again? Perhaps there is some reason I do not understand that you have seemingly handed this chicken coop back to the very same foxes who have been pillaging it for the last two decades?

- It has been reported in the media that these firms have no intention of using this money for its intended purpose. Don't we deserve a commitment that the money will in fact be used for either loans to the companies which are groaning under the weight of the credit crisis and being forced to shed tens of thousands of more jobs or to help the millions of Americans struggling with their troubled mortgages? Does it really seem too much to demand that we get a commitment that our gifts to these firms be used to help revive the economy that they have driven into the ditch?

- Your terms also undercut the more stringent restrictions that the Brits imposed, thus making it clear that not only are you fronting for American wastrels, but European ones as well.

Now I do not doubt for a minute that the irresponsible and fraudulent actions of Wall Street have indeed put the world financial system and now the real economy at grave risk. And I also do not doubt that the literally hundreds of billions of dollars of undeserved bonuses ($38 billion in 2007 alone), reckless speculating and dividends to shareholders have left many of these institutions woefully under-capitalized and in need of new equity dollars. Where I get a little lost is why you think that the system or the American taxpayer is better off if the government gets half as much for its investment as Mr. Buffett did.

Let's agree that America's nine largest banks need $125 billion of new money and let's further agree that no one else, not even Warren Buffett, has that kind of money lying around. That still does not explain why our $125 billion should buy us securities worth half of what we paid for them. Nor does it explain why the nearly $25 billion per year that the firms pay out in dividends to their shareholders should continue. At current levels, dividends to shareholders will distribute all of our money that you invested in just five years.

Secretary Paulson, out in the real economy, the unbridled pursuit of greed that you and your friends on Wall Street have celebrated as a national religion has taken a terrible toll on ordinary Americans. Jobs with stagnant real wages have now given way to massive lay-offs, home foreclosures and real suffering.

Out in the real economy, we need to once and for all bury the philosophy that worships only business, free markets, deregulation and free trade, and replace it with an economic program that restores the balance of power between workers and business, rebuilds the middle class and curbs corporate excesses.

Out in the real economy, we need our government to invest in creating sustainable shared prosperity – not play Santa Claus to the scoundrels who have laid waste to the American Dream.

I eagerly await your response.

Sincerely,

Leo W. Gerard

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International President

Comparison of Berkshire Hathaway and US Treasury Investments in Goldman Sachs Group, Inc

This analysis is based on the assumption that Warren Buffett is an intelligent third party investor who paid no more for his investment than he had to. It also assumes that Goldman Sachs' job is to protect its existing shareholders, so that it extracted from Mr. Buffett the most that it could. In other words, Mr. Buffett paid fair market value for what he bought. Further, it is assumed that Henry Paulson is likewise an intelligent man and that if he paid any more than Mr. Buffett – if he paid $1.00 for something for which Mr. Buffett would have paid $.50 – that the difference is a gift from the taxpayers of the United States to the shareholders of Goldman Sachs.

In order to compare Buffett's investment to Treasury's the first step is to understand and value the two parts of each investment, starting with Buffett's.

Buffett invested $5.0 billion and in return received preferred stock and warrants. The warrants give their holder the right to purchase, at any time over the next five years, common stock worth 100% of his original investment amount, or $5.0 billion worth of common stock, at a price of $115.00 per share, or 43.5 million shares. ($5.0 billion ÷ $115.00)

The value of these warrants is determined using a technique called the Black-Scholes Pricing Model. This model is almost universally regarded as the correct way, from an efficient market perspective (which of course Mr. Paulson believes in), to value such securities.

Using publicly available data, the right to purchase one share was, at the time of Buffett's purchase, worth $40.95, so the right to purchase 43.5 million shares is worth $1.8 billion ($40.95 X 43.5 million). While recently the volatility of Goldman shares have been very high making each warrant far more valuable, this analysis uses a very conservative and more historically representative volatility of 30% for its valuation. This more than offsets the slightly lower value for the warrants caused by the dividends associated with the common stock.

If the warrants are worth $1.8 billion, this implies that Buffett spent the rest of his $5 billion, or $3.2 billion, buying the preferred stock. Knowing that the market value of the preferred stock without the warrants is $3.2 billion, one can use a simple cash flow model to calculate the return that Mr. Buffettt demanded and Goldman agreed to on the preferred stock. If one assumes that Goldman pays quarterly dividends at 10% per year and redeems the preferred stock in ten years at the required 10% premium, the return (or yield to call) is 19%. If they redeem it sooner, the yield is higher.

Turning now to Treasury's investment, there are four key differences regarding the warrants. First, Treasury will only receive warrants to purchase common shares worth 15% of amount of its original investment; second, Goldman can, by issuing new shares, reduce the number of warrants that Treasury is able to purchase by half, to 7.5% of the amount invested; third, Treasury's right is based on a somewhat higher price per share; and fourth, Paulson's warrants grant him the right to purchase shares for a longer period.

Again using Black-Scholes, each of Treasury's warrants were worth $51.81 on the date that Goldman Sachs agreed to participate in the Treasury Program. For the sake of calculating their value, if we use for the number of warrants the midpoint between 7.5% and 15% (11.25%) or 9.2 million warrants, the total value of Treasury's warrants is just under $500 million.

Turning to the preferred stock, Treasury will buy preferred shares with a face value of $10 billion and a dividend rate of 5% for five years and 9% thereafter and no call premium. If we use the same 19% return (yield to call) that Buffett's investment will provide, and assume the same 10 year time period, the current market value of Treasury's preferred shares is $4.5 billion.

This means that Treasury will invest $10 billion of the taxpayers' money and will receive warrants worth $500 million and preferred stock worth $4.5 billion, or total value of $5 billion.

The other $5 billion represents the gift that Mr. Paulson, on behalf of the taxpayers of the United States, will be making to the shareholders of Goldman Sachs.

If we assume that this gift will be comparable at the other eight big banks, then the total gift will add up to $62.5 billion and if this approach prevails with the entire $700 billion, the gift from the taxpayers to the shareholders of financial institutions will be $350 billion.

Key Assumptions / Terms

	Berkshire Hathaway		US Treasury	
Warrants				
Warrant Strike Price	$	115.00	$	121.68
Market Price of Common Stock at Issuance	$	120.78	$	111.00
Black Sholes Value Per Warrant	$	40.95	$	51.81
Number of Warrants Issued (in millions)		43.5		9.2
Warrant Terms - Years		5		10
Risk Free Rate		3%		4%
Volatility		30%		30%

	Berkshire Hathaway	US Treasury
Preferred Stock		
Dividend Rate		
Years 1 - 5	10%	5%
Thereafter	10%	9%
Term	Perpetual	Perpetual
Redemption Period (Assumed)	10 years	10 years
Call Premium	10%	0%

	Berkshire Hathaway	US Treasury
Assumed Transaction Date	9-23-08	10-13-08

Valuation

($ in millions)

Berkshire Hathaway		
Total Investment	$	5,000
Less: Market Value of Warrants using Black-Scholes	$	1,780
Implied Value of Preferred Shares	$	3,220
Return (Yield to Call) for Preferred Shares based on Cash Flows		19%

US Treasury		
Derived Value of Preferred Shares using 19% Yield to Call	$	4,516
Plus: Market Value of Warrants using Black-Scholes	$	479
Market Value of Preferred Stocks & Warrants	$	4,995
Total Investment	$	10,000
Excess of Investment over Market Value ("Gift")	**$**	**5,005**