

TIME WARNER INC.

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The following is a transcript of a live interview with AT&T CEO Randall Stephenson and Time Warner Inc. CEO Jeff Bewkes posted on the website of the Wall Street Journal on October 25, 2016:

1           P R O C E E D I N G S

2           INTRODUCTORY SPEAKER: All

3       right, what would you buy if I

4       gave you 85 billion dollars? AT&T

5       just bought Bugs Bunny, Batman,

6       and the Baratheon family, it's the

7       deal of the fall, and I'm sure

8       you've got a lot of questions, and

9       we've built in some time for that

10      today.

11      To get things started let's

12      bring out the deputy editor in

13      chief, Rebecca Blumenstein, also

14      the CEO of AT&T, Randall

15      Stephenson, and the chairman and

16      CEO of Time Warner, Jeff Bewkes.

17      MS. BLUMENSTEIN: Well,

18      thanks so much to you both for

19 coming all the way, after

20 announcing the biggest media deal

21 in years.

22 I -- I want to cut to the

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1 chase: Time Warner was bought  
2 once before, tell me why it's  
3 going to turn out better this  
4 time.

5 MR. STEPHENSON: Well, we  
6 didn't try before, all right?  
7 I'll start there.

8 But this -- this deal was  
9 about one thing, and that was, how  
10 could we change the game in this  
11 ecosystem, because if there was  
12 ever an environment that was  
13 begging for innovation it is this  
14 environment.

15 And if you think about  
16 what's happened in this system  
17 literally you have 20 million  
18 households now who have left the  
19 premium content system. They're  
20 not buying a bundle of premium  
21 content, they're gone, they're not  
22 around, and this is one of the

1 things we're trying to do, how do  
2 you begin to do something to  
3 access that -- that segment of the  
4 market.

5 MS. BLUMENSTEIN: So they've  
6 kind of cut the cord?

7 MR. STEPHENSON: Yeah,  
8 they've cut the cord. They're not  
9 even engaged in the premium  
10 ecosystem anymore.

11 And then so we're going to  
12 launch, at the end of next month,  
13 November, a product that we think  
14 does this, and that's what this  
15 deal is about, and I think it's  
16 important to understand it, it's  
17 Direct TV Now is what we're  
18 calling it, but this is, for the  
19 first time, a hundred plus premium  
20 channels, all right? This isn't  
21 the junk nobody wants. This is a  
22 hundred plus premium channels,

1 purely over the top, a mobile  
2 centric platform for \$35 a month,  
3 all right? It has all of Jeff's  
4 content, it has all the premium  
5 content that you know and love,  
6 you like to watch, \$35 a month,  
7 and that includes your mobile  
8 streaming costs, all right?  
9 Streaming it over the mobile  
10 internet. So 35 bucks pretty much  
11 all in, we think this is big. We  
12 think it's a game changer.

13 MS. BLUMENSTEIN: So you're  
14 making more news now by announcing  
15 the price point.

16 MR. STEPHENSON: We haven't  
17 announced the price point before  
18 but we're announcing it right now.  
19 And as you think about people  
20 saying this is nothing but a way  
21 to increase prices, no, this is a  
22 way to drive pricing down in the

1 marketplace. We think this is  
2 really important.

3 And I think there's  
4 something else that's important,  
5 and it's instructive to how you  
6 consider this deal, and that is:  
7 That would not be possible, we  
8 started trying to develop this  
9 product over a year ago, it would  
10 not be possible had we not done  
11 the Direct TV deal, it would be  
12 impossible, because we had been  
13 trying to do this for the last  
14 three years.

15 We cannot get the media  
16 companies to participate in this  
17 until we have scale, in fact,  
18 interestingly enough, one of the  
19 last companies to finally come in  
20 to this hundred channel package  
21 was Fox. They were the last ones  
22 to come in.

1           And I think what's equally  
2   instructive is one of the first  
3   ones in was NBC Universal, which I  
4   think is ironic, when you think  
5   that the one company that is  
6   vertically integrated, like we're  
7   talking about doing, is one of the  
8   first ones in doing the innovation  
9   in the marketplace.

10          And I would tell you one of  
11   the other first ones in was this  
12   guy, we got TBS, TNT, all of those  
13   channels we got in early in the  
14   game. And -- and I think that's a  
15   really important observation, that  
16   if you want to innovate you're  
17   going to have to have scale,  
18   you're going to have to have  
19   content that will allow you to  
20   innovate.

21          And so to that end, just  
22   considering that, there was a lot

1 of noise yesterday around what  
2 this new company looks like, and  
3 -- and what people should be  
4 concerned with.

5 And we have, internally, at  
6 AT&T, that Jeff's team will be  
7 introduced to, we call it our  
8 Magna Carta: What are the guiding  
9 principles as you put these two  
10 companies together. And it starts  
11 with, "Dear AT&T executives, with  
12 distribution assets, Direct TV,  
13 our mobility company, number one  
14 principle of the Magna Carta is:  
15 Recognize, Time Warner will  
16 continue to distribute their  
17 content widely and broadly.  
18 You're now going to get exclusive  
19 access to Time Warner content.  
20 They've built a franchise on wide  
21 and broad distribution that's  
22 going to continue.



1 Time Warner, when you come  
2 in, point number two, our  
3 distribution businesses are going  
4 to continue to distribute a wide  
5 variety of content. That's what  
6 the customers expect and want, a  
7 hundred channels of premium  
8 content, that will not change.  
9 Time Warner don't expect that to  
10 be premium.

11 MS. BLUMENSTEIN: So you're  
12 vowing you're not going to take  
13 any price advantage?

14 MR. STEPHENSON: We're  
15 actually trying to bring prices  
16 down, \$35, you know, find that in  
17 the marketplace with wireless  
18 streaming, right?

19 Principle number three, and  
20 this is to the AT&T board, when  
21 you own a news company  
22 independence is sacrosanct. You

1 must protect the independent  
2 editorial privileges of that news  
3 organization. And to the extent  
4 your customers deem otherwise you  
5 damage the brand of a CNN,  
6 specifically.

7 Fourth is, Time Warner is  
8 going to become the launching pad  
9 for innovation. Time Warner is  
10 what we're going to try to touch  
11 these third rails that the  
12 industry will not and has not  
13 touched. It's where we're going  
14 to begin to experiment and test,  
15 how can you bring a la carte  
16 pricing into the ecosystem? How  
17 can you do that?

18 I think this is going to be  
19 a really important innovation.  
20 It's also the place where we'll  
21 begin to develop new ad support  
22 models, where you can net \$35

1 price point, these content costs  
2 are not going to be flat. So how  
3 can we develop new ad models that  
4 will allow us to keep the price  
5 point in check offsetting the  
6 price increases on content?

7 I think that's really,  
8 really important. And then last  
9 element of our Magna Carta is: We  
10 are going to be a head-to-head  
11 nationwide competitor with the  
12 cable ecosystem.

13 And 5G deployment is a game  
14 changer. We will be a new  
15 competitor nationwide with 5G.

16 And so the intent is to bring Time  
17 Warner and AT&T together and  
18 create a very new and a very  
19 different kind of competitor,  
20 nationwide, in the cable  
21 ecosystem.

22 So that's how we're framing

1 this, this is what we're trying to  
2 become as a company.

3 MS. BLUMENSTEIN: So Jeff,  
4 are you trying to right the  
5 historical wrong of AOL, in part,  
6 here? You have come out  
7 previously against the  
8 distribution coming together.

9 MR. BEWKES: No, no, no,  
10 we're way past that. I've got to  
11 add an example, if I could, and I  
12 think it will resonate with  
13 everybody here: It was about  
14 seven years ago that we at Time  
15 Warner we saw that the world  
16 wanted to go to VOD. We already  
17 had it at HBO. Richard's here, he  
18 talked this morning, we had done  
19 at VOD at HBO 15 or 20 years ago,  
20 but we knew people wanted it on  
21 every channel.

22 So we want and literally

1 unilaterally at Time Warner we put  
2 all our channels out on VOD. We  
3 gave a contract with no  
4 negotiation, no change, any  
5 distributor, large or small, could  
6 take it, and what did it say? It  
7 said: "You can have the right,  
8 cable, telco, satellite, anybody,  
9 you can have the right to have all  
10 our channels on VOD, if you didn't  
11 have it before, you don't pay us  
12 for this, provided, really, one  
13 thing, you don't charge consumers  
14 for it, you don't create a package  
15 where if you pay extra you get it,  
16 another guy doesn't pay he doesn't  
17 get it, it's got to be go -- got  
18 to go to everybody."

19 And we also said: "You  
20 can't tie your broadband service  
21 to your video service, because  
22 anybody that's got a video

1 service, anybody who's paid for"  
2 -- which we all know 80 percent,  
3 90 percent of the people have paid  
4 for CNN, Fox News, et cetera, you  
5 get it, what happened? Seven  
6 years ago.

7 So we waited, year after  
8 year we've talked about this, the  
9 old media business, the other  
10 media companies, the distributors,  
11 they didn't offer this to  
12 consumers, even though it was  
13 sitting there for no charge. Why  
14 not? Because the old distribution  
15 company they -- some of them did,  
16 we can go through who did it  
17 better than others, but basically  
18 they didn't want to make the plan  
19 investments in what you have to do  
20 to provide that, they didn't have  
21 either the skill or the scale to  
22 do the interfaces, which everybody

1 out here knows so well is  
2 important when you have more and  
3 more volume of programming you  
4 need a better interface to find it  
5 and recommend it and share it, et  
6 cetera.

7 So that was on the  
8 distributor side. But then you look  
9 at the other network companies, they  
10 didn't offer it, either. Why not?  
11 They were waiting for years for this  
12 renewal negotiation or that renewal  
13 negotiation. That's not how you  
14 change consumer behavior.

15 What you want, and we wanted  
16 this seven years ago, we want you to  
17 go to your TV dial or your tablet or  
18 your mobile device and you should be  
19 able to get any network on that, on  
20 demand, because the originators of the  
21 program, whether it's NBC or TNT, or  
22 HBO, we paid for the program. You

1 paid for it, you ought to have it,  
2 there's no cost to doing it on DOD.  
3       So now we come to this  
4 stitch, we've made some progress,  
5 there, but you all know what did it  
6 force consumers to do in this interim  
7 period? They all had to go out and  
8 pay extra money to get library SVOD  
9 services, for the very same  
10 programming that should have been  
11 available on VOD all along.

12       So we would say, and we've  
13 been saying this since 1995, every  
14 channel in the country, every network  
15 should look like HBO or Netflix.  
16 There's no reason it can't.

17       And now we have a  
18 distribution platform where we can,  
19 together, put out a launching pad of  
20 services. And do we want it to be  
21 just our channels? No. We want it to  
22 be all the most important channels,



1 just this way I've described just now.

2 MS. BLUMENSTEIN: A question

3 for both of you: How much of this

4 is offense and how much is

5 defense? I mean, Randall, your

6 core business wireless subscribers

7 are down, ATT subscribers are

8 down, I mean, is this, in a sense,

9 almost to vet the company deal?

10 MR. STEPHENSON: I don't

11 know how you characterize it, vet

12 the company deal, when you buy an

13 asset like this that is EPS

14 accretive, cash flow accretive,

15 enhances dividend coverages, keep

16 credit metrics that are credit

17 quality, talk great credit

18 quality.

19 So I don't see how you can

20 characterize that as defensive.

21 It's just something where you have

22 customers, you have a known demand

1 that customers have, this isn't  
2 one of those that you have to do a  
3 lot of guessing and swing for the  
4 fences and hope for the best.

5 We know what the customers  
6 want. It's really, really  
7 obvious. They want premium  
8 content in a mobile environment.  
9 We have had a really difficult  
10 time getting that put together.  
11 It's been really hard.

12 This is a way where we can  
13 actually begin to move much, much  
14 faster at bringing bundled premium  
15 content over a mobile environment  
16 to our customer. It's no more  
17 complicated than that.

18 MS. BLUMENSTEIN: Regulators  
19 and politicians have come up to me  
20 against the deal. Donald Trump  
21 has said he would nix it, and  
22 actually went further and said

1 that he would try to do -- undo  
2 Comcast NBC Universal. Tim Kaine  
3 has said he has concerns that it  
4 would raise consumer prices.

5 And there seems to be a  
6 growing sense at the Department of  
7 Justice and the FCC about this  
8 state of mega deals and true  
9 antitrust concerns.

10 What is -- what is your  
11 response, are you surprised by  
12 this?

13 MR. STEPHENSON: Not  
14 surprised. They're uninformed  
15 comments.

16 ...(APPLAUSE)...

17 MR. STEPHENSON: Anybody --  
18 anybody who characterizes this as  
19 a means to raise prices is  
20 ignoring the basic premise of what  
21 we're trying do here.

22 Again, a \$35 product we

1 bring into the market to innovate  
2 on and find new ways of bringing  
3 content to customers, that's not a  
4 medium for raising prices.

5 Also, vertical integrations  
6 are rarely a means for raising  
7 prices. You're not changing the  
8 market structure in any way,  
9 shape, or form. You're not  
10 changing the broadband market,  
11 you're not changing the wireless  
12 market.

13 When we wake up, after this  
14 deal is approved, the wireless  
15 market will look exactly the same  
16 as it does today and the media  
17 market will look the same as it  
18 does today.

19 So this is not -- this is  
20 not a combination that typically,  
21 you know, gains that kind of  
22 horizontal type merger scrutiny,

1 in fact, it's really important to  
2 know it is a, by every technical  
3 definition, a vertical merger  
4 integration. And vertical merger  
5 integrations are historically  
6 approved.

7 Now, it doesn't mean they're  
8 approved carte blanche. Regulators  
9 will have some concerns with this, I'm  
10 quite confident they will. Those  
11 concerns are invariably remedied with  
12 conditions.

13 So we anticipate there will  
14 be a good, fulsome review and  
15 discussion about this.

16 MR. BEWKES: You know, we  
17 ought to talk about advertising,  
18 because if you're looking into  
19 competition this is going to be  
20 extremely helpful to increase  
21 competition in advertising. And I  
22 think, since we are west of the

1 mountains, at least where I live,  
2 we all need more competition in  
3 advertising because what we've  
4 been seeing is growing  
5 concentration to a duopoly and  
6 digital enabled advertising.

7 MS. BLUMENSTEIN: You're  
8 talking Facebook and Google?

9 MR. BEWKES: Yes, I am. And  
10 I hope some of you -- I know that  
11 the Google and Facebook people,  
12 because we work with them and know  
13 them well, there's one thing they  
14 love and that's innovation and  
15 competition. And we are here to  
16 help. We are. We're going to  
17 bring more of that, and that's  
18 good not only for -- that's  
19 basically a very good development  
20 for all media companies, because  
21 when you create the ability to  
22 have the same kind of digitally

1 powered advertising you get so  
2 many benefits, you know,  
3 competition always helps  
4 consumers, and it gives  
5 advertisers better choices.

6 But it, most important,  
7 allows the consumer experience  
8 watching video to have more  
9 relevant ads, less intrusive and  
10 interruptive ads. Therefore,  
11 they're more valuable. Therefore,  
12 more of the burden of cost of  
13 content goes to advertising rather  
14 than to people.

15 Again, more competition,  
16 lower prices, better for consumers.

17 MS. BLUMENSTEIN: Randall,  
18 explain how these less intrusive  
19 ads are going to work, because  
20 they seem a bit intrusive, I have  
21 to say. You're going to be able  
22 to target homes? You're going to

1 be able to pretty much know what  
2 people are watching and then use  
3 that data to --

4 MR. BEWKES: I think we  
5 should get the Google and Facebook  
6 people come up.

7 MS. BLUMENSTEIN: The last  
8 question is in a bit.

9 MR. STEPHENSON: How that  
10 works? So we have in the market  
11 today an addressable advertising  
12 platform. And we do have some  
13 unique viewership data on our  
14 platform. You know, we have the  
15 largest video distribution  
16 platform in US right now. So we  
17 have some unique viewership data.

18 We anonymized that data. We  
19 would never say, Rebecca, send  
20 Rebecca an ad. But there are, you  
21 know, 25, 50 Rebeccas out there  
22 who have a certain viewership



1 pattern. And that viewership  
2 pattern informs what type of  
3 advertising that individual would  
4 find interesting and relevant to  
5 them, and so literally begin to  
6 direct and address advertising to  
7 a segment of the market that has a  
8 known viewing pattern or  
9 discernible viewing pattern.

10 MS. BLUMENSTEIN: And you  
11 think this will allow you to  
12 compete better with Facebook and  
13 Google, specifically.

14 MR. STEPHENSON: I think it  
15 will allow us to do a lot of  
16 things, specifically provide  
17 advertising that's more relevant  
18 to the user. I think that's  
19 really, really important, and I  
20 think also it will allow us to  
21 defray the content cost ensuing,  
22 because content costs, in spite of

1 what people write about this  
2 industry, they're not going down.  
3 The content costs continue to  
4 escalate.

5 And if we really want to  
6 keep that retail price point in  
7 check and keep 20 million homes  
8 that are not on the system from  
9 growing dramatically over time we  
10 have to find ways to keep those  
11 prices down.

12 MS. BLUMENSTEIN: Jeff, I  
13 can't let you off the hook too  
14 quickly about the regulators.  
15 There seems to be a sense that  
16 maybe they erred in not attaching  
17 enough conditions to the Comcast  
18 merger. And that's something that  
19 there's a sense out there that  
20 that's something that's going to  
21 hurt this merger.

22 What's your view of this?

1 MR. BEWKES: I'm not an  
2 expert in that merger. I think,  
3 if I understand this, and I may be  
4 not exactly right, the reporting,  
5 at that time, much of the  
6 condition on what they thought --  
7 what NBC or the content-side  
8 should should do in terms of  
9 making content available, that may  
10 be as much on what the distributor  
11 should do, I'm not sure about  
12 that.

13 Do you know?

14 MR. STEPHENSON: Yeah, they  
15 actually -- well, the  
16 distributors, they were going  
17 after two things. They were  
18 trying to remedy the vertical  
19 integration. There were two  
20 concerns they had, that neutrality  
21 was a big one, there is.

22 MR. BEWKES: Yeah.

1 MR. STEPHENSON: And so they  
2 put conditions all over that thing  
3 to ensure that they preserved the  
4 principals of that neutrality.

5 And the second was they wanted to  
6 protect the introduction of  
7 over-the-top content players.

8 And so net neutrality, you  
9 guys from Google, you won, right?  
10 It's done. We don't have to worry  
11 about that one, anymore. The  
12 boogiemans gone, he's in a box,  
13 you won't have to worry about that  
14 neutrality anymore.

15 As it relates to OTT, Jeff  
16 and I have talked and we've  
17 concluded that Netflix is probably  
18 going to be okay now. They might  
19 make it. We don't think it's  
20 necessary to protect the OTT guys  
21 that much anymore.

22 So the two issues that were

1 really relevant and critical six  
2 years ago are largely they're kind  
3 of matured and they've aged and  
4 they're kind of not as relevant  
5 now.

6 MR. BEWKES: If you don't  
7 take it from us, Reed was here  
8 last month and he said he was  
9 fine.

10 MR. STEPHENSON: He said he  
11 was fine as long as the broadband  
12 connection was the same for him as  
13 for everybody else, and that's net  
14 neutrality, that's what net  
15 neutrality is.

16 MS. BLUMENSTEIN: In the  
17 options market this morning placed  
18 a 29 percent chance of this deal  
19 going through. Are the markets  
20 just pessimistic?

21 MR. BEWKES: Obviously we  
22 think so or else would we still be

1 sitting here?

2 MR. STEPHENSON: I think the  
3 markets are too pessimistic. I  
4 wish I could buy Time Warner stock  
5 in advance, I would probably buy  
6 some. I feel pretty good about --  
7 about this deal. Once it gets  
8 into the hands of the regulators  
9 the filings are done, the  
10 professionals, who actually do  
11 these things for a living, get  
12 into it, I think the data and the  
13 law will dictate how this deal was  
14 handled.

15 MS. BLUMENSTEIN: You made a  
16 call that didn't go so well with  
17 T-Mobile. Does this -- I mean,  
18 would you say that --

19 MR. STEPHENSON: You're just  
20 bringing all kinds of pleasant  
21 issues up, aren't you?

22 MS. BLUMENSTEIN: It's my

1 job.

2 MR. STEPHENSON: Let's go

3 back to AOL. Let's go back to

4 AOL, okay?

5 (Laughter)

6 MS. BLUMENSTEIN: Would you

7 say the regulatory risk of this

8 deal, you talked about it, I guess

9 it came together quickly, but for

10 a couple of months was that the

11 biggest call you had to make, is

12 your lawyer the person who this

13 came down to, is this something

14 that you would say is a close

15 call?

16 MR. STEPHENSON: Look, this

17 is not T-Mobile close. T-Mobile

18 was a classic horizontal merger.

19 We actually thought, based on the

20 way the DOJ had defined the market

21 in multiple transaction, before,

22 that even that horizontal merger

1 would be good, but that was -- we  
2 knew, going in, that one was a  
3 high-risk deal, that's why they  
4 had such a breakup deal because  
5 the company was requiring high  
6 risk.

7 So we knew going in that  
8 that one had a lot of risk around  
9 it, because it was a classic  
10 horizontal merger. You were  
11 taking a competitor, a nationwide  
12 competitor, out of the  
13 marketplace.

14 Recognize, this one, you  
15 can't even compare the two. This  
16 is, once again, a vertical merger.

17 No -- no competitive environment  
18 is changing, in the least, here.

19 The media competitive environment  
20 is not changing, the Telecom  
21 market is not changing.

22 MS. BLUMENSTEIN: I want to



1 talk a bit about how the deal came  
2 together. Apparently, you both  
3 had lunch and you brought it up to  
4 Jeff. You were a bit surprised.  
5 You both come from very different  
6 cultures and companies and, Jeff,  
7 I guess the question is to you, I  
8 mean, obviously 20th Century Fox  
9 tried to -- tried to buy you a  
10 couple years ago and you said no.

11 What -- what was different  
12 when Randall asked?

13 MR. BEWKES: Well, what we  
14 were -- you know, time got us on,  
15 first of all. Secondly, the Fox,  
16 Time Warner or any kind of media  
17 horizontal, that's a horizontal  
18 merger, it has not only different  
19 issues, including regulatory ones  
20 involved in it, it also, because  
21 of that, doesn't provide the kind  
22 of resource and capabilities

1 changes either to Fox or to us  
2 that something like this would.  
3 So I think the difference,  
4 now, is -- and you could do this  
5 in light of our Time Warner Cable  
6 spin, as well, seven/eight years  
7 ago, what you have now, we all  
8 know this, and it's, you know, I'm  
9 -- for me, saying it to all of  
10 you, you're out here living in the  
11 digital world, very cleanly, you  
12 got the distribution platforms or  
13 the distribution pipes becoming  
14 not dumb, smarter all the time.

15 And so everything needs to  
16 be seamless across the in-home  
17 television, the mobile device  
18 going out the house, you got to  
19 have that, we all know you have to  
20 have much better curation,  
21 navigation, recommendation, easy  
22 ability to find things, because

1 with that you need full view ID of  
2 broadband enables you to have, and  
3 all of that in the evolution of  
4 the distribution platform means  
5 that there's much more ability to  
6 customize off for us, either what  
7 you offer to subscribe to, what  
8 product, individually, you might  
9 want to look at, because there's  
10 more and more of it all the time,  
11 how the advertising works to  
12 support it, which is no longer  
13 point to mass, you know, you buy a  
14 30 and a -- you know, for five  
15 million people watching something  
16 when some advertisers can do it  
17 for the advertiser for particular  
18 people that are interested in that  
19 product.

20 So with all of those changes  
21 what we all needed in the media  
22 business, and I think it's true of

1 all media network companies, is we  
2 need the distribution industry to  
3 be more capable in bringing those  
4 benefits to network TV and even  
5 movie releases and all of that,  
6 and that's what AT&T offers, that  
7 huge scale of direct selling  
8 platform, direct customer  
9 relationships, consumer data about  
10 what people want, for both content  
11 origination and delivery, and also  
12 for advertising support, all  
13 better for consumers, you all know  
14 that, that's what occurs at  
15 Google, Facebook, YouTube,  
16 Netflix, et cetera.

17 So that's what the advantage  
18 of this is, that time has come.  
19 Now, that doesn't mean that every  
20 media network company needs to be  
21 co-owned and operated with  
22 distribution plants, because if

1 you have this kind of change in  
2 the distribution ecosystem what we  
3 think is going to happen, and  
4 Randall said at the beginning, we  
5 don't want network packages that  
6 are reduced to our networks and  
7 not -- there's people that are  
8 interested in T&T are interested  
9 in FX. They tend to like those  
10 shows. If they like HBO they like  
11 Netflix and Showtime.

12 So we want the right  
13 packages for consumers. And we  
14 think what this will do is cause  
15 adoption of other network  
16 companies to do what we've tried  
17 to do, we didn't get followed in  
18 terms of consumer benefits as much  
19 as we'd hoped, and it will have  
20 the other distribution platforms  
21 make the same innovations because  
22 if they don't the consumers are

1 the ones who are in charge of all  
2 this, and they're going to get  
3 what they want.

4 And if the media business,  
5 with its distribution, doesn't  
6 give it then they are going to get  
7 it through the next industry.

8 And, you know, that's the, quote,  
9 tech industry also very helpful in  
10 terms of the innovations that  
11 they've brought to this, but we  
12 all know they're all coming  
13 together. I mean, that's why  
14 we're doing it.

15 MS. BLUMENSTEIN: Randall,  
16 before we go to questions I just  
17 have to ask you about culture and  
18 some execution. You have come up  
19 from your very working days to a  
20 phone company. You have  
21 installers, and you have calling  
22 centers, and Time Warner is a very

1 different culture.

2 MR. BEWKES: We have a call

3 center. We have a call center.

4 MS. BLUMENSTEIN: How are

5 you -- how are you -- I mean, Time

6 Warner's creative, are you going

7 to be committed to keeping it a

8 separate unit? You're -- you're

9 not going to interfere with calls

10 and Game of Thrones and CNN?

11 You're going to --

12 MR. STEPHENSON: He does

13 want to do the casting on Game of

14 Thrones. He told me that.

15 JEFF; I know Richard's

16 here, this is going to be a little

17 awkward. We have a guy that runs

18 the network that I think would be

19 great at running HBO. And so I

20 think --

21 MS. BLUMENSTEIN: You mean

22 the phone network, then?

1 MR. STEPHENSON: No, look, I  
2 understand, I'll be the first to  
3 tell you, I've never run a movie  
4 studio. I don't know the first  
5 thing about it, and I've never run  
6 a premium content delivery  
7 company, like HBO. I don't know  
8 the first thing about it.

9 And so we will be conscious  
10 and thoughtful about how we  
11 organize this, and the way it will  
12 be organized is Time Warner will  
13 be a wholly-owned, separate  
14 subsidiary of AT&T, that's just --  
15 that's how we'll structure it, and  
16 we'll have the experts that know  
17 how to run these businesses  
18 running these businesses.

19 We'll have to figure out the  
20 management art and even the  
21 management science on how to  
22 affect these issues that we're



1 talking about, how do we allow our  
2 viewership data to begin to  
3 influence content creation,  
4 Richard? And how do we begin to  
5 use that data on content that has  
6 been created? How do we direct it  
7 and promote it to the right  
8 audiences and so forth? How do we  
9 use that data to begin to inform  
10 and actually affect the  
11 advertising avails that are within  
12 the Turner Network?

13 I mean, there's so many  
14 advertising avails in there that  
15 as we get really good and targeted  
16 at addressable advertising we  
17 think we can change the yield on  
18 advertising within Turner  
19 Networks.

20 And so there's going to be a  
21 management challenge on how do you  
22 affect that, right? And how do

1 you put mechanisms in place to  
2 cause that to happen.

3 I feel really confident  
4 that's a logistical -- we've done  
5 harder logistical issues than  
6 that, before, with difficult  
7 organizational challenges.

8 So I -- look, I know there  
9 are different cultures and we'll  
10 be protective of the cultures to  
11 ensure we don't destroy the  
12 business. But I am not that  
13 concerned that we can't manage  
14 through it.

15 MS. BLUMENSTEIN: And I  
16 think you're heading over to the  
17 movie studio, after this, I  
18 understand?

19 MR. STEPHENSON: That's  
20 right. I'm going to unbutton my  
21 shirt, like Richards, over there.

22 MS. BLUMENSTEIN: I would

1 like to open it up to questions,  
2 if there are any. I see one right  
3 here in the front. There's a mic.  
4 Please identify yourself.

5 MR. SANDS: Hi, my name is  
6 Christian Sands, I'm the strategy  
7 of Sky Catch. I think the  
8 strategy is sound, very simple,  
9 very smart, premium content for  
10 mobile, excellent.

11 What is Time Warner and AT&T  
12 going to do to amplify their  
13 infrastructure or to get to more  
14 homes more places?

15 MR. STEPHENSON: So I'll  
16 take that, Jeff. You can add on.

17 But look, one of the  
18 fundamental underpinnings of this  
19 deal, the reasons I can get so  
20 enthusiastic about it, this is  
21 three, five years downstream, but  
22 we are in an all-out push of

1 getting the standard set around  
2 5G, around getting the vendor  
3 community going on 5G.  
4 Where our software defined  
5 networking technology is ramping  
6 and is scaling, which is critical  
7 for scaling content delivery at  
8 the level we're talking about  
9 doing here, when 5G is up and  
10 deployed it becomes a nationwide  
11 platform of video delivery,  
12 period. Hear me on this. This is  
13 a one gig network capability --

14 MS. BLUMENSTEIN: When is  
15 that?

16 MR. STEPHENSON: -- that is  
17 wireless and mobile.

18 What is that?

19 MS. BLUMENSTEIN: When is 5G  
20 up?

21 MR. STEPHENSON: We'll be  
22 deploying in 2018. And they'll

1 scale, probably, in the 2019, 2020  
2 time horizon. But this is  
3 exciting, all right? And it's  
4 exciting for content, it's  
5 exciting for video delivery, but  
6 it's exciting for autonomous  
7 cards.

8 The guys at Zooks need 5G to  
9 get autonomous cars on the roads  
10 in San Francisco by 2020. It's  
11 really important. Virtual  
12 reality, you guys working on  
13 virtual reality and augmented  
14 reality, you need this for that,  
15 you guys working on health care  
16 applications, and so forth, you  
17 need 5G, low latency, really fast  
18 networks with high capacity,  
19 that's -- I got to tell you,  
20 that's one of the reasons I get  
21 most enthusiastic about what we're  
22 trying to put together here.

1 MS. BLUMENSTEIN: Any other

2 questions? Right in the back,

3 there.

4 >> (Inaudible) Now, would

5 there be an alternative to see how

6 direct TV, you wouldn't

7 necessarily need a satellite dish,

8 you would actually get the

9 content. And now you, Sterling,

10 spoke about offering \$35 over 100

11 channels, it's really exciting to

12 see the portfolio of apps that you

13 have, now, bringing in HBO Go, HBO

14 Now, how do you actually look at

15 the portfolio of apps, because you

16 have so many ways to distribute

17 the content, and how will that

18 affect, certainly, pricing

19 packages as well as the

20 distribution across cities and the

21 way consumers connect as to

22 content?

1 MR. STEPHENSON: Okay, it's  
2 a good question, because -- look,  
3 I -- for a long time there are  
4 going to be households, like many  
5 of you in this room, where you  
6 need three 80-inch screens in your  
7 house, streaming 4K, you know,  
8 into your home. You're a heavy  
9 video centric, sport centric  
10 content consumer, and multiple  
11 streams, satellite delivery is  
12 going to be the vehicle for that,  
13 for a long, long time, all right?  
14 I -- just for that kind of  
15 distribution it's going to be hard  
16 the amounts of bandwidth, okay?  
17 You start working down,  
18 there's going to be different  
19 segments of the market you deliver  
20 that content differently, okay? I  
21 do believe, you know, in the  
22 future, that one of the

1 pre-premium means for delivering  
2 content will be with out set top  
3 boxes, be web, all right? As the  
4 web continues to get integrations  
5 go down, that starts to get really  
6 exciting, because take it to its  
7 extreme, Direct TV Now, \$35.

8 How do you get to a \$35  
9 price point with the prices these  
10 guys charge for content, right?  
11 The way you get there is you don't  
12 have a satellite dish on a hooked  
13 roof, you don't have a technician  
14 going out and spending four hours  
15 to install it, you don't have a 5,  
16 6, 7 hundred dollar set top box.

17 You go to the web, you  
18 download an app, you subscribe and  
19 you're streaming Direct TV Now and  
20 all of the content that these guys  
21 provide.

22 That's a radical concept,



1 right? That's how costs come down  
2 dramatically and that's how you  
3 hit a \$35 price point in the  
4 marketplace.

5 So it's going to be a wide  
6 range of offerings, some wireless  
7 only, some satellite, some in  
8 between.

9 MS. BLUMENSTEIN: Jeff, how  
10 do you feel about getting back  
11 into the cable business?

12 MR. BEWKES: It's great.  
13 We've been working with and trying  
14 to evolve the cable and all the  
15 other distribution businesses for  
16 30 years. So we are always on  
17 that game. We're always trying to  
18 do that.

19 MS. BLUMENSTEIN: So you're  
20 serious about forming a competitor  
21 to cable, a nationwide competitor  
22 to cable?

1 MR. STEPHENSON: I can't

2 tell you -- I border on

3 evangelical about it, all right?

4 MR. BEWKES: You can hear

5 that.

6 MR. STEPHENSON: This is the

7 most exciting thing I've been a

8 part of in a long time and I can't

9 wait.

10 MS. BLUMENSTEIN: More

11 questions? This is my friend,

12 Oren. Here comes the mic.

13 OREN: Thank you, Oren

14 Michaels, from Cloudery.

15 Twenty years ago next year

16 David Eisenberg wrote The Rise of

17 the Stupid Network. He was an

18 employee of AT&T and was fired for

19 writing it, very impressions, and

20 Warren begins content company,

21 essentially, at the time, twisting

22 themselves into pretzels to

1 optimize for the parent company's  
2 network quality independence, were  
3 more nimble and able to take  
4 whatever network they wanted.

5 Most of the people in this  
6 room are now moving to the cloud,  
7 where we're getting out of the  
8 business of owning our own atoms  
9 and dealing with our bits.

10 Why are you guys, through --  
11 going in the exact opposite  
12 direction when everybody seems to  
13 want to not own the hardware if  
14 they're -- if they're creating the  
15 -- the value on top?

16 MR. STEPHENSON: You go  
17 ahead.

18 MR. BEWKES: So your premise  
19 or his seems to be that at that  
20 time the content companies he was  
21 looking at were changing either  
22 what they did or where they put it

1 in order to serve whoever their

2 vertical, that was it.

3 OREN: The network area has

4 limitations federally in

5 distribution.

6 MR. BEWKES: Yeah, well, I

7 think the difference with that,

8 because that would be bad for the

9 content, whether it was the Fox

10 content or ours, what -- what --

11 you know, one owned or one not.

12 The problem now, and if you

13 go and look at -- and I'm sure

14 many of you in internet-based

15 companies tried to do this, when

16 you innovate with media rights you

17 encounter the fact that media

18 rights are pretty complicated in

19 video because there are Windows

20 and there's all these things that

21 you've all seen, that's why it's

22 been hard to innovate in media

1 because it's kind of difficult to  
2 get an innovation in and then have  
3 it get applied essentially  
4 universally, across an entire  
5 suite of networks, or to break up  
6 network groupings and so forth.

7 I don't think that is what  
8 we're looking at, here. We're  
9 certainly not, in our case, and  
10 you've said it and I've said it,  
11 we both know this, we would never,  
12 in our media business at Time  
13 Warner, and we have never did,  
14 including in the AOL days,  
15 restrict or change what we're  
16 doing in either the innovation of  
17 our distribution for our content,  
18 how our content works, the form of  
19 the content, we always wanted to  
20 be maximally delivered by every  
21 kind of distribution.

22 What this is about is

1 catalyzing that, not restricting

2 it, it would be idiotic to

3 restrict it.

4 MR. STEPHENSON: And to

5 perhaps challenge the fundamental

6 premise of your statement, that as

7 you begin to push more and more

8 content to the cloud that it

9 requires less and less in terms of

10 smartness, if you will, out of the

11 network, it's the opposite, in

12 fact, we're experiencing just the

13 opposite.

14 The more you guys push more

15 and more into the cloud the more

16 it's requiring greater and greater

17 intelligence out of the network.

18 And one could argue, wow,

19 shouldn't you be commoditizing the

20 network the more you get into the

21 cloud? No. The more companies

22 that are putting mission critical

1 capabilities into the cloud the  
2 more it scares the hell out of  
3 them on security, the more it  
4 worries them about quality of  
5 service, all right?

6 You just run some of these  
7 mission critical applications over  
8 the open internet you're not going  
9 to like it.

10 We have a product, and  
11 you'll see it as it relates to  
12 what we're going to be doing here  
13 together, called Net Bond. It was  
14 created and invented and patented  
15 just for this purpose, because  
16 people want to put stuff in the  
17 Amazon cloud, mission critical  
18 information, applications, compute  
19 and so forth, they say, but I'm  
20 scared to death of it, I need  
21 security.

22 And so we have created Net

1 Bond and we have bonded every  
2 major cloud provider, Amazon,  
3 Microsoft, Azure, salesforce.com,  
4 I can go on and on and on, to  
5 ensure that our customers, when  
6 they take a smart phone out of  
7 their pocket and go to access an  
8 application or data in the cloud  
9 it never touches the public  
10 internet, that is their number one  
11 requirement.

12 That's what this product is,  
13 it is exploding. Connections of  
14 Net Bond are up 4X this year. The  
15 traffic over Net Bond, connections  
16 are up 4X, the traffic is up 8X,  
17 that tells you how much people are  
18 concentrating mission critical  
19 applications.

20 We go to 5G and we -- that  
21 -- our Direct TV Now is a  
22 cloud-based platform for



1 delivering content, all right?  
2 You can't just do that over the  
3 open internet. There have to be  
4 elements of it that you control  
5 end-to-end, the CEN has to be on  
6 your control.

7 There's a sophistication in  
8 delivering this, and a true what I  
9 would call cable-like experience.

10 And so I would suggest to you the  
11 more you push elements into the  
12 cloud the more sophisticated and  
13 smart the networking elements have  
14 to become.

15 MS. BLUMENSTEIN: Well,  
16 unfortunately we're out of time.  
17 Thank you both so much for coming,  
18 it's a fascinating topic.

19 MR. STEPHENSON: Thank you  
20 very much.

21 MR. BEWKES: Thank you.  
22 Appreciate it.

1 (Concluded at 2:27 p.m.)

Cautionary Language Concerning Forward-Looking Statements

Information set forth in this communication, including financial estimates and statements as to the expected timing, completion and effects of the proposed merger between AT&T and Time Warner, constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and the rules, regulations and releases of the Securities and Exchange Commission. These forward-looking statements are subject to risks and uncertainties, and actual results might differ materially from those discussed in, or implied by, the forward-looking statements. Such forward-looking statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations and intentions, and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of AT&T and Time Warner and are subject to significant risks and uncertainties outside of our control.

Among the risks and uncertainties that could cause actual results to differ from those described in the forward-looking statements are the following: (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement, (2) the risk that Time Warner stockholders may not adopt the merger agreement, (3) the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated, (4) risks that any of the closing conditions to the proposed merger may not be satisfied in a timely manner, (5) risks related to disruption of management time from ongoing business operations due to the proposed merger, (6) failure to realize the benefits expected from the proposed merger and (7) the effect of the announcement of the proposed merger on the ability of Time Warner and AT&T to retain customers and retain and hire key personnel and maintain relationships with their suppliers, and on their operating results and businesses generally. Discussions of additional risks and uncertainties are and will be contained in AT&T's and Time Warner's filings with the Securities and Exchange Commission. Neither AT&T nor Time Warner is under any obligation, and each expressly disclaim any obligation, to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise. Persons reading this communication are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof.

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Additional Information and Where to Find It

In connection with the proposed merger, AT&T intends to file a registration statement on Form S-4, containing a proxy statement/prospectus with the Securities and Exchange Commission ("SEC"). AT&T and Time Warner will make the proxy statement/prospectus available to their respective stockholders and AT&T and Time Warner will file other documents regarding the proposed merger with the SEC. This communication is not intended to be, and is not, a substitute for such filings or for any other document that AT&T or Time Warner may file with the SEC in connection with the proposed merger. **STOCKHOLDERS OF TIME WARNER ARE URGED TO READ ALL RELEVANT DOCUMENTS FILED WITH THE SEC, INCLUDING THE REGISTRATION STATEMENT AND THE PROXY STATEMENT/PROSPECTUS CAREFULLY WHEN THEY BECOME AVAILABLE, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT AT&T, TIME WARNER AND THE PROPOSED MERGER.** Investors and security holders will be able to obtain copies of the proxy statement/prospectus as well as other filings containing information about AT&T and Time Warner once they become available, without charge, at the SEC's website, <http://www.sec.gov>. Copies of documents filed with the SEC by AT&T will be made available free of charge on AT&T's investor relations website at <http://phx.corporate-ir.net/phoenix.zhtml?c=113088&p=irol-sec>. Copies of documents filed with the SEC by Time Warner will be made available free of charge on Time Warner's

investor relations website at <http://ir.timewarner.com/phoenix.zhtml?c=70972&p=irol-sec>.

Participants in Solicitation

AT&T, Time Warner and certain of their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from the holders of Time Warner common stock in respect to the proposed merger. Information about the directors and executive officers of AT&T is set forth in the proxy statement for AT&T's 2016 Annual Meeting of Stockholders, which was filed with the SEC on March 11, 2016. Information about the directors and executive officers of Time Warner is set forth in the proxy statement for Time Warner's 2016 Annual Meeting of Stockholders, which was filed with the SEC on May 19, 2016. Investors may obtain additional information regarding the interest of such participants by reading the proxy statement/prospectus regarding the proposed merger when it becomes available and other relevant materials filed with the SEC. These documents will be available free of charge from the sources indicated above.

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