

This is an unofficial transcript of Warren Buffett's April 23, 2014 live appearance on CNBC's "Closing Bell."

BECKY QUICK: We are at Smith and Wollensky today. Warren Buffett has just had lunch with the winners of the annual Glide Foundation Auction. This is an auction that went off last year. Warren, this was the 14th annual auction. You have now raised \$15.6 million for the Glide Foundation. I know that the new auction goes up on June 1st, looking for next year. But how was lunch this year?

WARREN BUFFETT: Lunch was great. I always have a good time and there were eight people and— I knew a couple of 'em from before, they're all going to come to the annual meeting, and it— it— it's a treat for me.

BECKY: They didn't want to be identified. But— they snuck outta here with— despite (LAUGH) all the media that's here .

BUFFETT: Yeah. Yeah, they— they— they were— they weren't looking for publicity. But we had— we had— we had a very good time.

BECKY: Okay, I'm glad to hear it. While you were in there, there was a little bit of news that was happening out here. We've been hearing about the Coke shareholders meeting. It turns out that the votes are in. 83 percent of shareholders voted in favor of Coke's plan. The— compensate— equity plan. That means 17 percent voted no. How did you vote your shares?

BUFFETT: We abstained. So that would've been 9 percent. I don't know whether or not it's— whether they took that out before calculating the 83 percent and 17 percent. But we— we— we abstained.

BECKY: That was 83 percent for the votes that were cast. Why— why did you abstain?

BUFFETT: Well, we abstained because— we didn't agree with the plan. We thought it was excessive. And— I love Coke. I love the management, I love the directors. But— so I didn't want to vote no. It's kind of un-American to vote no at a Coke meeting. So (LAUGH) that's— but we— I didn't want to express any disapproval of management. But we did disapprove of— of the plan. The plan— compared to past plans was a significant change. And— there's already a 9 percent or so overhang in terms of options outstanding relative to the amount of sh— shares outstanding, 8 percent— 8 percent— 8 percent to 9 percent. And— this authorization of another 500 million shares. Not all of which would've gone on options. But that's another 11 percent of the company. And— and— I thought it was too much. And— I talked to my partner Charlie Munger, and he thought it was too much. So we abstained.

BECKY: Your math, does it match up with David Winters who is— is the activist who's been very vocal about this. By his math— he thinks it would be something like— a dilution of 16 percent to— existing shareholders— that are there. And— and Muhtar Kent has up from the company and he thinks it's more like 1 percent of—

BUFFETT: Well, it— it— it's closer to the 1 than it is to the 16— in terms of dilution because they would repurchase— the— they would use the proceeds they received in the options to repurchase shares. So— so— they said the breakdown between giving performance shares— in terms of what they call option equivalent, it would be 40 percent down and 60 percent options. If they repurchase the shares, it would not be— it would not be as low as 1 percent. It— it would be far from the— from the higher numbers.

BECKY: Well, David Winters— was just out with a statement, I guess he jumped the gun a little bit, because he criticized you. He said— in his statement, that we are surprised Warren Buffett had the opportunity to take a stand against excessive management compensation and failed to seize it. Why are you telling us this now instead of before the vote?

BUFFETT: I— I— I— I would not want to be in a position of— of— campaigning for either side in respect of— we were gonna cast our vote, it would become known how we cast our vote. But— but— I have enormous respect for Muhtar Kent. He is the man to be running Coca-Cola. And— we never sold a share of Coke— never had any plans to s— sell any Coke. I— I respect the Coke organization. I just don't like the plan.

BECKY: Did you talk to Muhtar Kent about— your thoughts on this?

BUFFETT: I— I did, but it was only after the— the— the proxy was out. So and— and— and he did not have— he did not know my views ahead of time.

BECKY: Your— your son is on the board of Coca-Cola. He voted in favor of this plan.

BUFFETT: That— that's true. The— I— I've been on boards for 55 years— 19 public boards— I've never heard of a vote against the compensation plan voted by compensation committee. What happens in a board, I— I think people sometimes have a mistaken notion of how boards act. But— the compensation com— committee comes in, they've worked for a few hours, maybe a few days, they've had consultants. And— and they say, "We've approved this plan." I've never yet heard at any of the 19 boards I was on, anybody say in the meeting they were against it. And I've had— heard a few say it outside of the meeting. But— but taking on a committee that's reported, you've assigned— the job to the committee, and they k— taking them on it is— is— is a little bit like belching at the dinner table. I mean, you

can't do it too often. (LAUGH) If you do, you find you're eating in the kitchen pretty soon.

BECKY: Did you ever vote for something when you were on a board that you disagreed with?

BUFFETT: Sure.

BECKY: Like what?

BUFFETT: Well, I've voted for compensation plans that I haven't agreed with. But I— I've even sort of muttered a yes on— on some mergers that (LAUGH) I didn't think made any sense. But that— it happens.

BECKY: You know, I— I'm still trying to get my head around this. You— went ahead and— abstained to vote on this. But did you look at this compensation plan or did you look at the— equity plan before David Winters pointed it out?

BUFFETT: I— I— I read the full details actually after— after that. I— I— I— I just hadn't learned the material yet. But in 2002, Coke had a plan that involved 240 million shares. That lasted six years. They had a plan in 2008, six years later, that was 280 million shares. And that lasted six years. And then this plan, when I read about it was for 500 million shares. Which they would equate to 340 million. But still, 340 or 500. And they were gonna use it, they said, in four years. And that— that really struck me as quite excessive. So— I— I didn't actually read that until after Winters wrote the letter. But I would've felt the same way.

BECKY: This is a situation now, though, that the company again, had 83 percent of the votes that were cast voting in favor of it. What do you think they'll do now?

BUFFETT: Well, I— I— I don't know the answer to that. They— they have the stock authorized. They said in the report that they expected it to last four years. I hope it lasts a lot longer than that, because I think that would be excessive to issue that number of shares that are options, or performance shares equivalence— in a four-year period.

BECKY: So if they simply extended the number of years that they were to take to issue those, you'd be okay with the plan?

BUFFETT: Sure. I mean, it's— it really just depends on how much you're issuing all the time. How much of the future upside you're giving away each year. And— right now, something between 8 and 9 percent of the upside of a stock is covered by options already issued. That's out there. And they've been issuing options year after year after year. I mean, so anybody who's worked there for ten years has got—

probably got ten years worth of options. It isn't like incentives are lacking. But you can give away too much of a company.

BECKY: Will you sell any shares of Coca-Cola? Have you sold any shares of Coca-Cola?

BUFFETT: No, no, no. And no intention whatsoever of selling shares. I— I love the company and I— and I think that the exact— the— the right CEO is running it. And I think it's— it's got a fine future.

BECKY: And you— you've said in the past that people should buy companies that could be run by a ham sandwich. And you've even said Coca-Cola is one of those companies that could be run by a ham sandwich—

BUFFETT: I don't think I said that. (LAUGH)

BECKY: I'm quoting it from "The Snowball," I think. It was— it was a quote from "The Snowball."

BUFFETT: Well, then Alice Schroeder said it, yeah. (LAUGH)

BECKY: So Alice Schroeder said that you have said that.

BUFFETT: No, no. In fact, I'm quite sure I never said that. I— I think I know who said it, but I'm not gonna name him. (LAUGHTER)

BECKY: I guess that's what it gets back to the question, though— is it important to have a great manager running that company?

BUFFETT: It's— it's— it's hugely important. Just— hugely important. And— and actually— the— the— Coca-Cola for a while, after Roberta— Roberto (Goizueta) left with— was not doing so well, and Muhtar is— is— is the right person to be running it and it makes a big difference who's running it.

BECKY: Let me ask you about another stock that you own, IBM. That company came out with— a disappointing— earnings report, revenue was down for another quarter. And that surprised the Street. Some people have suggested that— there were rumors floating around - that you have soured on the stock. Have ya?

BUFFETT: That's not true. No. I've— I've actually bought a few shares this year.

BECKY: You've bought stock in IBM this year?

BUFFETT: And I've— I've never sold a share, so.

BECKY: Since the earnings report that came out?

BUFFETT: No, not since the earnings report this year. But the earnings report should not have been a surprise. It was actually roughly what they said in their earnings call a quarter earlier, their— their revenues were down 2 percent I think on— on a cost-of-currency basis. And— and I expected that. And— and I don't think they said any different.

They said earlier they expected to earn about 250. They— they signaled the charge they were gonna make ahead of time— for— layoffs essentially. So I— I— it did not strike me as a big surprise— what they reported. Now, it may be a surprise a year from now or two years from now. But I— I have not been surprised by what they've reported.

BECKY: Would you buy additional shares of IBM? You bought some earlier this year. Would you continue to buy?

BUFFETT: Depends on the price. (LAUGH)

BECKY: The price today, I think it's trading at about a hundred—

BUFFETT: \$191.

BECKY: \$191.63 (LAUGH) on the last trade. I think your— your— average cost was somewhere closer to \$173. I look back and— in the annual report, I think you've seen a gain of about 12 percent. You bought it at a cost of around \$11.68 billion. It's now worth closer to \$13.05 billion. So, what is the right price?

BUFFETT: These are just figures you carry around in your head all the time. (LAUGH)

BECKY: No, I had to look down at my notes for that.

BUFFETT: We could buy it. But— I mean, I— I don't— I don't announce anything we're gonna buy or sell. But I— I— I— I— I wouldn't rule it out. I paid that much for the stock.

BECKY: Okay, all right, so earlier this year, you actually were buying shares of that. Can I ask you also about just activist investing in general. First of all, David Winters. What do you think of David Winters because— one person this morning actually called him a gadfly. Is he [Evelyn Y. Davis](#)?

BUFFETT: Oh no, he's not a gadfly. I mean— he's got \$2.5 million. I— I think he's owned the stock for many years. And incidentally, we've heard from— other shareholders after he made his letter public that owned large blocks of stock that felt the same way. I don't know how they voted. But— the—

BECKY: Coca-Cola shareholders?

BUFFETT: Coca-Cola shareholders. And— and I'm being— yeah, that's an issue that comes to the shareholders to vote on. I mean, the— you're expected to cast your vote— on the issue. And— and he disagreed with it. I disagreed. I didn't vote against it, I abstained. But it's a perfectly proper thing. But if you're s— going to give away a part of the company— shareholders should probably vote on it.

BECKY: We—we have seen — activist investors take all kinds of— of new pages and create new playbooks. Bill Ackman just teaming up with Valeant to go after Allergan. He's said that he's already heard from another public company who has identified a target they'd like him to help out with, too. Does any of this strike you as strange? Does it seem like fair behavior? Does it sound like front-running?

BUFFETT: I don't know. It— it— it's— I don't know the arrangement he had with Valeant. I mean—

BECKY: He and Valeant got together. It was Valeant's idea. Valeant put some money into this deal with him. They agreed to go after it together. And then he bought the stake of 9.7 percent—

BUFFETT: Yeah.

BECKY: —9.6 percent.

BUFFETT: Yeah. My guess is he had legal advice on it and—

BECKY: He did—

BUFFETT: And—

BECKY: Robert Khuzami told him he thought it was fine.

BUFFETT: Yeah, and I think if Valeant had bought it itself, I don't think they have a problem. I think that-

BECKY: Well, except that Valeant can't buy— that big of a stake in another— in another maker. I think they were limitations to how much stock they could actually buy.

BUFFETT: Yeah. I don't know the answer to that one. (LAUGH)

BECKY: Does it strike you that activist investors are getting stronger and stronger? Are there—

BUFFETT: Oh, they are.

BECKY: —CEOs—

BUFFETT: They are. They are. The CEOs are terrified of activists. I can— I can tell you that. (LAUGH) They're all talking to investment bankers and lawyers and saying, "What do we do about this?"

BECKY: Who is in the right? Or is it tough to paint all activist investors with one brush?

BUFFETT: I don't think you can generalize about it. I think there— there are companies that— that— where management has not done a good job, and I'm not— referring to anything specific here. But I mean — certainly if people want to step up and buy a lot of the stock in a company, I— it's hard to argue with their right to do that.

BECKY: There have been— major Dow components that have been mentioned as potential takeover targets, even an IBM, some people have suggested. Do you think that would be for the good of shareholders or to the detriment?

BUFFETT: (THROAT CLEAR) Well, I think it would be case by case. But I— I— I— I'm not looking for anybody to do that in IBM.

BECKY: Okay. Also I'd like to talk to you a little bit about that David Einhorn. He was just out talking about how he sees a potential tech bubble building once again. He talked about the cool-kid stocks. And I guess you can—(infer) from that he means companies like a Facebook. Or some of these big— internet companies that have soared very rapidly. He's shorting a basket of these stocks now because he thinks it looks like it did— back before 2001. You were somebody who didn't understand valuations with the technology companies back then. Do you see similar characteristics to the technology stocks today?

BUFFETT: I don't think it's like two-thousand — (THROAT CLEAR) the— the period prior to 2001. I don't— there are a lotta s— companies whose valuations I don't understand. But that's always been true. And— and then you get into a period like right before 2001 where you could almost sell anything and capitalize eyeballs and all of that. I— I— I don't think it's reached that point, and certainly I don't think the general market level is going to bubble up.

BECKY: Well, that— that's an interesting point. We're not far off of all-time highs. It's probably less than a percent for both the Dow and the S&P 500. You don't feel like things are getting too frothy here?

BUFFETT: No, no. I think we're— in a range— and it's— it's a big zone, it's a big zone always of reasonableness. But— but stocks ought to be higher every ten years.

I mean, there's a plow back of earnings that goes back year after years. Stocks will become worth more decade after decade, not in any precise manner, not in an even manner or anything of the sort. But ten years, 20 years, 30 years from now, stocks will be worth more than they are today.

BECKY: You've gotten concerned about valuations in the past, though. What— what would be a warning signal to you? What would be something that would— would really start to make you think twice about buying more stocks?

BUFFETT: It would be valuation. I mean, the— the— the— if the numbers got— if prices got to nosebleed levels compared to earnings for many stocks generally, then I would say we— you know, we're in one of those periods when stocks got ahead of themselves.

BECKY: Is that—

BUFFETT: But stocks— stocks do get worth more over time because companies retained a lot of what they earned.

BECKY: But is that just P/E ratios for forward earnings? Is that the best way of measuring it?

BUFFETT: Yeah, and it— in the end, a stock today is worth all of the cash you can distribute between now and Judgment Day. And the higher the price goes, it— if the distribution doesn't change (LAUGH) at some point it gets ahead of itself.

BECKY: Let me ask you also just about the annual meeting coming up. In your annual letter to shareholders, you said that you'd be looking for a bear who could sit and ask questions at the annual meeting. I take it you don't have a bear who's going to be coming this year. I've heard it's Morningstar, the analyst there, who will be handling it. What happened?

BUFFETT: Well, we gave up about a week ago— hearing from any credentialed bear that was short the stock. So, about a week ago we were getting close to the annual meeting, and — we had— we've got a sixth seat down there in front (LAUGH) in terms of questioners. So— Morningstar had written me— previously in saying they hoped that when a vacancy showed up that they can have their analyst come. And so I wrote 'em and said— "Come this year."

BECKY: There are no bears on Berkshire? Are we to understand that no one applied for this?

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BUFFETT: Well, I— I— somewhere they publish short interest, so I don't know whether we can trace any of those people down. But— we did not find anybody that— that had— a real bear interest in it.

BECKY: All right.

BUFFETT: They're probably out there, but— maybe they didn't want to surface.

BECKY: All right. Well, Warren, I want to thank you very much for your time today.

BUFFETT: Thank you.

BECKY: We really appreciate it.

BUFFETT: Okay, thank you—

BECKY: And—we hope to talk to you again soon.

BUFFETT: Good, good.

BECKY: Again, Warren Buffett and— Bill on the show, we will send it back to you. But— the news is that Warren Buffett abstained Berkshire shares. He is the largest shareholder in Coca-Cola. So that's— abstaining— I think something like 9.6 percent—

BILL GRIFFETH: Nine— yup.

BUFFETT: Well, maybe more like 9.1. We have— we have 400 million shares and they have 4.4 billion outstanding.

BECKY: Right, greater than 9 percent, maybe 9.1 percent of the shares outstanding that vote on— the equity plan did pass by the votes that were cast by 83 percent. But guys, I'll send it back over to you—

BILL: Very interesting, Becky.

MICHELLE CARUSO-CABRERA: But still, he disagreed with the plan.

BILL: Well— exactly—

MICHELLE: It's startling. Yeah. (LAUGH)

BILL: Thank you, Becky.

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