DAVID FABER: Welcome to the Active-Passive Summit. I'm David Faber. And we are joined here-- it's happy hour. You may have a martini coming over.

CARL ICAHN: I'm looking forward to it.

DAVID FABER: I'm joined by Carl Icahn. I know. It is time to drink. I started to have a beer. But I listened to your presentation here, full, packed room, of course, Carl. You know, and I heard you talking about things that you and I have talked about for many years. You don't think boards are getting any better? I mean-- you know, I've heard you saying that. And yet you seem not to believe there's been any progress made through the last, let's call it, decade even in the composition of boards and records.

CARL ICAHN: I think there's a lot of verbiage about it. But really, if you go to these boards with many exceptions, is very bad. And that's why we make so much money. And that's the problem with our society, literally, an economic society. You have high unemployment. You have this great disparity of wealth. All these things are militate by the fact that you have no corporate governance. So you have companies that have no accountability for their CEOs.

DAVID FABER: You really believe that to be the case?

CARL ICAHN: I do.

DAVID FABER: I mean, you know-- you know, what would--

CARL ICAHN: I mean-- now, I mean--

DAVID FABER: I want to understand what you'd be looking for on the board? Because, again, you and I have been talking for years. We've had these conversations. I know a lot of board members. You know so many. I know a lot of CEOs. What would make the right board member that doesn't currently exist then in corporate America in your opinion?
CARL ICAHN: No, you know, they're not bad people. Let me explain it. Actually, I like a lot of the board members. So I'm not talking about board members per se. I'm talking about the system. The system is somewhat dysfunctional. And in other words, you have a bunch of guys, their friends with the CEO. They've been together for many, many years. And what I think happens is nobody really wants to stand up and say, "Don't do this. Why are we out playing golf when the company's earnings are bad?"

So it's a whole different concept. But when we go on the board, you know, it's a very interesting sociological phenomenon, where you go on the board and you now see the CEO is getting a huge bonus, as an example, and he didn't do anything. And the earnings were bad. So for an average--worker, they might even fire him. And yet, the board gives him it.

Well if we get one or two guys on the board, "So what are we doing this for? Why don't we really make this guy accountable?" There's one or two guys say to the CEO, even though they're friends, "You know, Carl," or whoever my guy on the board is, "has a pretty good point." I mean, come on, you've got to think about your shareholders a little bit. They're not the bad guy. They'd start backing us. And eventually, it works out.

DAVID FABER: But I know lots of board members, they're not trying to do the wrong thing.

CARL ICAHN: No, not at all.

DAVID FABER: Many-- I mean, they--

CARL ICAHN: Not at all.

DAVID FABER: Generally speaking, they are all trying to do a very good job. So why aren't they succeeding in that in your opinion?

CARL ICAHN: I don't know what-- I don't know what that means.

DAVID FABER: What do you mean you don't know what that means?

CARL ICAHN: When you say, "Try to do a very good job."

DAVID FABER: Well, they're trying to do a good job for shareholders. I believe that to be the truth.

CARL ICAHN: Some and some not. Some really just like being on the board. They're getting $500,000, $600,000 a year sometimes. And—you got the drink?

DAVID FABER: Alright, you want your martini?

CARL ICAHN: You want to put it off for a minute?

DAVID FABER: Yeah, bring it in.
CARL ICAHN: Is she shut off? I don't want to – don't have me on TV saying that.

DAVID FABER: Have a drink. It's alright.

CARL ICAHN: I'm going to have a drink because I'm coughing here. I'm coughing – my throat is dry.

DAVID FABER: It's 6:35 at night.

CARL ICAHN: Absolutely.

DAVID FABER: Cheers. Is it alright?

CARL ICAHN: Yeah I'm going to have a few more sips. My throat is so dry.

DAVID FABER: We can talk and you can drink.

CARL ICAHN: No I don't want to – I don't think we should do that. What do you think – that looks bad. Not doing that.

DAVID FABER: It looks like water, yeah. Alright here give it to your daughter.

CARL ICAHN: No put it here and I'll reach out and –

DAVID FABER: You can't put it on the television. That was good wasn't it?

CARL ICAHN: Fine.

DAVID FABER: Feeling better? All right, listen, I don't want to belabor the point. But, I mean, I've been hearing you make it for all this time. It doesn't seem to me that you're ever going to get - I'm not quite sure what you're looking for. You want all boards to be completely responsive to shareholders and look to fire the CEO all the time?

CARL ICAHN: No, I was saying not to fire the CEO. There's many great-- there are many good - I want to make it clear. There are many good CEOs, many good boards. But when a company's - the kind of companies, generally, with exceptions, that we go after-- don't have that. And they have problems. And they should be doing things. And look at the effect we had. Look at the companies we've really changed. I mean, just look back. I mean, look, I made all this money. You know, again, at the risk of being – not to pat myself on the back, if you bought IEP, you are up 1600% or a better statistic, which I want you to put in and don't edit out.

DAVID FABER: Okay.

CARL ICAHN: You bought the stock of any company, you didn't have to know what it was, when I got on the board. You actually-- read the Wall Street Journal. I just put it away and waited. Sometimes it's three or four years. But you wait. We're on the board now. You wait until I can either get off the board or today. You're up annualized. We did the numbers, 30%, as if you
put money in a fund. And we're up 30% annualized per year. That tells you something. It tells you that we have a great effect. I mean, you can't-- I mean we're talking 25 companies.

DAVID FABER: Well you're also a good stock picker, too. I mean, you have a great sense for picking value.

CARL ICAHN: I thank you for saying that. But that's not why that is. Because the companies that we've gone on have been companies in problems. We buy cheap. I like to buy cheap. I don't go and chase these.

DAVID FABER: I know you don't.

CARL ICAHN: So the companies we buy are not doing that well when we get in. Because that's why we buy them. We buy them when they are down. If they're up, we don't. It's not like the company's a great company. It's that we go in and see something in the company that could be done. Alright. But why isn't the board seeing that? Why isn't the board doing what we're doing?

And by the way, the real interesting fact is that we get invited back when we don't have to be invited back. We get on because we are in proxy fights and people are mad. We're invited back. And more importantly, I've become friends with some of those board members and the CEOs, believe it or not, the CEOs who were there, some were changed, some were-- some of them good guys, but they just had nobody to account to. It is a problem for our economic society that we are not more productive. Okay, we have unemployment, which we shouldn't have. With the Fed-- the Fed is out there doing everything they can, printing out money like crazy. Where you can borrow money at five percent or four percent. And yet, we still have huge unemployment.

DAVID FABER: Can you really point to unemployment as a result of poor corporate governance?

CARL ICAHN: I-- so I do--

DAVID FABER: You can make a direct correlation?

CARL ICAHN: Oh, I made the correlation. Poor management. Poor management. In other words, when we get in, we clean it up. They're suddenly -- our critics say we're only short termers. And that's bullshit. I own companies for 15 years. I can mention them to you.

DAVID FABER: I know you have. I know. You've owned XO or Federal-Mogul--

CARL ICAHN: 30 years of ACF. ACF, 30 years.

DAVID FABER: Right, the railcar companies. I mean, you've owned them for a long, long time.

CARL ICAHN: We build them up and we invest billions into them. So we don't run away from them. The reason we are so successful is there is no separation-- when I say none. I believe very strongly, so I want to make it straight, that the CEO should be left alone. He should not be micromanaged. But he should be held accountable. And we come in and help him also not to
worry so much about quarter to quarter -- numbers, but to worry about what secular changes are going on that we discussed with them. I mean, for instance, with Federal-Mogul, we are trying to do a lot with our outsourcing-- not outsourcing, excuse me, aftermarket. And-- yeah, I'm just giving you examples--

DAVID FABER: I know, but what about examples like eBay or Apple, where people would say, "You came in in eBay. You say, 'All right, split the company.' If they'd done it, you would have been in and out. Apple, $150 billion in buyback"

CARL ICAHN: Can I ask you a question? Why would I have been out? See, that's unfair for you to say.

DAVID FABER: It's not unfair, because I'm not saying—I'm saying others

CARL ICAHN: I've held Forest Labs -- well, others can say what they want, but it's not true. It's not factual.

DAVID FABER: Ok. That is what I wanted you to respond to.

CARL ICAHN: It's like the Salem Witch Trials. That's what these guys sound like. Where really-

DAVID FABER: You still own Apple, right?

CARL ICAHN: Yeah, I still own it. I've never sold a share.

DAVID FABER: You haven't sold a share?

CARL ICAHN: Not a share. I mean, I've held stocks for seven years, eight years, ten years. We don't sell them. I held Forest for four years.

DAVID FABER: I know you did. And you realized an enormous return.

CARL ICAHN: I held Reynolds--

DAVID FABER: You held Reynolds way back when for five years.

CARL ICAHN: Five years.

DAVID FABER: And ran a proxy fight after --

CARL ICAHN: Five years. Rite of Spring. They used to call me the rite of Spring. So what I'm saying to you is that, I believe in these companies. The companies we own now, Federal-Mogul -- eight, ten years.

DAVID FABER: All right, well, you've seen that through some ups and some downs.
CARL ICAHN: So what? It's cyclical. But it's still a lot better company than when I came in.

DAVID FABER: Yeah?

CARL ICAHN: I mean, there's many of them like that. Many-- XO is much better than when I came in.

DAVID FABER: I want to talk a little bit about the recent past, because I did mention Apple and eBay. You didn't really come out ahead on both of those.

CARL ICAHN: I think I did.

DAVID FABER: Why?

CARL ICAHN: First of all, Apple did a bigger buyback. I got meet – I got to talk for long periods of time with Donahoe and eBay. The reason I think I came out ahead is we did get Dave Dorman on the board. And I have a confi meaning I can talk to them. So I get involved. And I think when I get involved, it's very helpful.

DAVID FABER: So you think even though—because you were not going to win a shareholder vote there. You know, you weren't--

CARL ICAHN: I think you're right. But I might have won a seat. But they gave me a seat anyway with a good guy. So I got that.

DAVID FABER: Right. You mean a guy they like and you like, right. So you both agreed on this guy right? On Dorman.

CARL ICAHN: I actually suggested him, yeah.

DAVID FABER: You did?

CARL ICAHN: Yeah. Well, he was on Motorola.

DAVID FABER: Right, I know.

CARL ICAHN: He did a great job there.

DAVID FABER: So you think you came out ahead there. What—but they're not going to split up PayPal, but you got a confi, so you can continue to have conversations, confidential conversations with the board, keep prodding them--

CARL ICAHN: I'm held by the-- you know -- still there. I can't buy or sell unless the window is open, but that's okay with me. I want to understand what happened. That's what I do with all of these companies.
DAVID FABER: I'll tell you something else you did on eBay, though, that I thought was-- I mean, or we can argue about whether you won or lost or-- and it's going to be great. But you raised this issue about venture capitalists on public boards. Which I have to say many people were not thinking bad at all. And a lot of people applaud you for that. Now there are people who disagree with you, Marc Andreessen amongst them, and can give a lot of reasons why. But I'm curious as to what your thoughts are now about that issue, which frankly was not an issue at least here on the East Coast, we were talking that much about, in terms of--

CARL ICAHN: I can talk about it generally. I don't want to talk about eBay in particular. But as a general concept, I think board members-- you know, if they're really competitive. If they're in a company that's competitive, I think it's ridiculous-- you know, they shouldn't be on. I don't want to go too far or too deep with-- I don't want to resuscitate the eBay question.

DAVID FABER: All right, but, you know, I'm curious about it, because I've done some reporting on it. And I've spoken to some CEOs about their board members, who might be conflicted in some way, because they are at a venture capital firm that invests in other companies that may compete or they themselves -- who knows.

And what they've said to me also though is, "You know what? I need somebody I can talk to about technology, for example. I need a conversation where this guy's in the real world. And I've got the rest of the board. They're good guys or good women. But they're not up to speed. And it's worth it to me. I can handle the conflict if I've got somebody who can actually talk to me about what's really going on in the world."

CARL ICAHN: I think though that it's a question of-- does the company-- is the guy competing with them? You know, does he have a company that competes with them? But I think that actually—Donahoe would tell you that the board members don't compete with him. And so it's not really applicable. That's what he would say. I don't want to get into that fight.

DAVID FABER: All right, we won't talk eBay. How about in terms of Apple, you still own the stock?

CARL ICAHN: I think Apple's very undervalued.

DAVID FABER: Yeah, they're going to report tomorrow, I think, earnings.

CARL ICAHN: Well, I hope it's a good report. But I think it's very undervalued, I mean as a long-term hold. I think they've spent billions and billions in research development and that's going to come to fruition. And when it does, I think Apple's a great company, great ecosystem. And hopefully, it'll work out.

DAVID FABER: I wanted to follow up on a couple of things that you talked about in your presentation. You may have said this before, but I haven't heard it. You said you're going seed activist funds?

CARL ICAHN: You haven't heard it because I haven't said it before. Yeah.
DAVID FABER: Yeah, what is—

CARL ICAHN: I'm looking into doing that.

DAVID FABER: You're looking to seed other activist funds?

CARL ICAHN: Yeah, I think activism is very important in this country. I think we have some problems with the poison pill now. And the ten day –

DAVID FABER: Ten day window in terms of a 13-d?

CARL ICAHN: Yeah. Ten day window. But I think activism is so important. And there are bright young guys around that need backing for that. And I'm going to start looking to get a few of those guys in. And, you know, seed them and see how they do, maybe give them some advice on it, maybe not. And let them do the work.

DAVID FABER: So we can see some Icahn cubs, so to speak. I know you've got the tiger cub thing --

CARL ICAHN: Yeah, we have a whole-- we have something now, actually. I mean, so it's not even the issue. It's just-- but yes-- I would like to see more of this done and done by real good guys. And I think it's very hard to break into the business of activism. You have to have staying power. You have to have a fairly good bankroll. And I think it's very important to do it.

DAVID FABER: What are we talking? Do you have a set number in mind that you've set aside for seeding activists?

CARL ICAHN: You know, right now, IEP, you know, we have so much capital that there's no way it's going to make a dent-- you know, even if you invest-- even if we invested a billion, $800 million, it would-- we have so much capital now that it wouldn't-- be extremely material, you know?

DAVID FABER: So why would you do it then?

CARL ICAHN: I'm telling you, because I think it's a good thing-- I really do. I know you don't-- you don't believe that some-- I'd like to believe it myself. I believe that it's -- look, I want to make money anyway. I'm not going to argue. I want to do what is right --

DAVID FABER: I know, but that capital might be better deployed elsewhere, though.

CARL ICAHN: I want to do what is right for IEP. I don't think it's mutually exclusive though. We have so much cash around now that-- you know, that it's not mutually exclusive.

DAVID FABER: Right. Something else you said. Well, you spent a lot of time going after Marty Lipton.

CARL ICAHN: Well, it's--
DAVID FABER: You've said nicer things about Bill Ackman? Well, I wouldn't say they were nice, but at least they were--

CARL ICAHN: Well, I-- you know, Marty went out-- he started-- I don't like doing that – harming himself. Where he started-- he said publicly, "I dislike Icahn."

DAVID FABER: You got Marty Lipton. You got Joe Perella and Weinberg writing their thing, the Larry Fink letter. There's sort of a-- there seems to be at least --

CARL ICAHN: Well, wait. I don't think Perella's letter was all bad. There was some good stuff there. I mean, he said that some activists -- in fact, he mentioned us, did some good stuff at Motorola. But Marty Lipton I think is just dead wrong. And we-- I mean, he started by saying, "I dislike--" I mean, so I was being a little funny. I mean, that "I dislike-- you know, Icahn." And then I got to say that, you know, I don't know if that's not a compliment.

And then laughingly I said, "Well, you know, now that I made so much in Herbalife, you know, I'm not that mad at Ackman. And by the way, the fact that he also dislikes Ackman makes me change my mind on Ackman. Because anyone that—if anyone is disliked by Ackman, he can't be all bad. That's how I look at it. I think Ackman has done a lot of stuff-- that I believe -- not Ackman, I'm sorry now. Marty Lipton. I just disagree with him completely. And he doesn't-- he just says-- I mean it's almost amazing. You know, there's a guy Lucian Bebchuk that has done a study showing how well companies do, for years and years after you have activism.

And Ackman-- and-- Marty Lipton continues to say, "They're short termers. They're no good." It's like a witch doctor almost. Well you say, "Well, why? What's your facts?" Anecdotal. So who's giving him the anecdote? Who's the anecdotal-- who's his evidence? You know who? Some of his clients that are paying him millions and millions of dollars, so you don't think they're a little biased?

So what's his evidence to show short term? We've helped companies for 30 years, 15 years. We're not short termers. Then he says we don't invest? I think that's the billions of companies -- ARL and our railcar fleet. We have a small nondescript fleet. You can walk from this building on 37th Street to Ohio on our railcar. So how can Lipton just say that? And just talk and then he just says, "Well--" you know, so if he says it, I'll just say-- what I said.

DAVID FABER: Do you have any thought-- you know, Ackman, of course, in the news today with this Allergan bit that he joined-- that he joined Valeant on. Interesting without a doubt to see an activist team up with a public company and make a hostel. I don't know if I could ever see a corporation teaming up with you to do it. But you tell me.

CARL ICAHN: Well, wait a minute. Why are you hurting me? They like me.

DAVID FABER: I'm not hurting you. I'm not hurting you.

CARL ICAHN: All these guys invite me back on the boards. They all like me. Are you kidding? I'm good friends with Greg Brown. I'm good friends with all these guys that were Roy Bostock. You name them. I'm friends with them all. Why wouldn't they team up with me?
DAVID FABER: Maybe they would. Maybe they would. I was asking.

CARL ICAHN: Maybe.

DAVID FABER: Would you consider doing that? You've got more capital than anybody times two.

CARL ICAHN: I would tell you that I absolutely would if it's good -- because I think it's good. Any activism is good. And as long as it's legal, to me, if-- I don't know Allergan at all. And I don't know the deal. And I don't know Valeant. But why criticize him for doing it?

DAVID FABER: Any activism is good? There's got to be some activism that makes no sense whatsoever.

CARL ICAHN: Well, okay, okay, fine. There are guys who make mistakes. There are some guys who aren't that good. I agree with you. But, you know, frankly, with all the stuff I've said with Ackman back and forth, back and forth. I think he's dead wrong about Herbalife. And we have our differences.

But I never said he's not a smart guy. And I think the concept of this is good. I hope it works out better for him than Herbalife did. And I think will. But that doesn't mean there's something wrong with that. What's wrong with making a bid for a company and using somebody's funds? What's the difference whose funds it is?

DAVID FABER: No-- well, I mean, it's legal. There are a number of people who feel like it's front running almost. Obviously, he-- there-- I want to make it clear. It's legal. He's a group. He's a partnership--

CARL ICAHN: I got to tell you, I never thought I'd be here defending Ackman. But I will say, why is it illegal? They-- he—the company --

DAVID FABER: It's not. It's legal.

CARL ICAHN: The company--

DAVID FABER: It is legal--

CARL ICAHN: But he gave the company something for it. He agreed that he would put $3 billion in. The little I read of it. I might be wrong, but--

DAVID FABER: No he did. He put his own capital at risk.

CARL ICAHN: He put his capital at risk. And they told him, "Go buy some stock." Well, I don't- - that's not illegal in my mind.

DAVID FABER: It's not. I'm not saying it is.
CARL ICAHN: I don't even think it's immoral. I mean, he's doing something for the company. I mean-- I, frankly, never thought I'd be defending him. But I think he's-- I don't think there's anything wrong with that.

DAVID FABER: All right, you know, something else we've seen lately, I want to get your opinion on. We've seen companies putting in pills, poison pills very early. Sort of getting a sense for when somebody's buying stock fairly early.

CARL ICAHN: Very early, yeah.

DAVID FABER: And putting a pill in at 8%, or 10%-- stymying somebody like you, conceivably, who want to build a bigger position.

CARL ICAHN: But it's worse than that.

DAVID FABER: Why?

CARL ICAHN: Because it's going to keep people from really being activists, which I think is important, because you want to keep these guys accountable. You have a company. It's amazing to me. It's almost absurd. So if you-- if-- I mean, it's almost like saying you inherited some vineyard somewhere. And I say, "Well--" when you say, "Carl, can I borrow some money?" I say, "Why? Where's your money? Why didn't you sell the vineyard?" "Well, I can't sell it, because the guy that runs the vineyard doesn't want me to sell it." I'd say, "What are you insane? Just kick him out." "I can't kick him out." I mean, it's-- you-- these people should be made accountable. But-- if you don't have somebody that-- you have to own stock if you're going to have a proxy fight because it's so expensive.

DAVID FABER: Well, I would think though it's a fairly effective tactic, so it's one that we're going to continue to see even more of.

CARL ICAHN: Well, it's an effective tactic and something should be done about it.

DAVID FABER: What do you think will be done? Delaware? You think something can happen there? I know Loeb is trying on Sotheby's.

CARL ICAHN: Yeah, we'll see what happens on the 29th, I guess, in that case. But no, I think something should be done. I think it's pernicious-- it's pernicious. I mean, there's reasons why-- you can have the Canadians pill, maybe. You know, where you know, it goes to 20% and then you say, "Okay." But it shouldn't be that you just—if you bring it to a final conclusion, there'll be no more accountability.

DAVID FABER: All right. Finally, you know, new ideas? I mean, you feel like you got a lot of different things-- I'm curious-- I mean, I'm sure people bring you stuff all the time. And I know you have an open door policy, saying, "Hey, I'm willing to listen."

CARL ICAHN: Yes.
DAVID FABER: Which makes a lot of sense to me. Although not all activists are like that. Are you seeing a lot of ideas, at this point? A lot of flow in terms of, "Hey, that might be something"? Or is it sort of feeling, you know, after the Apple fight and the eBay fight, are you kind of going to lay back for awhile?

CARL ICAHN: I don't think we'll lay back. But, I mean, you know, it's the season now we pretty-- we got on five boards without a fight. And so we're not fighting right now. But I still believe in it. So you'll be hearing from me, I'm sure. And there's a lot of other stuff we're doing at the companies we own that-- I mean, look, as I say, I think IEP itself is an undervalued situation.

I mean, if you want to-- the stock, I think, long term is undervalued. Short term – nobody knows anything. I think we're sort of like a growth company, in my opinion. If you look back from ten years ago, 12 years ago, we always made these very double-digit returns. And if you look at that and we continue to do it, now you have a growth. You have this growth. So if you're buying it at close to book value, even a multiple at book value, it's pretty cheap.

DAVID FABER: Well, let's go get a drink. Thank you. I appreciate it. Carl Icahn joining us here, as we wrap things up at the Active-Passive Summit with the man, of course, who defines activism, Carl Icahn.