

# **Information Regarding U.S. Federal Income Tax Calculations in Connection with the Acquisition of Time Warner by AT&T**

On June 14, 2018, AT&T Inc. (“AT&T”) completed the acquisition of 100% of the outstanding shares of Time Warner Inc. (“Time Warner”). In the transaction, Time Warner shareholders received \$53.75 in cash and 1.437 shares of AT&T common stock for every share of Time Warner common stock. If the aggregate number of shares of AT&T common stock a Time Warner shareholder was entitled to receive included a fraction of a share of AT&T common stock, cash was paid in lieu of that fractional share based on a per share price of \$32.80.

Based on the value of AT&T stock at the time the transaction was completed, AT&T announced that the transaction qualified as a “reorganization” within the meaning of Section 368 of the Internal Revenue Code. The following information is provided to illustrate how to determine taxable gain on Time Warner stock as well as tax basis in AT&T shares received in the acquisition of Time Warner by AT&T.

**THIS INFORMATION IS FOR ILLUSTRATIVE PURPOSES AND NOT INTENDED AS TAX ADVICE. YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE TRANSACTION UNDER U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.**

AT&T common stock is traded on the NYSE under the trading symbol “T”.

Below are two examples to help you understand the calculations based on a hypothetical cost basis and number of Time Warner shares.

**Examples for two shareholders with different historical tax basis, each in a single block of 100 Time Warner shares that were exchanged for both cash (\$53.75 per share) and AT&T stock with a value of \$32.54 based on the average of highest and lowest quoted prices on the NYSE on the closing date, with \$32.80 in cash being received in lieu of any fractional shares of AT&T stock per the terms of the transaction.**

*The following information is used to calculate the gain in steps 1 through 4 of this example:*

<b>Tax basis in Time Warner shares exchanged:</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Number of hypothetical Time Warner shares exchanged	100.00	100.00
Hypothetical tax basis per share	\$35.00	\$85.00
<b>Total hypothetical tax basis in Time Warner shares exchanged</b>	<b>\$3,500.00</b>	<b>\$8,500.00</b>
<b>Cash received in exchange for Time Warner shares (\$53.75 x 100 shares)</b>	<b>\$5,375.00</b>	<b>\$5,375.00</b>
<b>AT&amp;T shares received in exchange for Time Warner shares:</b>		
Price per AT&T share @ average stock price	\$32.54	\$32.54
Exchange ratio determined per the terms of the transaction	1.4370	1.4370
Number of Time Warner shares exchanged	100.00	100.00
Number of AT&T shares received (including fractional share)	143.70	143.70
<b>Value of AT&amp;T shares received @ average stock price</b>	<b>\$4,676.00</b>	<b>\$4,676.00</b>
Fractional shares of AT&T received	0.70	0.70
<b>Cash received for fractional share @ \$32.80 per share</b>	<b>\$22.96</b>	<b>\$22.96</b>

<b>Step 1 - Total gain or loss realized in the exchange</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Cash received for Time Warner shares	\$5,375.00	\$5,375.00
Value of AT&T shares received (including fractional share)	\$4,676.00	\$4,676.00
Total value of cash and stock received	\$10,051.00	\$10,051.00
Less: Tax basis of Time Warner shares exchanged	(\$3,500.00)	(\$8,500.00)
<b>Total gain realized</b>	<b>\$6,551.00</b>	<b>\$1,551.00</b>

<b>Step 2 - Taxable gain recognized in the exchange</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Total gain realized	\$6,551.00	\$1,551.00
Total cash received for Time Warner shares	\$5,375.00	\$5,375.00
<b>Taxable gain on exchange of shares (lesser of both amounts)</b>	<b>\$5,375.00</b>	<b>\$1,551.00</b>

<b>Step 3 - Tax basis in AT&amp;T shares received</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Tax basis of Time Warner shares exchanged	\$3,500.00	\$8,500.00
Less: Total cash received for Time Warner shares	(\$5,375.00)	(\$5,375.00)
Plus: Amount reported as taxable income	\$5,375.00	\$1,551.00
Tax basis in AT&T shares received (including fractional share)	\$3,500.00	\$4,676.00
Number of AT&T shares received (including fractional share)	143.70	143.70
<b>Per share tax basis in AT&amp;T shares received</b>	<b>\$24.36</b>	<b>\$32.54</b>

<b>Step 4 - Taxable gain or loss recognized on AT&amp;T fractional share</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Per share tax basis in AT&T shares received	\$24.36	\$32.54
AT&T fractional share received in cash	0.70	0.70
<b>Tax basis in AT&amp;T fractional share received in cash</b>	<b>\$17.05</b>	<b>\$22.78</b>
Cash received in lieu of AT&T fractional share	\$22.96	\$22.96
Less: Tax basis of AT&T fractional share	(\$17.05)	(\$22.78)
<b>Taxable gain or loss recognized on AT&amp;T fractional share</b>	<b>\$5.91</b>	<b>\$0.18</b>

<b>Summary</b>	<b>Shareholder A</b>	<b>Shareholder B</b>
Cash received in exchange for Time Warner shares	\$5,375.00	\$5,375.00
Cash received in lieu of fractional shares	\$22.96	\$22.96
<b>Total cash received</b>	<b>\$5,397.96</b>	<b>\$5,397.96</b>
Taxable gain on exchange of Time Warner shares for cash	\$5,375.00	\$1,551.00
Taxable gain attributable to cash received in lieu of fractional shares	\$5.91	\$0.18
<b>Total taxable gain recognized upon closing of transaction</b>	<b>\$5,380.91</b>	<b>\$1,551.18</b>
AT&T shares received (whole shares only)	143.00	143.00
Per share tax basis in AT&T shares received	\$24.36	\$32.54
<b>Total basis in AT&amp;T shares received</b>	<b>\$3,482.95</b>	<b>\$4,653.22</b>

**FOR MORE INFORMATION ON TAX CONSEQUENCES OF THE TRANSACTION, REFER TO THE FOLLOWING EXCERPT FROM THE FORM S-4 FILED BY AT&T INC. WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION ON JANUARY 5, 2017.**

## MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

This section describes the material United States federal income tax consequences of the transaction to U.S. holders of Time Warner common stock who exchange shares of Time Warner common stock for a combination of shares of AT&T common stock and cash pursuant to the initial merger. The following discussion is based on the Internal Revenue Code, existing and proposed regulations thereunder and published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion. This discussion represents the opinion of Sullivan & Cromwell LLP, acting as counsel to AT&T, and Cravath, Swaine & Moore LLP, acting as counsel to Time Warner.

For purposes of this discussion, a U.S. holder is a beneficial owner of Time Warner common stock who for United States federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- a trust that (1) is subject to (A) the primary supervision of a court within the United States and (B) the authority of one or more United States persons to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person; or
- an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for United States federal income tax purposes) holds Time Warner common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Time Warner common stock, you should consult your tax advisor regarding the tax consequences of the transaction.

This discussion addresses only those Time Warner stockholders that hold their Time Warner common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code (generally, property held for investment), and does not address all of the United States federal income tax consequences that may be relevant to particular Time Warner stockholders in light of their individual circumstances or to Time Warner stockholders that are subject to special rules, such as:

- financial institutions;
- pass-through entities or investors in pass-through entities;
- insurance companies;
- tax-exempt organizations;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting;
- persons who exercise dissenters' rights;
- persons that hold Time Warner common stock as part of a straddle, hedge, constructive sale or conversion transaction;
- persons that purchased or sell their shares of Time Warner common stock as part of a wash sale;
- certain expatriates or persons that have a functional currency other than the U.S. dollar;
- persons that are not U.S. holders; and
- stockholders who acquired their shares of Time Warner common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified retirement plan.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the transaction.

**ALL HOLDERS OF TIME WARNER COMMON STOCK SHOULD CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE TRANSACTION, INCLUDING THE APPLICABILITY AND EFFECT OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.**

*Federal Income Tax Consequences of the Transaction.* It is intended that, for United States federal income tax purposes, the initial merger, together with the subsequent merger, will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code, which we refer to as the Intended Tax Treatment. **However, the completion of the transaction is not conditioned on the transaction qualifying for the Intended Tax Treatment or upon the receipt of an opinion of counsel to that effect, and whether or not the transaction will qualify for the Intended Tax Treatment depends on facts that will not be known until the transaction is completed. In particular, the Intended Tax Treatment requires that the value of the shares of AT&T common stock issued to holders of Time Warner common stock in the transaction, determined as of completion of the transaction, represents at least a minimum percentage of the total consideration paid to holders of Time Warner common stock in the transaction. While there is no specific guidance as to precisely what minimum percentage is necessary to satisfy this requirement, it would be satisfied if the AT&T common stock (valued as of completion of the transaction) represents at least 40% of the total consideration. Because this test is based on the value of AT&T common stock as of completion of the transaction, a decline in the value of the AT&T common stock could cause this requirement not to be met. Accordingly, no assurance can be given that the transaction will qualify for the Intended Tax Treatment. In addition, neither AT&T nor Time Warner intends to request a ruling from the Internal Revenue Service regarding the United States federal income tax consequences of the transaction. Accordingly, even if AT&T and Time Warner conclude that the transaction qualifies for the Intended Tax Treatment, no assurance can be given that the Internal Revenue Service will not challenge that conclusion or that a court would not sustain such a challenge.**

It will not be known at the time of the special meeting whether the requirements for the transaction to qualify for the Intended Tax Treatment will be met. AT&T will make a public announcement no later than 45 days after the first effective time as to whether or not the transaction will be reported as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. **HOWEVER, TIME WARNER WILL NOT RESOLICIT STOCKHOLDER VOTES IN THE EVENT THAT THE TRANSACTION FAILS TO QUALIFY FOR THE INTENDED TAX TREATMENT.**

If any requirement for the transaction to qualify for the Intended Tax Treatment is not satisfied, a U.S. holder of Time Warner common stock generally would recognize gain or loss in an amount equal to the difference between (1) the fair market value of the shares of AT&T common stock and the amount of cash received in the transaction (including cash received in lieu of fractional shares of AT&T common stock) and (2) the holder’s basis in the Time Warner common stock surrendered. Gain or loss must be calculated separately for each block of Time Warner common stock exchanged by such U.S. holder if such blocks were acquired at different times or for different prices. Any gain or loss recognized generally would be long-term capital gain or loss if the U.S. holder’s holding period in a particular block of Time Warner common stock exceeds one year at the first effective time of the initial merger. Long-term capital gain of non-corporate U.S. holders (including individuals) currently is eligible for preferential United States federal income tax rates. The deductibility of capital losses is subject to limitations. A U.S. holder’s holding period in shares of AT&T common stock received in the initial merger would begin on the day following the initial merger.

The remainder of this discussion “Federal Income Tax Consequences of the Transaction” and the discussion under “Cash Received Instead of a Fractional Share of AT&T Common Stock” below assumes that the transaction will qualify for the Intended Tax Treatment. The discussion under “Medicare Net Investment Income Tax” and “Information Reporting and Backup Withholding Below” below applies whether or not the transaction qualifies for the Intended Tax Treatment.

Assuming that the transaction qualifies for the Intended Tax Treatment, the United States federal income tax consequences of the transaction to U.S. holders of Time Warner common stock are as follows:

- a U.S. holder of Time Warner common stock will recognize gain (but not loss) in an amount equal to the lesser of (1) the amount by which the sum of the fair market value of the AT&T common stock and cash received by a holder of Time Warner common stock exceeds such holder's tax basis in the holder's Time Warner common stock, and (2) the amount of cash received by such holder of Time Warner common stock (in each case excluding any cash received instead of fractional share interests in AT&T common stock, which shall be treated as discussed below);
- the aggregate tax basis of the AT&T common stock received in the initial merger (including any fractional share interests in AT&T common stock deemed received and exchanged for cash, as discussed below) will be the same as the aggregate tax basis of the Time Warner common stock exchanged for the AT&T common stock, decreased by the amount of cash received in the initial merger (excluding any cash received instead of fractional share interests in AT&T common stock), and increased by the amount of gain recognized on the exchange (regardless of whether such gain is classified as capital gain or dividend income, as discussed below), excluding any gain recognized with respect to fractional share interests in AT&T common stock for which cash is received, as discussed below; and
- the holding period of AT&T common stock received in exchange for shares of Time Warner common stock (including any fractional share interests in AT&T common stock deemed received and exchanged for cash, as discussed below) will include the holding period of the Time Warner common stock exchanged for the AT&T common stock.

If holders of Time Warner common stock acquired different blocks of Time Warner common stock at different times or at different prices, any gain will be determined separately with respect to each block of Time Warner common stock, and such holders' basis and holding period in such holders' shares of AT&T common stock may be determined with reference to each block of Time Warner common stock. Any such holders should consult their tax advisors regarding the manner in which cash and AT&T common stock received in the exchange should be allocated among different blocks of Time Warner common stock and with respect to identifying the bases or holding periods of the particular shares of AT&T common stock received in the initial merger.

Gain that holders of Time Warner common stock recognize in connection with the initial merger generally will constitute capital gain and will constitute long-term capital gain if such holders have held their Time Warner common stock for more than one year as of the date of the initial merger. Long-term capital gain of certain non-corporate holders of Time Warner common stock, including individuals, is generally taxed at preferential rates. In some cases, including if a holder actually or constructively owns AT&T common stock other than AT&T common stock received pursuant to the initial merger, the recognized gain could be treated as having the effect of a distribution of a dividend under the tests set forth in Section 302 of the Internal Revenue Code, in which case such gain would be treated as dividend income. Because the possibility of dividend treatment depends on each holder's particular circumstances, including the application of constructive ownership rules, holders of Time Warner common stock should consult their tax advisors regarding the application of the foregoing rules to such holders' particular circumstances.

*Cash Received Instead of a Fractional Share of AT&T Common Stock.* A holder of Time Warner common stock who receives cash instead of a fractional share of AT&T common stock will generally be treated as having received the fractional share pursuant to the initial merger and then as having sold to AT&T that fractional share of AT&T common stock for cash. As a result, a holder of Time Warner common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the tax basis allocated to such fractional share of AT&T common stock. Gain or loss recognized with respect to cash received in lieu of a fractional share of AT&T common stock will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the first effective time, the holding period for such shares is greater than one year. The deductibility of capital losses is subject to limitations.

*Medicare Net Investment Income Tax.* A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income (or adjusted gross income, in the case of an estate or trust) for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000, depending on the individual's circumstances). For this purpose, net investment income generally includes dividend income and net gain recognized with respect to a disposition of shares of Time Warner common stock pursuant to the initial merger, unless such dividend income or net gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, please consult your tax advisors regarding the applicability of the Medicare tax with respect to your disposition of shares of Time Warner common stock pursuant to the initial merger.

*Information Reporting and Backup Withholding.* Payments of cash to a holder of Time Warner common stock may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or furnishes the holder's taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not an additional tax and will be allowed as a refund or credit against the holder's United States federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service.

**The preceding discussion is intended only as a general discussion of material United States federal income tax consequences of the transaction. The preceding discussion is not a complete analysis or discussion of all potential tax effects that may be important to you. Thus, you are strongly encouraged to consult your tax advisor as to the specific tax consequences resulting from the transaction, including tax return reporting requirements, the applicability and effect of federal, state, local and other tax laws and the effect of any proposed changes in the tax laws.**