



Bill Gates, Charlie Munger and Warren Buffett participate in a "selfie" taken by CNBC's Becky Quick in Omaha. In this live interview, Buffett says that based on his experiences with college students who visit Omaha, selfies are "all the rage."

This is an unofficial transcript of Warren Buffett, Charlie Munger and Bill Gates appearing live with Becky Quick on CNBC's "Squawk Box," Monday, May 5, 2014.

BECKY QUICK, CNBC: We are live this morning from the Nebraska Furniture Mart, which is one of many Berkshire businesses. Warren, this business in particular, really sees a huge surge of business on the shareholders weekend. What kind of numbers have come through here and how many shareholders do you think were actually here this weekend?

WARREN BUFFETT, BERKSHIRE HATHAWAY CHAIRMAN & CEO: We'll do over \$40 million in one week here at the Furniture Mart. That's a lot of business. Most furniture stores don't do that in a year, and it's our biggest week of the year. In fact, it's a normal month. We do about \$450 million a year at this store. So it's a normal month, and we do it all in a week. And the stockholders get more excited every year. I mean, I run into people in the elevator a month or two ahead of time. They say thank you for holding the meeting, patting me on the back. They want to come on to the Furniture Mart.

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BECKY: So you told us before you expected maybe 38,000 people this year. What do you think the numbers were?

BUFFETT: Not any less than that. This was the biggest meeting by quite a margin because we filled not only the main auditorium, but we filled all three overflow rooms and spilled over to the Hilton, and there were people in the exhibition hall. We can never get a perfect count, but I'm sure we beat anything in the past by at least 3,000. And I wouldn't be surprised if we beat it by 5,000.

BECKY: So somewhere between 38 and 40,000 is what you're guessing?

BUFFETT: Yes.

BECKY: Let's talk a little bit about what Joe was mentioning. I had not seen the ten-year (U.S. note yield) yet this morning. He talked about how it was 2.75 percent. Why do you think this is? Is this a sign of concern about what's happening? What would be your guess?

BUFFETT: I don't know. I'm not good on interest rates. One thing I know ten years from now they probably won't be at 2.57 or 3.57.

BECKY: Does it catch your attention, though, when you see the ten-year continue to decline? Most people thought it would definitely would have to go up this year.

BUFFETT: It's surprising, but I'm used to getting surprised in markets. And we issue bonds from time to time. So lower rates are, the more we like to issue them, and the longer we like to issue them.

BECKY: So would a ten-year at this level change any of your behavior in the business? Would you do anything differently?

BUFFETT: No, if it moved up or 50 basis points or down 50 basis points, we would not do anything differently. We don't react to macro factors at Berkshire. Our macro factor is the country will do better over time. That guides us in everything we do.

BECKY: If you had to make a guess right now, would you guess that the ten-year would end the year above or below the 3 percent?

BUFFETT: I don't think about that. If you told me I had to pick a figure, I would pick higher.

BECKY: Let's talk about one of the issues that came up repeatedly at the shareholders meeting, actually it only came up a couple times, but I did get a

lot of questions related to it in my email box where shareholders were sending things in. That's Coca-Cola. Joe (Kernen) already alluded to that this morning. And let's talk about what has happened. I know we've had a lot to say, but there was some criticism. Some people who didn't understand why if you thought Coca-Cola's equity plan was excessive, you didn't say something before the vote and you didn't take your 9.1 percent of the outstanding shares and vote no.

BUFFETT: Yeah. We had no desire, never will have a desire to go to war with Coca-Cola. It's a wonderful company, it's treated us wonderfully, the management has always been totally candid with us. I think we've got the right leader. I'm sure we've got the right leader, Muhtar Kent, but we did think the program was excessive. With those two beliefs we felt the best thing to do was express our opinions privately to the management who listened carefully and to abstain from voting at this meeting. And we think — I know we'll have some very constructive discussions with Coca-Cola between now and when they implement any plan.

BECKY: Barron's out over the weekend, there was an article in the back of it from Carl Icahn. I know you're friends with Carl and you're both on the Giving Pledge together, but this article says why Buffet is wrong on Coke. He's got a different style than you do.

BUFFETT: I hope so.

BECKY: Do you think — first of all, what do you think about what Carl said, and second of all, do you think that your style will be effective in this situation?

BUFFETT: I do think our styles will be effective. And I think our style actually will be more effective than the style that might be proposed by Carl. But Carl moves in other types of businesses and he goes in where — often, at least, he goes in where there's a problem. There isn't a problem at Coca-Cola. There was a plan that was proposed that was excessive. It's very easy to make it non-excessive. All you have to do is spread the authorization over more years than the four years they talked about having it in the proxy. And that's easy to do. Whether it actually turns out to be excessive will depend on the actions they take subsequent to this. They have not locked it in stone that they're going to use the stockholder four years.

I would say generally or frequently, at least, Carl is working with managements with different attitudes, and they probably have a different attitude toward him than Coke has towards me.

BECKY: Have you spoken with Muhtar Kent to this point? When we talked to you Thursday you had not.

BUFFETT: I have not talked to him since the meeting.

BECKY: Since the Coca-Cola meeting.

BUFFETT: Since Coca-Cola's meeting, which was on the 23rd.

BECKY: One other pointed question that came from shareholders this weekend — and I got several iterations of this, too, in my inbox — your son, Howard Buffet, is on the board. He voted in favor of this plan and there were some people who questioned. Howard is expected to be the chairman when you step away from the company to be the protector of the culture there. Does this raise any questions or should shareholders have questions about his ability to protect the culture when he voted for a plan that you, yourself, didn't like?

BUFFETT: Yeah. I voted for plans over the years — I've on the board for 55 years. I voted for plans I didn't like. I actually voted for acquisitions I didn't like. I opposed a few too, but there's only so many bullets you can use in the gun. If you start objecting to this and this and this, pretty soon people don't pay any attention to you. You want to save your bullets for when they really count. And I have never seen a comp committee come into a boardroom, in all my time, and hundreds of times, I've never seen them come in with a recommendation and heard a no vote.

The board delegates to a committee. They say you go out and work on this. They may say to the Governor's committee, you go out and work on getting directors, all kinds of things.

And once a board has delegated to a committee and they've spent hours working on something, and then they report it and there's 20 other items on the agenda and the Chairman calls on the comp committee to give his report and gives it in about 30 seconds, it never gets voted against. And it would be regarded as sort of usurping the power of the committee to all of a sudden say I've got a better idea. I haven't talked to the compensation consultants, I haven't looked at the figures, but I still have a better idea. It doesn't happen.

BECKY: A lot of people have been stunned by your comments on corporate governance. I don't think stunned by what you've said, but that you said it. There's been this idea that boards are clubby, basically come out and said that's the case.

BUFFETT: I've written that for 30 years. I've seen boards operate. It's always interesting to me to read academic discussions of boards. I have this theory — I could be in the movies or something. But boards are in part business organizations and in part social organizations. People walk into those with their behavior formed by dozens of — usually your people have

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achieved some standing, perhaps, in the community. So they've learned how to get along with other people. And they don't suddenly change their stripes when they come into a board meeting. So there's a great tendency to behave in a socially acceptable way and not necessarily in a business maximization way. The motives are good; the behavior is formed by decades earlier.

And people like to get along with other people, most people. Carl, maybe not as strongly as others. I love Carl, but he may enjoy battle. Some people do that. Generally you don't get invited on boards if you've got a person that actually loves a fight.

BECKY: Your point is that this is not too much different than the rest of the world.

BUFFETT: Yeah, I think that's very true. And it doesn't mean because you don't get into fights that you can't get things done, and it doesn't mean there aren't certain issues that — I've been involved with a couple situations where a proposal to buy a company has come to the board and been shot down. What happens in that case is one person finally pipes up. It's a little like the kid saying the Emperor is wearing no clothes and everybody will come on board. But the first person to speak is like belching at the dinner table. And then sometimes other people start belching and the move away from you. Depends on the situation, but there are some people that have bravery to be followers in a situation like that but not to initiate it. You've seen that in other aspects of human behavior.

BECKY: Andrew has a question from back at CNBC headquarters, too. Andrew?

ANDREW ROSS SORKIN, CNBC: I was going to say it's remarkably honest what Warren is saying. The question is whether it should be this way. Whether from the outside there's a sense that people are more strident in the boardroom, more brave or willing to come forward, or that the social issues aren't supposed to impact the way people behave or the way they think. Even though of course they do. I hear you saying this is what happens. My question is should it happen this way?

BUFFETT: Well, no, obviously you know everybody would speak freely and all of that sort of thing, and dialogue would be encouraged and the chairman would love to hear reasons why his ideas were no good, but it isn't quite that way.

And I think it's probably — you will get some of that. I will give you a great example. I mean, we bought \$700 million worth of Solomon Preferred in 1987. It was a big investment for Berkshire.

Charlie and I were put on the board. Our preferred was convertible at 38 because the stock had been selling in the mid 30s.

We went to the very first board meeting, was right after October 19th, 1987, here we are two brand-new directors. One of the first items on the agenda was the change, the option price of all the options outstanding at Solomon from prices in their 30s, down to \$17 a share. Nobody proposed to change our conversion price from \$38 down to 37.50, but the \$35 options the employees were getting — including the people sitting at the table were going to get changed down to \$17 a share. Charlie and I voted for it. We probably mumbled our vote. But those things happen. And we later on objected to a few things at Solomon, too. But you can't object a lot.

And bear in mind, too, Andrew, this is important. There are a number of directors at any company that are making two or three hundred thousand dollars a year, and that money is important to them. And what they really hope is they get invited to go on other boards.

Now if a CEO comes to another CEO and says I hear you've got so-and-so on the board, we need another woman or whatever it may be, oh, she will behave.

If they say she raises hell at every meeting, she's not going to be on the next board. On the other hand, if they say she's constructive, her compensation committee recommendations have been spot on, et cetera, she's got another \$300,000 a year job. That's the real world.

ANDREW: One quick follow up. In the Wall Street Journal this morning, they were pointing out a comment you made in 2009, when you talked about speaking out on the most egregious cases of CEO compensation, and you said quote, the way to get big shots to change their behavior is to embarrass them. I was hoping you could try to explain the distinction between what you were talking about then in 2009 and, perhaps, this Coca-Cola situation today.

BUFFETT: Well, I don't really want to embarrass the Coca-Cola Company. I like the people and everything. But I think perhaps if you ask some people, I don't know whether they use the word "embarrass," but they would prefer I didn't do it, I'm sure.

Like I say, I used that word in 2009, so I'm stuck with it. I wasn't looking to embarrass them, but I was certainly looking to have them reexamine what they're doing. They're in a great position to reexamine it, because they haven't used a share in this authorization yet. And even though they said in the proxy statement that they expected to use it over four years, that could easily be changed.

They generally issue, I believe, their options in either January or February. So they have a lot of time to think about what's best. And they are. The one thing I can guarantee you, they are decent, high-grade people. They will do what's right. But I don't believe the best way to do that is to go to war with them.

BECKY: Warren, if I could ask just quickly, you said in the past there have been deals that you've shot down. My first thought is to Quaker Oats and Coca-Cola. How did that happen?

BUFFETT: Well, it got very public and basically the management sort of let the world know that Coca-Cola was buying Quaker Oats. And there was a meeting rather hastily called in New York, and directors went into that room. And I was not the first one to say that giving away 11 percent or so of the Coca-Cola Company to obtain Gatorade primarily, although a bunch of other foods came with it. But Coca-Cola really didn't want the foods, they wanted Gatorade.

We thought the first proposed opposition to it, I should say, said he didn't think that mathematically made sense, to giveaway 11 percent of Coca-Cola to get a single product, Gatorade.

I had come into the meeting feeling the same way. I just didn't speak first in that case. Then I spoke, and by the time I got through, the deal did not go through.

BECKY: And the whole table was belching?

BUFFETT: Most of them were belching. It was sort of a belching contest there. And the company had the whole thing to go through. The press people were there. It was in the evening, as I remember. Everybody was on deadline, and, you know, let's get this done.

There's usually that sort of momentum attached to any deal. You can't oppose five in a row. I mean, you become totally ineffective at that point. But that was a big deal. And a number of the directors had reservations about it, and that became apparent as this first director spoke up. But the other ones probably wouldn't have spoken up.

BECKY: Including yourself.

BUFFETT: I'm not sure. But we won't know that. I think I probably would have. I mean, that was not a deal that made sense to me.

BECKY: Okay, Warren, if you'll bear with us. We have to take a commercial break. But we have much more to come with Warren Buffet. We will be back after that very quick break.

Also starting at 8 a.m. Eastern time, Berkshire vice chairman, Charlie Munger, and Bill Gates will be our special guest. We will be sharing a stage. All three of those gentlemen will be with us live.

Andrew, I'll send it back over to you.

ANDREW: Okay, Becky.

(Commercial break)

BECKY: Okay. Thanks, Joe.

We are back again with Warren Buffett. And, Warren, after the shareholders meeting this weekend we talked about how they were thirty-eight to forty thousand shareholders here. There are always a number of interesting people to see in this audience. Kathy Ireland was there with you tossing newspapers on Saturday morning.

BUFFETT: She was a newspaper carrier herself.

BECKY: Right. She did a good job. Bill Ackman was here, David Winters, the glitterati of the financial world. Mario Gabelli, also Jorge Paulo was here from 3G. I ran into him a couple of times. The partnership that you with 3G when it comes to Heinz — first of all, how is Heinz doing? And second of all, would you do more deals like this with 3G with Jorge Paulo.

BUFFETT: Yeah. The Heinz deal is going well. Is that doesn't surprise me at all. We would not have done Heinz by ourselves, certainly at that price. There is no one I'm more impressed with than Jorge Paulo. I will add his associates in terms of their operating abilities. The chance to join him was terrific. I would love to join them again.

One thing I like about them, is they think big. They're likely to come up with a big one some day. Maybe next year, maybe the year after, who knows when. And I think if they need some financial — a financial partner, I think they'll do it with us.

So it's a big plus for Berkshire to have an association with Jorge Paulo, and his associates.

BECKY: Is there anything the two of you are cooking up right now?

BUFFETT: Well, he does the cooking and I do the tasting. His mind is incapable of not thinking about possible deals. And we will not do anything ever hostile at all, that's ruled out. But when the phone rings and they say it's Jorge calling, I feel good.

BECKY: So he was here this weekend. We talked about that. How much cash do you have on hand at Berkshire now?

BUFFETT: Well, counting everything except the regulated subsidiaries, we have probably have around 47 billion, something like this.

BECKY: You like to keep 20 billion on hand, so that still gives you 20 billion to play with.

BUFFETT: Yeah, and we could raise more pretty fast.

BECKY: How?

BUFFETT: We could raise them by debt, but we can also raise them by selling securities. We have well over 100 billion in securities. We have over 150 as far as that's concerned. But we could come up with — I like to be challenged on that.

BECKY: If that were the case, if we did have to come up with some money quickly because you saw a deal you really liked, what would be the security you would sell first?

BUFFETT: Well, if we had to do it very quickly, we might borrow some money and sell securities over a longer period of time. But we would look at the prices of the securities, which change daily, and we would look at what I think about the companies, which doesn't change daily but does change over time.

And if we needed a lot of money, we would have to be looking at some of the bigger things. But since I don't have a deal today, I don't have to think about what I would sell today.

BECKY: Just to get to some of those securities that you do own, you mentioned over the weekend that you met recently with Mary Barra of GM for lunch.

BUFFETT: Right.

BECKY: What did you think —

BUFFETT: I just met her at a conference.

BECKY: At that the Fortune Most Powerful Women conference?

BUFFETT: Yeah, exactly. And that was the first time I'd seen her. I don't own that stock, personally, at Berkshire. One of our two managers does.

But Mary was there, and I think she's terrific. She can run a company at Berkshire, that's for sure. She loves cars. I told her she was a car guy. Just all the way through, and she knows cars. Every aspect of it that you get into, she knows the impact, the tradeoffs involved between weight and style and price. I mean, she just has cars down forward and backward. And she loves General Motors. Her father was there a long period of time. She's made for the job.

BECKY: Have you had any concerns about the GM recall news? Obviously that happened before her time. Anything that made you reconsider whether you own the stock right now?

BUFFETT: Well, again, it wouldn't be my decision. Actually, it's Ted Weschler's decision, but she inherited a mess, and it's not a small one. It's a particular concern to the American public because the government did save General Motors in 2009, and these events which happened prior to that. But General Motors is in the forefront of most Americans. Buying cars are important to them.

So Mary is basically on a hot seat. But it's not a seat of her own making. I don't think there's anybody that will be better at handling it. It won't be handled in a week or a month. It's the nature of problems like that to go on a while.

BECKY: Warren Buffett is our guest host. We will have a lot more coming up. We'll send it back to you guys.

(Commercial break.)

BECKY: Welcome back, everybody. We are with our guest host today, Warren Buffett, life in Omaha at the Nebraska Furniture Mart.

This weekend for Berkshire Hathaway is a lot of business, Warren, a lot of serious talk that comes out, but there's also some fun time. Yesterday you spent the day going to Borsheims and selling jewelry yourself.

BUFFETT: A couple hours.

BECKY: And the first thing you did —

BUFFETT: Crazy Warren, my prices can't be touched.

BECKY: So you were selling yourself. You also spent some time playing a little Bridge and playing some table tennis, ping-pong. I want to show you this shot. You were going up against Ariel (Hsing.)

BUFFETT: Yes, she is the women's national champ and played in the Olympics and won a couple matches.

BECKY: You got the great shot off. You said forget it. I'm sitting down. You get a shot on Ariel and you're out, right?

BUFFETT: One great shot a year.

BECKY: There has been a lot of stuff that we talked about that has been very serious business, though. One of the things that come up was another one of your holdings, Bank of America.

Bank of America very recently had to pull back their plan to increase the dividend and buy back more shares because there was a mess up in the regulatory capital. They were off by a big number. Was it 4 billion?

BUFFETT: Something like that.

BECKY: About \$4 billion. I just wonder, as a shareholder, as someone who has a big stake in the company, did that concern you?

BUFFETT: No. The answer is no. It did not affect the Gap net worth, the GAP earnings or anything of that sort. And, actually, the change they're making with our preferred adds 5 billion to regulatory capital.

BECKY: Really?

BUFFETT: Yes. They are changing our preferred from a cumulative preferred to noncumulative preferred, and that changes that category of capital by 5 billion. I'm not saying that's a good reason for making the 4 billion error.

I've made mistakes. We've made mistakes. It doesn't involve any loss of money or anything. It's structured debt that they acquired when they took over Merrill Lynch.

Again, after I took over Solomon — Solomon was a merger I took over in 1991. When I took over, there was a plug item in the balance sheet. Some item that floated around every day. And that was because they had not been able to find — they had not been able to reconcile the books since 1981, ten years earlier. And Arthur Anderson were our auditors. They came in and explained to me as the new CEO, you'll see this 180 million or whatever it is, move around different amounts. But don't worry, someday we'll figure it out.

BECKY: Did that concern you?

BUFFETT: Sure, it concerned me. One of the companies had been on a cash basis and one on a trade-day basis and somehow they never got it worked out.

We had a situation in our savings and loan many, many years ago where we couldn't work it out. So we just ran out the bank account and started all over again.

BECKY: So you're not concerned. You think Brian Moynihan is doing a terrific job?

BUFFETT: I think Brian Moynihan is doing a terrific job. He's got a lot of problems to deal with, not of his making. He's just methodically worked his way through. And one of the problems is when he thinks he's worked his way through, there's a few more.

He's done the right things. He's simplified the bank dramatically, brought down the balance sheet. He's brought it back to the fundamentals. Bank of America has a wonderful deposit franchise, and it will do well over time. When I first bought the stock, when I was talking to Brian, I said you have a long period ahead of you. You'll work through all of this.

BECKY: Our guest host this morning is Warren Buffett. We have a lot more to talk about with him.

Coming up we are also waiting on quarterly results from Pfizer. We'll break out those numbers as soon as they're released.

Plus, we have two more headliners to our set right here at the Nebraska Furniture Mart in Omaha. Berkshire Hathaway's Charlie Munger and Microsoft's Bill Gates. Both of them, of course, board members at Berkshire Hathaway. They will be joining us starting at 8 a.m Eastern time.

"Squawk Box" returns right after this quick break.

(Commercial break.)

JOE: Let's get back to Becky in Omaha with special guest, Warren Buffett. I know Andrew mentioned that the "I" word, inversion, was discussed a little bit out there as well, and I'm sure in the broader context of what we should do here with corporate taxes and the whole tax code. Anyway, Becky, back to you.

BECKY: Joe, let's jump right into that. Pfizer is a good jumping off point for all of this. Warren, I know we've talked a lot about some the merger and acquisition activity. It's a little different this time around.

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Some of the acquiring stocks have actually risen on some the news. But what's really caught our attention are situations like Pfizer, where Pfizer buying AstraZeneca, it has said that it would move its tax domicile if this deal goes through to the UK because they would be paying a lower tax rate there. What does that tell you about business, what does it tell you about the U.S. tax code, the corporate tax code?

BUFFETT: We're getting more mergers that are tax driven, and that's one of the reasons maybe the acquired stock goes up because you're actually talking not only about buying a business, but you're talking about bringing down the tax rate for the acquirer. And that's been coming along to some degree. You saw insurance companies go to Bermuda and you've seen Valiant pull off a number of these, and my guess is that as Valiant is going along, the people at Pfizer are probably just thinking, this is getting out of hand. We've got to bring our tax rate down too.

So it will gather momentum, and my guess is that when you get to companies of this size, this prominence, and with this speed-up of momentum, my guess is that Congress one way or another addresses this. But that could go either direction in terms of how they address it. And whether they just try to work on this little aspect of the code that allows this, which is not insignificant, or whether that forces them to rethink sort of all corporate taxes, we'll find out. But I do think it's going to get attention.

BECKY: The president has already put it in his budget for this year. It's not been closely focused on, except for potentially by some of these companies that are considering doing these things. The president has proposed to make it tougher to move your tax domicile. Right now if you have 20 percent of your shareholders outside the United States, you're allowed to do that, but the president has proposed moving that up to 50 percent. Some people look at that and say, wait a second, why don't you just deal with the tax code overall and make it a little more attractive for people to be here rather than moving somewhere else?

BUFFETT: Well, that's the fight that's going to go on, and —

BECKY: What's the right move?

BUFFETT: Well, everybody talks about tax reform. People love to use the word tax reform, and very few people are for tax reform that

increases their own taxes. They have all kinds of other things that they don't like in the code for helping other people, and they want to get that corrected. But I have yet to hear from anybody pretty much that wants to — equates tax reform with some set of proposals that increases their own taxes. And this whole thing on the foreign situation I think will cause one hell of a fight in corporate America.

BECKY: But you're talking about a policy that right now pushes companies like Pfizer that pay a relatively high tax rate, 27 percent, and pushes them away. It keeps the people who maybe aren't paying rates nearly as high. Isn't that an argument for simplifying the tax code, not handing away as many incentives or advantages to other people, and getting everybody to pay, like Simpson-Bowles suggested, closer to 28 percent?

BUFFETT: Yeah, you'd like to get everybody the same. We'd like to see that, but that's because we're paying more than 28 percent, bring us down. And somebody who's paying 20 percent — and I can name a lot of companies — they're not going to like it if that activity brings them up to 28 percent. So if you go for something that's revenue neutral, a lot of companies are going to get hurt, and they will probably squeal more than the people who are getting some benefit out of the changes.

I think there may be enough action going on now that despite what I've said, you will get some new resolution of the situation on corporate taxes generally beyond the question of just foreign tax rates. But it will take a lot, because as soon as company X's taxes are going to go up a couple points pro forma under some new proposal, they will have lobbyists lined up in Washington that will stretch to Baltimore.

BECKY: Andrew, you have a question, too?

ANDREW: Well, it was a question that I wanted to follow up with Warren on, which is that we asked a question of you on the panel over the weekend at the meeting whether Berkshire would ever pursue a deal like what Pfizer is doing, an inversion of some sort, and you said no. And I ran into a couple investors who wanted to know why wouldn't you do it. If, for example, I think you pay about \$8.9 billion in taxes last year. If you could take that number down to \$7 billion or \$6 billion, you couldn't come up with a rationale for why that would make sense from a shareholder perspective?

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BUFFETT: Well, for one, we do not come close to having 20 percent of our shareholders outside the United States, and you know, it might require me moving. I'm not sure that Charlie moving would get the job done.

So I ... I'm being half facetious with that. We do not feel that we are unduly burdened by federal income taxes. But it does get a little annoying to us when we see other people paying far lower tax rates while engaging in the same sort of business that we engage in. But Berkshire operated under 52 percent tax rates and 48 percent tax rates, and we make a lot of money under U.S. tax rates.

JOE: Warren, when you talk about the 20 percent, we've talked about this a lot too, a lot of companies have been induced to move operations overseas by the tax rate, and the 20 percent represents a blended rate that they're now paying because they've already reacted to what they see, so that's one thing.

Number two, I've been told that the president, in corporate tax reform, won't go for anything that is even revenue neutral. He wants to actually raise revenue in any type of reform that comes from corporate taxation. And you just mentioned that to keep it revenue neutral, taxes are going to go up on some companies, maybe they'll come down on other ones, so some people will like it, some people won't.

That sort of implies that this level of revenue right now is appropriate, which sort of goes against — I think that it goes against — in other words, the total number that we take from our corporations, if we need to keep it revenue neutral, then that means that our corporations are not overtaxed as far as the big picture goes. Who's to say that right now — I mean, there is another side that would say that corporations right now are competitively disadvantaged globally because they're just too high. So in fact if it's not revenue neutral, if it actually lowers taxes for the entire group, that that's not necessarily a bad thing, that would bring us more in line globally. And then you could get people signed on because most corporations would have lower taxes. Am I wrong?

BUFFETT: If you want to take corporate taxes down, just tell me again whose taxes you want to take up in terms of keeping the overall —

JOE: I don't want to keep it. I'm saying that we don't need to keep it neutral, that it should be a lower amount, because we're disadvantaged now globally because it's too high.

BUFFETT: Joe, we do almost \$200 billion worth of business, and we pay normal rates on most. We have certain deals that are tax advantaged in terms of wind power and solar power. We are not at a competitive disadvantage with the rest of the world at Berkshire Hathaway —

JOE: Some companies are. Some are, and that's why they're doing some of these things, right —

BUFFETT: They're doing it to pay even lower taxes. Pfizer is a very profitable company. You look at the return on net tangible assets at Pfizer. It's terrific. They'd like to make even more money by not paying taxes. But they have a wonderful business paying U.S. corporate tax rates, and all you have to do is look at —

JOE: I don't know what profit's fair and what isn't. I don't know whether they make too much or they make too little. But if we're leaving trillions of dollars overseas and they're induced to do this and they're moving headquarters, and other companies that have lower tax rates can come in here and buy our assets because they can offer more money than domestic companies can, none of these things seem like it's the optimal way for us to be competing globally at this point.

BUFFETT: On balance, American companies have bought more foreign companies in the last 20 years than vice versa. So we have actually been net investing over there.

But beyond that, if you look at corporate taxes as a percentage of GDP, since World War II they've come down from 4 percent to about 2 percent. In fact, under 2 percent. That's while corporate profits have been hitting record levels. So if you look at the budget of the United States, individuals have paid more taxes, corporations have come down from 4 percent of GDP to 2 percent of GDP. No other group has come down as much percentage-wise as corporations. Corporations are doing fine in the United States.

JOE: We should acknowledge that then and not worry about it, but it does leave trillions of dollars that would be — we could bring it back and use it for infrastructure.

BUFFETT: They could bring it back now. They just don't want to pay the tax. And if you let them bring it back cheap, they're going to try and make even more over there with the idea they can bring it back cheap.

JOE: I know. That's why you need to change the overall rate. Go ahead.

BUFFETT: The number one industry with cash over there is the tech industry. There isn't a tech company I know of the major companies making lots of money that has got the least bit of a problem in financing their businesses. What they would rather do is borrow the money here and as Amazon — as Apple's doing. But that's because they've got loads of cash. They'll borrow it here, they'll borrow it very cheap. But they do not have a need for cash for their business. They have a need for cash to repurchase shares because the shareholders are pushing them for it. But they are not using that money to build plants and equipment in the United States. They are using it to repurchase shares.

BECKY: Warren, you yourself said that it's okay to follow the tax rules and not get out of taxes entirely, but if you can avoid taxes by doing something differently. In fact, you've done some deals recently, including the sale of the Washington Post shares that were tax advantaged.

BUFFETT: Sure. We've never lobbied for a tax advantage. But in terms of the tax code, we do not figure up our tax return for the year and then add a tip of 15 percent like on a restaurant check. We pay what we owe. And by paying what we owe, we've earned substantial returns on capital. We've never foregone a capital investment because we were here in the United States instead of some foreign country. And we've bought foreign businesses.

JOE: The *(Wall Street) Journal* today says the only reason that you're building wind farms at all, you know they're not economically feasible, is for the tax breaks.

ANDREW: He said that over the weekend.

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BUFFETT: We've said that publicly for years.

JOE: That sounds like taking advantage of a little line here, line there in the tax code to actually invest and to have a whole wind farm unit just based on the tax advantages. That doesn't seem like in keeping in the spirit of the law.

BUFFETT: No, it is in keeping with the spirit of the law. The U.S. Congress decided that they wanted to encourage wind farms, they wanted to encourage solar, they wanted to encourage low-income housing. And all of those proponents of the law, actually it was President George Bush, 41, that had me in the Oval Office to congratulate me because we were investing in low-income housing tax credits.

JOE: Why do you make a distinction between that and what some of the U.S. companies are doing when it comes to an inversion?

BUFFETT: Well, I think they can do it with an inversion if they want. I think that is one that's likely to get — I'm not saying they're doing anything illegal at all in following the rules on inversion. I would personally change that part of the law. And other people might change the part of the law about wind tax credits, but I'm not attacking Pfizer for following the U.S. tax law. And that provision wasn't even put — I'm sure it wasn't put in there because of Pfizer. I'm just saying that it's probably a mistake to have that part of it. And people can argue whether it's a mistake to have the wind tax credits. But American business, I will tell you, whether it's Berkshire Hathaway or Pfizer or Apple, are doing wonderfully under this tax code and are not short of capital in any way, shape or form, or are having any trouble competing. Now, you can make other arguments for changing the tax code, but you can't really make those arguments, in my view.

BECKY: Great. We will continue this conversation. We do have a lot more with Warren Buffett. Guys, I will send it back to you. Also coming up at 8 a.m. Eastern time, we should point out, Berkshire Hathaway Vice Chairman Charlie Munger and Microsoft Founder Bill Gates will both be joining us live right here on the set with Warren Buffett. Andrew, right now, though, I'll send it back to you.

(Commercial break.)

BECKY: Thank you. Guys, again, we are spending the morning with Berkshire Hathaway Chairman and CEO Warren Buffett. Warren, one of the things that I saw last night, kind digging online, was an article in *The Economist*, where they suggested that maybe you should break up Berkshire Hathaway, that for your successor, it would be easier to run the company if it were smaller or broken into pieces. What do you think about that idea?

BUFFETT: Well, there are real advantages to having the company together. I mean, one big advantage is the ability to allocate capital from businesses where it can't be used effectively. Maybe frozen capital can be used effectively, but incremental capital has very little value and we can move that over to other areas, which have capital needs beyond the amount they're generating themselves. So capitalism is about capital allocation. The whole idea is putting resources in the right places. And we've got the ability to look at 70-plus companies, various industries and everything else, and allocate capital wherever it makes the most sense. And most companies, if they're in the XYZ business, they feel that they look at the opportunities in XYZ and if they can't find any good ones, they may do some ones that aren't quite so good. And if they need capital, if they have to go to capital markets and incur the expense of that. So we have a seamless, very efficient way of rearranging capital among businesses, which in aggregate will spend like 12 billion on capital this year.

BECKY: You and Charlie Munger, your partner, are incredible capital allocators. You have proven that over decades and decades of time. It does raise the question, though, what are you doing to prepare your potential successors to make sure that they are equally good at allocating capital?

BUFFETT: The board will not put a person into the job as CEO of Berkshire that they don't think is terrific at allocating capital. And the candidates we have, I've got no worries about. There are plenty of people that are very good at something else and might meet a lot of the tests, but would not meet the capital allocation test and they should not be in the job.

BECKY: Is there an argument, though, that any potential successor spend time at more than just one unit, simply from the perspective that you don't want to look at that unit as the best place always just to make sure you get a broader view of the business.

BUFFETT: You want somebody in the top position that doesn't have favorites, doesn't have anybody on the blacklist, that doesn't feel way more comfortable in putting capital in area A than area B. But really, looking at it from the standpoint of the Berkshire shareholders and saying, where can this money be used best? And that money may be used in repurchasing shares.

BECKY: I was just going to bring that up. The other idea is that you want somebody who is allocating capital to businesses you own, but when there's not money that's put there, you would go out and buy other stock. So now you're going to have more than one person who's making that decision. (Portfolio managers) Todd (Combs) and Ted (Weschler) have been in the position of looking at stocks. How does that work? Is it a triumvirate?

BUFFETT: Here's a big plus. They're not the bosses, but we will have a lot of money in not only stocks, but bonds, various forms of securities. And we've got two terrific people to carry out that function. They will not be the Chief Executive Officer, but they will be there to help the Chief Executive Officer in that arena. Just like people that run given business are there to help in their areas. But the chief executive should think exactly like an owner. And an owner is trying to figure out where to put the capital to best advantage and we will generate a lot of capital. So it's a very important function.

BECKY: Todd Combs and Ted Weschler are the two individuals you've been talking about. There were several questions raised by shareholders this weekend, wondering when they were going to get to hear a little bit more from Todd and Ted. What do you think? Would they be in a position of maybe taking questions at an annual meeting down the road, too?

BUFFETT: That's not impossible. They're not publicity hounds or anything of the sort, and they like managing money. And the record of how they do on that will be available for the shareholders to see. But they are not interested at all, for example, in talking about their investment ideas. Why should they be? They worked hard to develop them. They're not about to pass them out.

BECKY: We're going to continue this conversation in just a moment. But Joe, Charlie Munger is here, he showed up early, so we're going to put him on the set when we come right back.

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JOE: Excellent. That's going to be fun. And Warren has said that Charlie is doing very well in middle age, flourishing.

ANDREW: Can I tell you, he's amazing. This weekend, I mean, it's inspirational. He's sharper than anybody at this table.

JOE: Well, that's a low bar, as we've said many times. More Warren Buffett still ahead. And we have a special guest coming up in the next hour. Microsoft Founder Bill Gates is going to join us. He's a member of CNBC's top 25 leaders over the past 25 years in business. We're going to talk tech, the legacy of Microsoft, and of course, his plans to change the world. "Squawk Box" is coming right back.

(Commercial break.)

BECKY: We are spending the morning with Berkshire Hathaway chairman and CEO Warren Buffett, and now we're adding another special guest, Berkshire Hathaway vice chairman Charlie Munger. Charlie, it is a pleasure to see you this morning. Thank you so much for joining us.

CHARLIE MUNGER, BERKSHIRE HATHAWAY VICE CHAIRMAN: I'm delighted to be here.

BECKY: People come every year because they want to hear the two of you on stage together. I talked to so many shareholders this weekend about it. You guys have been doing this together for how long, being on stage, taking questions from the shareholders?

MUNGER: Mostly 50 years, more or less, isn't it, Warren?

BUFFETT: Yeah, about that.

BECKY: So I guess my question is other than being a year older for all of us, what's different or what did you learn this year, because I know the two of you say that you learn something just about every day? Did you learn anything this weekend?

MUNGER: I think you always learn something, but it's hard to put a finger on it. I very seldom have an ecstatic moment, like Archimedes.

BUFFETT: I always learn something. One of the things that I have fun with, I have a lot of fun with, is the annual meeting is just getting up there and hearing what Charlie's got to say.

BECKY: I was going to ask you this. Do you ever talk about it in advance?

BUFFETT: Never, ever.

MUNGER: Preparation would be cheating.

BECKY: You two have perfect comedic timing. Has it gotten better over the years? Did you hit that off the first day?

MUNGER: We are natural wise asses.

BUFFETT: That's what attracted us to each other.

BECKY: I've heard the story before, but I know a lot of our viewers haven't. You two met, Warren, when you were 29, and Charlie, you were 35?

BUFFETT: Correct, yes.

BECKY: Can you tell us a little bit about that meeting?

BUFFETT: It was at a local dinner, our wives were there, and after about five minutes Charlie was rolling on the floor laughing at his own jokes. I've been known to do that myself. There's not many guys like us in the world, so I better hook up with him.

BECKY: What is it that you two share in common. What similarities do you think you have? Charlie?

MUNGER: Well, the Omaha background, and I think we're both very intellectually curious. We both kind of like competing in games. And I think we both love ideas. And I like to ask Warren what he wants to be remembered as, and he says a teacher. Who else in America who is a CEO says he wants to be remembered as a teacher? I like it.

BECKY: Charlie, what do you want to be remembered as?

MUNGER: Well, I wouldn't mind being remembered as a teacher, but I won't be. (Laughter)

BUFFETT: I think he will be.

MUNGER: I may be remembered as a wise ass.

BECKY: One of the things I've always wondered is how Berkshire Hathaway really works with the Chairman and the vice chairman. How often do you two talk? Because, Charlie, you're in California.

MUNGER: Way less than we used to because we know what the other thinks. We're not wasting a lot of time checking what we already know.

BUFFETT: We're like an old married couple. We just sort of grunt at each other, but we know what the grunts mean. But originally, and this is when phone conversation was fairly expensive and we were not rich, we would talk for hours a lot of days. But now we may talk once every two weeks or something like that.

BECKY: You did say, though, Warren, that you spoke with Charlie about the Coca-Cola decision before you came to any conclusions.

BUFFETT: Right.

BECKY: What did you two think about that as you were talking?

MUNGER: It took about ten seconds.

BECKY: Really?

MUNGER: I do not find that a difficult decision.

BECKY: The abstention or the —

MUNGER: I thought he did it just right. He complained a little, but not too vociferously. I think that was just the right tone, and with compliments which were deserved to the management of Coca-Cola. I thought he handled it perfectly.

BECKY: Let me ask you two about the acquisition that you just did. There was a \$3 billion acquisition that you announced for Berkshire

Energy last week. Do you guys talk about everything that comes through?

MUNGER: That wasn't even talked about by me.

BECKY: What do you mean?

MUNGER: Warren and (Berkshire Hathaway Energy CEO) Greg Abel did that one. My guess is Warren didn't talk about it for more than a minute or two.

BUFFETT: That's true. I got the facts on it and I liked the deal and I knew Charlie would like it. So why waste a phone call?

BECKY: So that's a \$3 billion acquisition. What kind of rates, as the level that you think, oh, I really need to talk this through with Charlie?

BUFFETT: Well, usually if I talk it through it's because down deep I know I might be doing something dumb, and he'll tell me.

BECKY: Warren, you said over the weekend that you're probably more inclined towards actions than Charlie is. Charlie, you had a response to that.

MUNGER: Well it depends on the action. We're both very action pro when it's obvious.

BUFFETT: Depends on what kind of margin!

BECKY: But you said over the weekend that he's called you something before.

MUNGER: The Abominable "No" Man. He likes that. Kinda kidding.

BUFFETT: When we talked on a Thursday night about doing Burlington, Northern Santa Fe, and Charlie was on board, and you know, immediately he thinks, he sees the facts so fast and thinks so fast, and he doesn't waste any time making arguments just for the hell of it, you know, that are speeches or anything like that. I would say that the quality that we share is that to a great extent, we're rational. And we don't waste a lot of time exploring things that are just nonsense.

BECKY: What is something that you thought was going to be a great idea until you talked to Charlie?

BUFFETT: Well, if you go back far enough, I called him one time on the Pittsburgh and West Virginia Railroad. This is 40 years ago. I said, Charlie, do you think we ought to put a lot of money on the Pittsburgh and West Virginia Railroad? And Charlie said to me, Warren, if you've studied it carefully, and you think you know all the facts, you're going to pay attention to it, if you're going to put a lot of your own money in it. He said, then I'll just shut my eyes and say no.

BECKY: And was he right?

BUFFETT: He was right. That's the irritating part. If you take the batting average of the times we disagreed, he's been right a very high percentage of the time.

BECKY: Charlie, I know that you are in California now, but you make it out every year for this meeting.

MUNGER: That's my hometown. I like coming.

BECKY: What's important to you about being here and about seeing the people at Berkshire?

MUNGER: Well, it's a very remarkable experience to go back to your hometown every year as part of something as big as Berkshire, which keeps getting bigger and more admired as the decades go by. It's very pleasant.

BECKY: You two have been excellent about knowing your circles of competency. There was a question from a shareholder this weekend asking how they could identify their own circles of competency. Charlie, do you have any advice to anybody who's trying to figure that out themselves?

MUNGER: Well I'm really better at determining my level of incompetency and then just avoiding that. And I prefer to think that question through in reverse.

BUFFETT: He likes to invert. He says, all I want to know is where I'm going to die so I'll never go there. I mean, that's his approach

generally is casting out a whole bunch of things. He's good at pointing out where my levels of competency ends.

BECKY: And Charlie, honestly, for somebody who was trying to figure that out, how do you know when you're getting out over your skis?

MUNGER: All I can say is we have a good batting average, and that is probably because we're probably a little more competent than we think we are. There's some modesty in what we're doing.

BUFFETT: It probably is very useful. There's a lot of reasons why the partnership works. But to have someone that you respect enormously say, you know, you're really out in an area where you don't belong, Warren. I mean, I will pay attention to him when he says that, and he'll say it.

So there's real utility in our functions together, for one to simply just say, are you sure you know what you're talking about?

BECKY: That raised another question at the shareholders meeting. I mean, you two work so well together. When you look at a potential successor for the CEO position at Berkshire, how do you help them along the way to try and make sure that they find someone who they can work equally well with and who can also point out when maybe they're making an incorrect decision?

MUNGER: I hardly know anybody who's done very well in life in terms of cognition that doesn't have somebody trusted to talk to. Einstein would not have been able to do what he did without people to talk to. Didn't need many, but he needed some.

You organize your own thoughts as you try and convince other people. It's a very necessary part of operations. If you had some hermit sitting on a mountain, he wouldn't do very good.

BUFFETT: And Charlie, by the way...

MUNGER: We have some of those, and they aren't very good.
(Laughter)

BUFFETT: Charlie will always emphasize the fact that we ought to state the other guy's case as well as he can and better than he can if possible. That's when you get to where you can think through your

own case better, and that may be his legal training to some extent. But he starts out stating the opposite case.

BECKY: Gentlemen, we are going to continue this conversation in just a moment. Andrew, I'll send it back to you.

(Commercial break.)

BECKY: Welcome back to a special edition of "Squawk Box".

We do have some breaking news just hitting from the retail company Target. Target is saying its CEO Gregg Steinhafel is stepping down. His resignation takes effect immediately. In his resignation letter he says that Target has faced some unprecedented challenges in recent months, most notably that massive data breach where millions of Americans' information was briefed. And this all happened over the holiday season, started right around Thanksgiving, went through early December. And that is something that the stock took a huge hit on. Steinhafel says that he's been focusing on ensuring Target emerges from the data breach as a better company, and that now is the right time for new leadership.

Target CFO John Mulligan is going to be serving as interim CEO until a permanent successor is found. It also says that Roxanne Austin, who is a current member of Target Board of Directors, she has been appointed as the interim nonexecutive Chair of the Board. They say both will be serving in those roles until their permanent replacements are named.

The company also says that they've asked Steinhafel to serve in an advisory capacity during that transition and that he has agreed. The board says it's deeply grateful to Gregg for his significant contributions and outstanding service for his notable 35-year career with the company.

But our guest hosts today, again, Charlie Munger and Warren Buffett. Gentlemen, the news on Target comes not only after the data breach, but also after Target's expansion into Canada. That is something that has been a target for analysts who have said that that was the wrong move. You two have an awful lot of experience when it comes to retail.

BUFFETT: We have a lot of awful experience, actually.

BECKY: You guys have a long history with the department store and other stores. But Charlie, you're still on the board of directors at Costco.

MUNGER: Yes, but I'm not running it.

BECKY: But I wonder what you two think about news like this. Target has had a rough run over the last six months or so.

MUNGER: Well, I think these data breaches are so likely that we'll see more of them, and I don't think the CEO is necessarily at some terrible fault.

BECKY: I wonder if this has more to do with the Canadian expansion than the data breach itself, because Steinhafel has come out and tried to be very forthright.

MUNGER: I think Warren and I can match anybody's failures in retail.

BUFFETT: Yeah, we have a really bad record, starting in 1966. We bought what we thought was a second-rate department store in Baltimore at a third-rate price, but we found out very quickly that we bought a fourth-rate department store at a third-rate price. And we failed at it, and we failed ...

MUNGER: Quickly.

BUFFETT: Yeah, quickly. That's true. We failed other times in retailing. Retailing is a tough, tough business, partly because your competitors are always attempting and very frequently successfully attempting to copy anything you do that's working. And so the world keeps moving. It's hard to establish a permanent moat that your competitor can't cross. And you've seen the giants of retail, the Sears, the Montgomery Wards, the Woolworth's, the Grants, the Kresges. I mean, over the years, a lot of giants have been toppled.

MUNGER: Most of the giants of yesteryear are done.

BUFFETT: Target went into Canada. It cost a lot of money to go there, and it can be tough. Everybody is already doing business with somebody there, and your competitor is never standing still. So that

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even though you think they have vulnerability at this moment when you start in on something when your store is completed a year later, they're moving, too. It's always a moving target. It is a tough business.

BECKY: And yet here we are at the Nebraska Furniture Mart that Berkshire has done very well with.

BUFFETT: Nobody is going to be able to compete with the Nebraska Furniture Mart. I mean, this store does more home furnishing business than any store in the country. And what are we in, I don't know, the 50th market in the country? This store does \$450 million annually. It's doing \$40 million during the Berkshire shareholders week. There's no store that remotely can offer the variety. There's no store that can undersell us. But to achieve that kind of dominance, you can't do it with a chain of stores in Canada when you're competing with Wal-Mart up there and a whole bunch of other people.

BECKY: Warren, I know you use the internet a lot. But I wonder if Charlie, Warren, if either of you ever buys anything on Amazon?

MUNGER: My children buy it for me occasionally. I have never done it personally.

BUFFETT: My assistant.

BECKY: What do you think about the Amazon business model, though?

MUNGER: Well, I think it's very disruptive compared to everybody else, I think it's a formidable model that is going to change America.

BUFFETT: I agree. It's one of the most powerful models that I've seen in a lifetime, and it's being run by a fellow that has had a very clear view of what he wants to do, and does it every day when he goes to work, and is not hampered by external factors like people telling him what he should earn quarterly or something of the sort. And ungodly smart, focused. He's really got a powerful business, and he's got satisfied customers. That's hugely important.

BECKY: Charlie, earlier we got the chance to talk with Warren about some of the U.S. corporate tax code and some of the new acquisitions that we've seen. Pfizer reported earlier this morning, so we talked a

little bit about Pfizer's plan to buy AstraZeneca and use an inversion where they would move their tax domicile to the UK because I guess they pay about 27 percent here in the United States. If it was a UK tax domicile they would pay closer to 21 or 22 percent.

There was a little bit of conversation around —

MUNGER: Well, I think the pharmacy companies try and get to the tax rate, they're on their way to zero. That's the only one that would make them happy.

BECKY: What do you think about that whole practice, though? Berkshire has taken advantage of tax code in the past to make sure it's doing things in the most tax effective way.

MUNGER: We would never take our U.S. tax rate to zero on purpose, or even close to it. For other people that's sort of an ideal.

BECKY: Getting to 22 percent is still more than a lot of U.S. companies would be paying, if Pfizer does do that inversion and goes ahead and moves the tax domicile.

MUNGER: It's the rage now to get the tax rate down.

BECKY: I think Joe Kernan, my colleague, has a question back at home, too. Joe?

JOE: I'm just reading in the past that you have talked to Warren about this before, Charlie, right? You are on the record. Here's a headline: Buffet clashes with Munger over U.S. corporate taxes at a meeting.

I will quote what you said. "The corporate tax rate should be much lower. When the rest of the world keeps bringing the rates down, there's some disadvantage to us if we're much higher."

Did you change your opinion on that recently, Charlie, or do you still feel that way?

MUNGER: I would not — there's something to be said for making the tax rate a little lower, but going from 35 to 33 or something is not like taking it to zero by moving your pharmaceutical manufacturing to some tiny little place.

JOE: I'm not asking about a lot of places — go ahead.

MUNGER: I think the economy might work a little better if the corporate tax rate was low. But I think it would be a mistake for American corporations to get really low taxes.

BUFFETT: And when you talk about the tax rate being lower, you're not talking aggregate corporate tax rates being lower; you're just talking about evening out the rate, right?

MUNGER: Yes. I would like a consistent rate that everybody paid.

BECKY: Something more like Simpson-Bowles was talking about, getting rid of a lot of the —

MUNGER: Something more like Latvia.

BECKY: Latvia?

BUFFETT: Nobody knows what the hell Latvia means —

JOE: Charlie, what is the rate in Latvia? Do you know?

MUNGER: They have a single tax rate.

JOE: So does Lithuania. It's like 15 percent. I think it's 10 percent, but a 15 percent flat tax on everyone else. But I think the corporate rate is 10 percent in Lithuania.

MUNGER: Generally speaking, I would tax consumption higher and earning power of business a little lower. It just works so well in Hong Kong and various places. I don't think we deserve it, but maybe the economy would work better if we had it.

ANDREW: Can I follow up with you on something else you said over the weekend, and Warren did, too. Another sort of unconventional thought. We had a conversation in the question about compensation and the disclosure of compensation. You made a point that I think many of our viewers may find surprising about how disclosure may not be a good thing. Do you want to elaborate?

MUNGER: Well, I think envy is one of the major problems of the human condition, and that's why it figured so prominently in the laws

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of Moses. Remember, he said you couldn't even covet your neighbor's donkey.

BUFFETT: I never have.

MUNGER: Yeah, but other people did. And so I think this race to have high compensation because other people do, has been fomented by all this publicity about higher earnings.

I think it's quite counterproductive for the nation. There's a natural reaction to all this disclosure because everybody wants to match the highest. Warren, I think that's a crazy race for us to get into.

BUFFETT: I've never been on a board of directors where the CEO came in and, waving the proxy statement of some competitor, and said, Here, this guy is making less. I probably should be making less, too.

It doesn't happen. There is a rationing effect that is produced by the publication of large salaries. And every comp committee is not hearing the comparison by the consultant to the fourth quartile or the third quartile. It's always to the second quartile, and that will produce a rationing. It's very natural to think if you're a director of the ABC Corp. and the CEO of the XYZ Corp is getting more, well, our guy is at least as good as theirs. And it goes on and on and on. So publication of the top salaries has cost the American shareholder money. Maybe disclosure is the great disinfectant, all of that, sunshine is the great disinfectant. Sunshine has cost American shareholders money when it comes to paying their managers.

MUNGER: You're right, a peculiarity of ours, but we're right, just as Moses was.

(Laughter.)

BUFFETT: And other people in between.

BECKY: We're going to continue this conversation with Charlie and Warren.

In fact, when we come back, we are adding yet another amazing business leader to this conversation, Microsoft founder Bill Gates will join us live right after this break.

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Our conversation will continue in just a moment. Also, as we head to the break, check out the "Squawk Box" market indicator. We have seen futures under a little bit of pressure this morning. You'll see right now futures are still in the red. We'll also take a look at the ten-year note, because the yield there dipped below 2.6 percent. Stick around. "Squawk Box" will be right back.

(Commercial break.)

BECKY: All right. Joe, thank you very much. Again, we are speaking to Warren Buffett, the Chairman and CEO of Berkshire Hathaway. Charlie Munger, the vice chairman, and now we are adding another powerful business leader to the roundtable: Bill Gates. He is the founder of Microsoft and the co-chair of the Bill and Melinda Gates Foundation. He's also a member of the CNBC First 25 list that was revealed last week and he is on the board of directors right here at Berkshire. That's why we have these gentlemen here today. Bill, thank you for joining us this morning.

BILL GATES, MICROSOFT FOUNDER: Great to be here.

BECKY: One of the things I would love to hear from you three is just what it is you talk about. When you just sat down you were talking about Mongolia. You guys will talk about anything and everything. What do you know about Mongolia?

GATES: Well, business stories are fascinating to us and all the demand for minerals has meant that countries like Mongolia have opened up big new mines and the country's deciding what they're going to do with the revenues they're getting from that. A friend we have owns 10 percent of the retail operations in Ulan Bator so he was telling us how that's all working.

BECKY: When you were at the board of directors meeting today, obviously you can't talk about specifics on things, how do those board of directors go? How are things led?

MUNGER: It's a lovefest.

BUFFETT: (Laughs) I hope so.

MUNGER: It's not a highly critical place.

GATES: Are we supposed to say that?

(Laughter)

MUNGER: I don't care.

BECKY: Warren, you did make the comment over the weekend that when it comes to boards, too often they don't look for Dobermans, they look for Cocker Spaniels and then try to make sure their tails are wagging. Is that how the Berkshire board runs, too?

BUFFETT: No, Berkshire we look for directors that were shareholder-oriented, business-savvy, and interested in Berkshire. And we think those criteria make sense. Other people have a whole bunch of different checklists. But we have a group of directors that get paid virtually nothing, and they have to — their interest has to come about because they find the place interesting, and in many cases because they have huge investments. And they made those investments themselves. Nobody gave them shares. So it's a very unusual board. But it's a terrific board.

BECKY: We heard the story about how you and Charlie first met up. How about the story about how you and Bill first met?

BUFFETT: Well, he was forced to meet me.

GATES: That's true. My mom was having (former *Washington Post* publisher) Kate Graham and Warren over, and I was still sort of maniacal about not doing anything but working at Microsoft and so I agreed to come by. I actually — I made this mistake thinking that Warren's view of the world was just about charts and stock volumes and not about the fundamentals of business.

So when we met and he was asking me how do you compete with IBM, how do you price your stock, where is it going, it was fantastic. It was the most fun conversation I'd ever had. So that started an amazing friendship.

BUFFETT: We got to the bedroom, talking, and the governor of Washington had come. And Bill's dad was a wonderful man, but he got irritated with the fact that we were sitting in the bedroom talking.

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And finally he came in very politely, he said, "Would you boys think about talking to the Governor?"

BECKY: So you stayed a little longer than maybe you planned?

GATES: Yeah, both sides wondered what these two groups were going to talk about, and had an amazing day. And it was only a few weeks later that I went up and Warren had a group of friends who were talking about business and stocks and so it's been a conversation ever since then.

BECKY: You know, Charlie, you made the comment over the weekend that when it comes to frugal people, you collect these type of people at Berkshire. You're looking for frugal people. But one thing I have noticed. You tend to collect friends and colleagues who have all those characteristics that Bill was just talking about. People who look at business and who think through it. How did that happen?

MUNGER: Well, when you like people who are intellectually curious, and I don't see how you can wise up all the time if you aren't working at it.

BECKY: How do you do that? Do you read every day?

MUNGER: Sure.

BUFFETT: I knew Charlie and Bill would hit it off.

GATES: Charlie's amazing.

BECKY: Let me ask each of you. What is something that you're reading now or you've read recently that you would recommend that other people read? Bill.

GATES: Zeke Emanuel wrote a book about medical costs in America and how we got to the complex situation we have. And he makes some predictions about the future. And people can disagree with him. Actually I disagree with some of it. But it's very well written, and we should have a more informed dialogue about that critical topic.

BECKY: Charlie, how about you?

MUNGER: Well, I have just read "Faraday, Maxwell, and the Electromagnetic Field."

BECKY: What is that?

MUNGER: It's a combination of scientific biography and explanation of the physics, particularly relating to electricity. It's just the best book of its kind I have ever read, and I just hugely enjoyed it. Couldn't put it down. It was a fabulous human achievement. And neither of the writers is a physicist.

BECKY: Neither of them. Okay. Warren?

BUFFETT: Why the light goes on when you hit the switch, but I couldn't understand the book. I had to move on.

I read (former U.S. Treasury Secretary) Tim Geithner's book which will be out in another week or so, and anybody, politician or financial manager, financial supervisor should read that book. Tim correctly says that you're going to run into more panics in the future, and there's not a thing about them and here is what to do. And it's a very, very good book.

BECKY: He thinks we'll run into more financial panics. How far down the road?

BUFFETT: He has no idea. And I have no idea. He just says humans are behaving the same way. And he describes how they behaved in various ways and how they behaved this time. And what has to be done. It's a good book.

BECKY: In other words, next time will not be different. There will be a next time?

BUFFETT: There will be a next time.

MUNGER: It may be led by the same people.

BECKY: By the same people meaning?

MUNGER: The financiers.

BECKY: The banks.

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MUNGER: Other than a woman.

(Laughter)

(Commercial break.)

BECKY: Our special guests this morning will all be at the Berkshire board meeting later today: Warren Buffett, Charlie Munger, and Bill Gates.

Gentlemen, people would die for the opportunity to get here and sit and talk to you about business. What I would like to do is just throw some topics out to you and maybe you guys can respond on your thoughts on things.

First up, about activist investors. We have seen a rise of activist investing. Carl Icahn, Bill Ackman, who was actually here this weekend. I just wonder what the three of you think about activist investing. Is it a good thing for America or not?

Charlie?

MUNGER: Well, sometimes it's good, and sometimes it's awful. And I'm afraid that's just the way it is.

BECKY: Bill, what about you? What do you think about it?

GATES: Well, there's a level of discipline that shareholders, in the hierarchy, they should be viewing the actions of the board management. Sometimes it seems to get focused on very short-term things, like the dividend policy, as opposed to the strength of the management team and the long-term strategy. But shareholders having power is a very important part of the system.

BECKY: Can shares get hijacked, though, by a shareholder who is very loud but who happens to have a small position in a stock?

GATES: Only if the press allows it to happen.

(Laughter)

BECKY: Well, you can say we've been guilty of that. We will certainly take any and all activist shareholders.

BUFFETT: You have thousands of corporations. Some of them are going to be poorly run and some of them are going to be run in a very self-interested manner by the managers. What is the correction for that? And activism can be a correction for some of that.

I think very often the activism — and they are attracting money on this basis. The money is pouring into activist-related-type investment vehicles. The measure really is whether you get the stock up in a very short period of time.

I can remember when the best-managed company I knew in the United States, Capital Cities, was selling for a third of what it was worth. And an activist might come around and say, 'Why don't you sell off the properties or something?'

So an immediate bump in the stock price should not be the measure of whether somebody has accomplished something successfully in a corporation. But there are times when change is needed in corporations and they're not going to do it themselves.

BECKY: Andrew has a question too. Andrew?

ANDREW: Warren, I want to follow up on something we talked about over the weekend, which is actually Bill Ackman's approach in this recent transaction between Valeant and Allergan, where he effectively teamed up with Valeant and bought shares of Allergan before they actually made the bid, knowing that the bid was coming. Some people have argued that is the equivalent of front-running or inside trading. I wanted to get your thoughts on that tactic from a policy perspective and what you think it means to the market.

BUFFETT: Well, I'm sure he had it well-lawyered. But, you know, if I bought that stock because I'd learned that somebody might be doing something and I learned it in certain way, I would be in trouble. But if they join forces, you know, certainly a company that has in mind making a bid is entitled to buy some stock. And how big a group you can form, maybe you could form a group with a whole hedge fund community and have them all go out and buy stock like crazy for a couple weeks. And if they're part of a group, maybe it doesn't help.

But I would say this: If that should be the case, it probably should be changed.

BECKY: Joe?

JOE: Thanks, Beck. All three of these great gentlemen, I would like to just hear them opine quickly on this. I'm going to say his name again: Thomas Piketty. He's a French elitist academic that has the hottest book on economics right now. (*Capital in the Twenty-First Century*.) I'm sure you have read about it. It talked about capitalism in the down side in terms of income and quality. That capitalism he says by definition engenders, that we've just been lucky in recent years that it's not even worse.

So we're revisiting what system is the most appropriate. I think about you, Bill Gates, and what you're able to do with everything that you amass in your lifetime through capitalism in some respect, and certainly you're doing a lot of good with it now.

But in and of itself, is capitalism good or a bad thing?

GATES: Well, of course it's a fantastic thing versus any other system we've tried. And Piketty's mostly talking about retained wealth. That is, if you have high returns on capital for generations, then you get a group of people that have a disproportionate part of the money. If you think about the three fortunes represented here, these are first-generation fortunes that show there is dynamism in this system. He makes some assumptions about returns that I'm not sure are true for the long-term. But the direct remedy for what he's talking about is some type of estate tax or well tax. He actually comes out for a well tax, which I think is hard to do. But an estate tax, which I happen to believe in, is something that would reduce the phenomena that he talks about.

But —

JOE: I've talked to Warren about this before too, and you guys can answer too, but to give all your money away beforehand, I think Warren has actually admitted to me that he thinks in the private sector that it will be better used by charitable organizations because it does avoid — when you give it all away, it does avoid it going to Uncle Sam in the end anyway, right?

ANDREW: Well, that's a problem too. It's still a generational issue. I don't get to answer for Bill.

BUFFETT: But you set it up in a case there in the sense that if I didn't give it all to philanthropy, I can arrange it so it's greater than this. But I could certainly create 60 percent that would be dynastic wealth. And if I was really concerned about dynastic wealth, as many people are, I could set it up so that far more than 60 percent went to —

JOE: You could bequeath it all to the federal government if you thought it was going to be a good use of the funds.

BUFFETT: That's a choice. I'm just saying the choice is not between philanthropy and — it's false to say you can't create —

JOE: That's not what I'm saying. I'm just saying you have never necessarily looked like you thought the government was the best place to allow capital to be utilized.

BUFFETT: I agree with you on that.

JOE: That's pretty good.

BECKY: Gentlemen, we're going to take a very quick break here. Of course, Joe, we do have more coming up after this.

(Commercial break.)

BECKY: Welcome back to a special edition with "Squawk Box". Our special guests this morning: Warren Buffett, Charlie Munger, and Bill Gates.

Gentlemen, another topic I would like to hear from you on. High-frequency trading. Charlie, I'd like to get your opinion about what you think about high-frequency traders. Is the book right, that lays out for Michael Lewis that they are — they're skimming off the top and it's a fixed market?

MUNGER: Well, of course they have an advantage. Cleverly obtained. Of course it does the rest of the civilization no good at all. It's the functional equivalent of letting rats into a grainery. (Pause) No, I don't like it.

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(Laughter)

BUFFETT: I wondered what his point was.

BECKY: Charlie, Bill, do you agree or — Warren, Bill, do you agree or disagree with Charlie?

GATES: It doesn't seem like it's much value added because it's not, when you get — you really need the liquidity, it's not guaranteed to be there. So I'm not an expert on it, but it seems like a strange source of profit.

BUFFETT: It's not a liquidity provider. It may create more volume. But that's not the same as being a liquidity provider. To the extent that it's front-running, I think society generally has been against front-running for good reasons and where it's — in the old-fashioned front-running, they had rules against it.

Here they gained a natural advantage by speed just by figuring out how the system worked and then getting there first, and that adds nothing to GDP or anything, a real output of goods and services. On the other hand, the market isn't regulated. And for the small investor, they've never had it so good. And high-frequency trading I don't think costs them a penny probably.

BECKY: I see Bill nodding with that. Charlie, you agree with that too?

MUNGER: Somebody is paying it. God is not creating extra money.

BUFFETT: It's the big orders.

GATES: If you don't trade very often, then all these frictional costs can be quite modest.

BECKY: If you're a frequent day trader. Running in and out.

MUNGER: The big institutions operating on behalf of the little people. No, I think it's a curse, and I think the author of the book was basically right.

BECKY: Andrew has a question too. Andrew.

MUNGER: And he writes well, too.

ANDREW: Warren, related to this, one of the Berkshire companies is Business Wire. They reached a settlement along with PR Newswire and a couple of the others with the (New York State) Attorney General Eric Schneiderman about this idea of front-running — go ahead.

BUFFETT: I have to correct that, Andrew. They've reached no settlement. They had decided — I had decided, along with (CEO) Cathy Baron Tamraz, when an article appeared in the *Journal* about it, we always provided simultaneous distribution, and we continued to provide simultaneous distribution, but we did get rid of the five high-frequency traders who had no edge in the time at which they received things. But we got rid of them, in any event, but that was not pursuant to any settlement. That was a decision that was made at Business Wire.

ANDREW: I'm glad you cleared that up. What was the settlement part, then?

BUFFETT: There was no settlement. There was no settlement. We got — we made — I think there was an article late in the week in the *Journal*, and Cathy talked to me early the following week, and after assuring myself that they were getting totally simultaneous distribution, I said we don't need them. So we got rid of them.

BECKY: Gentlemen, let me ask a very quick — go ahead, Joe.

MUNGER: I said I love it. Wish there was more of it.

BECKY: Let me ask you quickly about the situation in Ukraine. How much time do any of you spend thinking about that? How concerned should we be from a geopolitical risk standpoint?

MUNGER: What in the hell do I know about the Ukraine? I — I'm glad I'm not making those decisions.

BECKY: Do you worry that it will spill over and affect business —

MUNGER: Well, of course you worry a little when you see a pattern that reminds you of Hitler.

BECKY: Right.

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MUNGER: But basically, yeah, I regard myself as totally incompetent to judge what should be done.

BECKY: Bill, Warren, either of you want to follow up after that and say that you are more competent to make a decision on it?

BUFFETT: Totally. It's not hard to improve.

GATES: When you have a global economy, so when you have disputes between countries, like Europe's dependency on Russian gas, you sometimes will make — to make political points, you'll sometimes take economic pain, and it's a great debate, you know, what penalties should there be to discourage more take-over behavior. And you actually have the business community having one view and talking to the politicians.

I don't think it's going to get terrible, but it certainly would be high on the list of concerns right now.

BUFFETT: When you get a shift in boundaries, it can set other forces in motion and nobody knows what those forces may be. And there may be political popularity considerations. All kinds of things start happening.

So once you shake things up, you never can be sure, on international matters, what will be item 2, item 3, and item 4. They have their own dynamic.

So it's not a plus. And nobody knows how it's going to turn out. But something has been put in motion, and it would be nice to see it come to rest.

BECKY: We'll continue this conversation in just a moment. Andrew.

ANDREW: Thank you. And, Warren, I want to thank you for correcting me on the Business Wire issue. I also noticed some of the reporting has been bad on this. Eric Schneiderman applauded Business Wire and their decision to do this. It wasn't part of the settlement or any type of accord. Despite some of that reporting.

Coming up we've got a lot more coming up from Omaha, Warren Buffett, Charlie Munger, and Bill Gates. It doesn't get any better than that kind of conversation.

(Commercial break.)

BECKY: Welcome back, everybody. Some final thoughts right now from Warren Buffett, Charlie Munger, and Bill Gates. Gentlemen, in the commercial break I love your conversations that continue to go on. You were talking about Apple and Samsung; Apple just winning a minor court victory of \$120 million to get paid. What I wonder is what you think of the patent wars. Charlie?

MUNGER: Well, when I was young, there wasn't much money that changed hands based on patents, and now they're hugely important. I think patents are too easily granted now. I don't think we need as much patent protection as we have. Bill will probably disagree.

BECKY: The patent office has had a hard time keeping up with technology. Bill, should people get paid for their creations and inventions?

GATES: Well, there's entire industries like the drug industry that only exist because if you invent something you're allowed some protection. The particulars of the system have gotten very complex, and you could talk about various improvements. But the idea that innovation in and of itself should be protected, you should get paid. That's been a very successful idea going all the way back to the steam engine.

BECKY: Bill, I do want to ask you, we talked a little bit this morning about how you are no longer the largest shareholder of Microsoft. You've been selling down that stake. Why is that?

GATES: I've sold for over a decade the same number of shares every quarter. That plan lasts through the end of this year. You know, I'm going to retain a lot of Microsoft stock, but the U.S. Treasury's done well, many billions of dollars. And you know, I'm excited about the stuff I'm doing at Microsoft right now, you know, re-examining all its strategies, and a lot of great work going on.

BECKY: Are you excited about the new CEO, Satya Nadella?

GATES: Yeah, Satya is off to an amazing start. He's drawing on a broad set of people in the company to get them to rethink how can Microsoft move a bit faster and really distinguish ourselves with things like Office 365.

BECKY: Let me ask you all about energy policy. I come back to this, Charlie, because you've said some things in previous meetings - maybe it was two or three years ago - that kind of changed my thinking about it, just the idea of whether or not we should be exporting natural gas and some of our natural resources. Your idea was that we should save it all.

MUNGER: Yeah, I'm totally against exporting natural gas. I don't like oil to be exported, either. I'm all for using up our oil more slowly and discovering it more slowly. I'm all by myself on this. I feel very lonely.

BECKY: Why is it that you think we shouldn't export it?

MUNGER: I think this stuff is utterly precious. I feel it's like the topsoil of Iowa. We don't want it to go away too fast. I also have old-fashioned capitalist ideas that intelligent, responsible people are always suffering now to make later better. I don't like making today great by making later worse.

BECKY: Warren, you agree with Charlie?

BUFFETT: Well, if I were in charge of running the United States for the next 500 years, I would want the ability to produce energy in a way that would take care of national defense under all circumstances. Because I would not want to be dependent on the rest of the world in that respect.

But if otherwise I could use up, you know, as important an item to the planet as energy and use the other guy's, and like I said, if I have responsibility for hundreds and hundreds of years, I would use the other guy's and trade him little pieces of paper for it. But I would always want to have an up-to-date national defense.

MUNGER: That's two of us, out of 300 million.

BECKY: Let me ask all three of you. All three of you are investors that spend a lot of time thinking about things. I wonder, with the

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stock market hitting new highs, if that concerns any of the three of you, if things are starting to look expensive at these levels. Bill, what do you think?

GATES: Well, relative to interest rates, equities are still a bargain. And, you know, so you've really got to have an opinion about interest rates to be an investor of any kind in this market. It's such a key factor. You know, by historical measures, yes, interest rates were very different in most of those time periods.

BECKY: Have you been surprised that interest rates have stayed so low this year?

GATES: Well, the central banks are making sure that's the case. They are trying to stimulate these economies as best they can. The fact that it requires the gas pedal being pushed to the floor as much as it does is an amazing and even a little bit scary thing.

BECKY: Charlie, what do you think?

MUNGER: Well, I think under what Bill Gross calls the "new normal," common stocks may not do quite as well in the future as they did in the last 100 years. But that doesn't mean that the Mungers are going to sell their common stock in an effort to buy them back later cheaper.

BECKY: Warren, how about you?

BUFFETT: Well, the option is to own equities or own fixed dollars. I think it's clear you own equities. I do not think they're in crazy territory. But most of the time stocks have been in a zone of reasonableness over my lifetime. I think they're in the zone of reasonableness now. And certainly if you said to me it's either going to have to be long the 30-year bond and short an index fund for 30 years or vice versa, it would be long index fund. I would be long in stocks.

MUNGER: We all would.

BECKY: Gentlemen, I want to thank you all for your time today. We really appreciate it. That does it for us. Make sure you join us tomorrow. Right now it's time for Squawk on the Street.